Luxury Goods: Made in China

As China becomes the world’s largest market for luxury goods, the country is translating its centuries of know-how into creating a new generation of luxury brands. What is their potential for success?
“I just thought to myself that if you agree that China will eventually be the largest economy in the world, it is time to start a brand that is quintessentially Chinese.”
—David Tang, founder of clothing chain Shanghai Tang

“Made in China.” For thousands of years, those words were synonymous with an unparalleled level of quality and craftsmanship. Historically, Western merchants rushed to this Far Eastern marketplace to find rare, high-quality silk, ceramic, porcelain, and cashmere, and to learn the art of fine writing and printing.

This changed in the 20th century as China headed down a different path. Quantity and cost savings reigned, and materials and craftsmanship, in turn, suffered.

However, with China’s economy booming once again, Chinese business leaders are reviving and marketing their centuries of know-how in an effort to create a new generation of luxury brands. At a time when Chinese consumers are rushing to buy luxury goods, creating what will soon be the world’s largest luxury market, we look at China’s emerging, high-end brands and analyze their potential for success.

In the Beginning

Hong Kong, 1994: Two Chinese businessmen, David Tang and Elliot Yuen, met in a passionate conversation that resulted in a collaboration that brought China’s first global lifestyle brand, Shanghai Tang.

Eighteen years later, Shanghai Tang has earned some commercial success, with stores in 20 cities around the world, including New York, and has become an ambassador of Chinese style by highlighting unique cultural traditions such as calligraphy. However, it wasn’t quite a happy ending for Tang and Yuen: Swiss luxury conglomerate Richemont became a major shareholder in the company in 1995, and within three years, Shanghai Tang’s founders had run out of money and lost control of their company.

Shanghai Tang’s experience demonstrates just how challenging it is for Chinese companies to shift from merely making products for the rest of the world to creating successful, truly global brands. This is especially true in the fierce arena of luxury goods, where time and resources are necessary ingredients for success.

The Luxury Compass Points the Way

To assess a brand’s potential to become truly luxury, we developed the A.T. Kearney Luxury Compass. The Compass focuses on six main criteria—three internal (how the company creates its products and builds for long-term success) and three external (how it attracts and sells to consumers) (see figure on page 3).

1 Tony Wong, “Chic Chinoiserie,” Toronto Star, 19 April 2003
We have used the Compass to assess the prospects for a number of high-end brands in China. The six criteria in the Compass are:

1. **A core focus on product creation.** The best and most successful luxury products are pieces of art that bring so much emotion to the owner that he or she will continue wearing it throughout his or her lifetime—and then pass it on to future generations.

   This makes product creation—not just the luxury item but the brand, how the customer experiences the brand and the product, and the service he or she receives—a critical top-management priority for luxury brands.

   For luxury leaders, the role of artistic director is vital—think Marc Jacobs at Louis Vuitton and Pierre-Alexis Dumas at Hermès—for managing the link between image and creation and staying on the cutting edge of design while ensuring strict brand consistency. One leading maker of luxury watches and jewelry created a senior watchdog committee of current and former CEOs that meets three to four times per year to challenge and guarantee the consistency of product creations within the company’s different brands.

2. **Long-term vision and strategy.** Looking primarily at short-term financial results in luxury almost certainly guarantees failure. Building a successful luxury brand takes time, money, and patience.

   A good example of this is Christian Dior. When it comes to its cosmetics lines, Dior avoids intense gifting of products, which can drive short-term results but dilutes the brand image and sometimes makes retailers unhappy about lower sales volumes during major periods in the year. And then there is the Lady Dior bag. While it was not very successful for the first

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**Figure 1**

**The A.T. Kearney Luxury Compass**

[Diagram showing the six criteria of the A.T. Kearney Luxury Compass: Internal (A core focus on product creation) and External (A specialized selling approach to VIP clients), Long-term vision and strategy, Well known savoir faire and craftsmanship, Iconic products and style, A truly exclusive assortment.]

Source: A.T. Kearney analysis
few years following its launch in China, Dior top management continued its production. The patience paid off, as it is now successful in China and has become an iconic product globally.

“Made in China.” For thousands of years, those words were synonymous with an unparalleled level of quality and craftsmanship.

