LUXURY DAILY

The News and Intelligence You Need on Luxury

COLUMNS

Luxury Unfiltered: Why Western luxury brands fail in China

July 3, 2024

Daniel Langer is the founder and CEO of consulting firm quit

By A LUXURY DAILY COLUMNIST

By Daniel Langer

Recently, I presented to the management teams of several luxury brands on how to accelerate sales in China and create more desirability.

The quest for "accelerated sales" could not be a better term as China is the country of speed. Most Western brands do not operate at the same speed as what is needed in China, thus falling behind rapidly.

I always caution against blaming the market for its own shortcomings, a reflex that many brands often show.

Adapting principles of speed

In a recent Global Luxury Strategy class at Pepperdine University, I invited Patrick Kaminski, general manager, China, for skincare product company Sebamed and one of the most successful business managers in the region with an unprecedented success track record, to present to my students why so many brands fail.

The first aspect Mr. Kaminski brought up was that many brands underestimate the speed in which China operates, versus the speed clients are used to when it comes to reacting to their demands. Most Western brands are simply too slow in providing client-centric solutions.

"Many Western brands need weeks to make decisions, sometimes months," he shared, adding that "By the time they decided on an issue related to China, clients have already moved on, so, essentially, their issue is about speed and processes, in other words, habits."

"Most Western brands still operate in a 'Marketing 1.0' reality, placing the focus on products, while they compete with Chinese brands who are already in a 'Marketing 3.0,' or digital-first, rapid fail-and-learn client-centricity reality," said Mr. Kaminski.

"You can't compete in a fast-paced client-centric reality when you are too slow in decision-making and focused on products."

An example that resonated strongly was the rapid decline of sales of Western kitchen appliance brands in China. First, many Western brands blamed their decline in sales on low-cost Chinese competitors who often offered smaller, more convenient and dramatically cheaper devices.

Western brands reacted by slashing prices and started copying the Chinese offers, practically with zero success. As a result, sales continued to collapse strongly.

What many Western brands did not notice was a fundamental shift in client behaviors and preferences. Many Chinese apartment buyers increasingly opt for places without kitchens in megacities like Shanghai, now the second-most expensive city in the world.

Technology makes it possible to order food practically in real time anywhere at incredible convenience and price from placing