3. **Well-known savoir faire and craftsmanship.** Luxury brands are known for their savoir faire, or know-how, in a very specific area, which is transmitted from one management generation to the next. Historically, affluent and elite families have sought out these companies for this unique know-how. Hermès, for example, built its brand on leather expertise, which was originally used to create outstanding saddles at a time when horse riding was a sport practiced by rich families. From there, Hermès expanded into accessories—still related to leather—for other fashionable and elitist sports, such as golf. Hermès had stretched the brand, but it remained deeply committed to its original leather know-how. The company follows the same logic today—helping buyers practice their sporting activities under the best conditions.

Craftsmanship and customization play a large role in this criterion. To create exclusivity, luxury brands must maintain hand-finishing production steps that enable them to offer customized products. For instance, high-end watches are hand polished, and diamonds are inserted into both the watch and box manually. Another example is Bottega Veneta, which produces leather bags still braided by workers from the Italian city of Veneto. The company also organized a demonstration of the art and craft of creating a leather bag inside the Italian pavilion during the Expo 2010 Shanghai China. During this exhibition, Bottega Veneta offered on-site product customization (such as leather type, color, and finishing).

4. **A specialized selling approach to VIP clients.** Without a doubt, the point-of-sale experience is a very important external factor in the success of luxury items. That is where the sale is won or lost, where interaction with the brand comes to life, where the seeds of loyalty are planted. Leading luxury brands sell a shopping experience that goes beyond the mere product. They pay particular attention to satisfying and rewarding their most loyal customers. One example of this is Louis Vuitton’s private boutiques, which offer special opening hours for their most loyal customers.

5. **Iconic products and style.** Luxury brands are readily recognizable by their customers through their iconic products and styles that become timeless references for the whole industry. One example is Hermès, whose Carré scarf design and Kelly bag are two icons of luxury.

6. **A truly “exclusive” assortment.** Price is one of the most obvious signs of luxury, but leading luxury brands understand the difference between expensive items (say, an iPad) and true luxury items that are priced at a level unaffordable to everyday consumers. For example, watches by Switzerland’s Piaget sell for an average of $15,000 per unit, with some exclusive pieces fetching nearly $200,000.a

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a All monetary figures are in U.S. dollars.
Looking for China’s Next Luxury Brands

We used the Luxury Compass to examine 15 of China’s most popular luxury brands to assess their potential for long-term success. The brands we selected provide a wide-ranging perspective of China’s starting point in each of the major product categories.

The following case studies highlight the strengths of five of these brands around the Luxury Compass criteria.

**NE•TIGER**

NE•TIGER is China’s highest-profile designer of customized gala and wedding dresses, and it also creates sought-after fur and leather fashions. Founded by Zhang Zhifeng in 1992 (he is still head designer), NE•TIGER weaves the importance of Chinese culture and history into its creations as a way to share China’s heritage with clients.

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**Luxury brands are known for their savoir faire in a very specific area, which is transmitted from one management generation to the next.**

As Mr. Zhifeng says, “In the age of globalization, the fusion of cultures has reached a new level. And our design concept of combining the ancient and the modern, melting the East and the West, is in the trend.”

Viewed using the Luxury Compass, NE•TIGER’s strengths include the following factors:

**Well-known savoir faire and craftsmanship.** Chinese tailoring techniques have been perfected and handed down over the centuries, and no brand features them more beautifully than NE•TIGER with its Hua Fu dresses. These dresses are handmade—as are most NE•TIGER dresses—using timeless skills. In his relentless pursuit of traditional Chinese techniques, Mr. Zhifeng travels several times a year to remote villages throughout the countryside to find nearly forgotten traditional Chinese techniques that he then uses to create some of his most unforgettable fabrics. One example is the Yun brocade, which was created during the Southern Dynasty in the 5th and 6th centuries A.D. and highlights a complex combination of gold threads and fascinating design.

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*“Interview: NE•TIGER Founder Discusses History, Future Of Luxury In China,” Jing Daily, 1 April 2010*
A truly exclusive assortment. It is not rare to see Hua Fu dresses priced at $30,000, and there is no upper limit, depending on the changes requested by customers.

A specialized selling approach for VIP clients. Mr. Zhifeng offers loyal customers a customization service, available on the high-end range of his dresses. Clients can customize their apparel by choosing from a wide selection of materials, techniques, and accessories.

Herborist

Although the parent company, Shanghai Jahwa, was founded at the end of the 19th century, the Herborist cosmetics brand was launched in 1998 by building on the values of traditional Chinese medicine. Today, Herborist is a commercial success, with retail revenues in excess of $300 million, a network of 300 stores, and a counter presence in nearly 900 Chinese department stores. Moreover, the brand benefits from an international presence, largely in Europe through Sephora.

Its strengths include the following:

Long-term vision and strategy. Within its first seven years, Herborist saw increased revenues, but the brand struggled to deliver positive financial results. Nevertheless, Jahwa management maintained operations in China, pursuing its longer-term vision of “building a national brand and competing against multinationals,” as Joe Wang, vice president of Jahwa, says. (Multinationals still dominate China, the largest skin-care cosmetics market in the world.)

A truly exclusive assortment. One may argue whether cosmetics are truly “luxury,” given their comparatively low prices. However, Herborist is definitely part of the Chinese cosmetics elite, with select products selling for $70 in China. Some star products cost even more, such as the day and night cream duo sold for about $100.

Iconic products and style. Herborist’s Tai Chi product line has become a hit, especially the day and night cream. This product line alone accounts for 40 percent of total revenues in overseas markets.

A specialized selling approach to VIP clients. While cosmetics don’t compare to luxury leather bags or watches in terms of the selling approach and customer point-of-sale experience, Herborist has shown particular strength in the training of their in-store beauty advisors. For example, Herborist has an internal training academy, similar to France-based best-in-class retailer Sephora.

* A.T. Kearney interview with Mr. Wang
Longio

Watch and jewelry firm Longio was created in 1996 by Mi Changhong, a watchmaker from Shenzhen who wanted to dispel the cliché that all watchmakers are Western by building an internationally recognized watch brand from China. “I want to prove that China is not just a base for original equipment manufacturing (OEM) for watches,” he says, “but that it can also be a cradle for world-class timepieces.”

Consistent with this vision, the brand initiated a non-OEM business in 2009 that today accounts for 20 percent of its revenues. The challenge for Mr. Changhong is not small, especially with Swiss brands overwhelmingly leading the Chinese market, where watches are the largest luxury category.

**Price is one of the most obvious signs of luxury.** Leading luxury brands understand that “true luxury” items are priced at a level that it is unaffordable to everyday consumers.

Longio's strengths include the following:

**A core focus on product creation.** Longio comes from the Mandarin word meaning “the bridge in the garden.” According to Mr. Changhong, this name was chosen because he believes the company is a bridge between “excellence” and “passion.” Changhong is also the main designer, leading the brand’s “pursuit of beauty” through new products and design, such as the “Asmara” watch. It’s also important to note that all parts for even their most expensive watches, including movement mechanisms, are made in China.

**A truly exclusive assortment.** Among the company’s branded products, the vast majority cost between $1,500 and $16,000 each. The brand’s most expensive watch—using the great “fenghuang” design, a Chinese legendary creature symbolizing a queen—costs $2.6 million.

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*Liu Lu, “Longio looks to overtake foreign rivals,” China Daily, 14 January 2012*
Shang Xia

Founded in 2008, furniture, apparel, and home décor brand Shang Xia is the brainchild of Chinese designer Jiang Qiong Er, whose mission is to create a 21st century lifestyle brand founded on the finest Chinese design and crafts. Its parent company, Hermès, has given Shang Xia complete creative freedom. As Ms. Jiang says, “We do not want to make trendy products, but rather create a timeless style which passes through centuries as furniture from the Ming dynasty.”

Shang Xia’s strengths include the following:

**A core focus on product creation.** Shang Xia products enjoy a “Chinese contemporary style,” mixing Chinese traditional elements and materials in a decidedly contemporary fashion. This vision is shared by Ms. Jiang and her chief of operations, Philippe Lamy, a French-educated manager who previously led the operation of a global cosmetics brand in China. This duo is at the heart of Shang Xia’s creation and development. As Mr. Lamy says, they build on the “inspiration from Chinese materials, Chinese know-how, and aesthetics reinvented in a contemporary way.”

**Long-term vision and strategy.** Hermès has given Shang Xia both the creative freedom and the time necessary to build the brand in a sound, consistent way. While further expanding in China, Shang Xia is building its legitimacy and status abroad with a careful step-by-step approach. The brand, whose only current store is located near Xintiandi, Shanghai’s affluent entertainment and shopping district, will open a second store in Paris, near Hermès and Le Bon Marché stores.

**Well-known savoir faire and craftsmanship.** Shang Xia’s creations are based on many rare materials, which require extensive know-how to handle. These include eggshell porcelain, felted cashmere, and zitan, a rare wood found only in China and southern India.

Shang Xia recently conducted its second “Cultural Object” exhibition and introduced one of its newest creations: a set of poker cards held within a box made of hand-carved zitan. The playing cards also feature exclusive hand drawings by the Chinese artist Lin Xi.

**A truly exclusive assortment.** Shang Xia products demand very high prices. For example, a zitan rocking chair costs more than $130,000. According to Mr. Lamy, “Our products are targeted at customers interested in China’s cultural role in the world.”

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*Arnaud de La Grange, “Hermès donne naissance à une marque de luxe chinoise,” *Le Figaro*, 17 September 2010

*A.T. Kearney interview with Mr. Lamy*
Wenjun

With over 450 years of experience to draw upon, Wenjun, a premier Chinese distillery that produces baijiu, a traditional Chinese spirit, saw difficulties in recent years. Then in 2007, after Louis Vuitton Möet Hennessy (LVMH) acquired a 55 percent share (the former owner, Jiannanchun, maintains a 45 percent share), Wenjun adopted a new, more fashionable angle and gained value.

Chinese brands are learning fast—for example, they have improved their brand storytelling, a primary capability gap with Western companies.

Allan Hong, development manager at Sichuan Wenjun Spirits Sales Company, says, “Because of the great potential in China, the whole group decided to run the Wenjun brand as a super-premium brand in China.” LVMH expects to reach the luxury segment with this Chinese brand.

Wenjun’s strengths include the following:

**Creation at the core.** Wenjun asked a London design firm to develop a new bottle for its liquor. The result—a bottle shaped like a guqin, or traditional Chinese zither, made of transparent crystal—combined tradition with modern and international spirit.

The brand also expanded from baijiu to red wine, and in 2009 it opened the Wenjun Château, modeled after Western vineyards, in Qionglai City, Sichuan Province, the same city as the distillery.

**Well-known savoir faire and craftsmanship.** Wenjun has produced baijiu since 1573, so it has centuries of traditional expertise to tap into, not to mention an excellent geographical location with the ideal climate for this high-quality liquor. It also gives them unrivaled knowledge of a traditional handmade fermentation technique called Zeng Qu. According to two of Wenjun’s competitors, Moutai and Wuliangye, this know-how is one of the most important factors for success for a distillery.

Wenjun has also developed modern craftsmanship to ensure product quality and consistency through their cooperation with Chinese baijiu mixologist Wu Xiaoping. As a consultant, she lends her extensive knowledge on how to ensure all bottles are best cellared.

*Karen Cho, “In high spirits: LVMH sees ‘huge potential’ of China’s traditional liquor market,” INSEAD Knowledge, 19 October 2009*
**Specialized selling approach to VIP clients.** Wenjun also offers special facilities designed to welcome its VIP clients. As Mark Bedingham, managing director of Moët Hennessy Asia Pacific, says, “The Moët Hennessy vision is to create the first luxury brand of Chinese white spirits, and ... we needed to reflect that vision in the redevelopment of the site.” The facilities enable VIP clients to enjoy Wenjun’s atmosphere, visit the distillery, and, of course, taste the product. They also give visitors the opportunity to spend a few days in exclusive accommodations.

Along with the five brands above, we also studied Chinese watchmakers Sea Gull and Tian Wang, jewelry designers Zhaoyi, Queelin, Chow Tai Fook, and Chow Sang Sang, wine and spirit producers Moutai and Wuliangye, and fashion and cosmetics companies Jenny La Vie and Shanghai Vive. What can we learn from these emerging Chinese luxury brands?

- Nearly all of them combine Chinese and Western elements, which they find to be the most sustainable platform for drawing consumers.
- Key enablers include allying with Western luxury players, acquiring Western competencies in-house, and incorporating Western distribution.
- These brands are learning fast. For example, they have improved their brand storytelling, a primary capability gap with Western companies. However, it will take time for consumers to shift their perception of Chinese brands, as the abundance of Chinese brands are still associated with the poor quality of the last 40 years.

**The Turning Point**

The turning point, as we see it, will be the influence of a new Chinese generation—those born in the 1980s and later who have more exposure to better-quality Chinese products and will prove more confident about purchasing them. Based on these findings, we predict that China’s long journey back to luxury will soon meet success.

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**MAP Architecture and Planning,** http://issuu.com/maparchitecture/docs/asia_design_excellence__2010
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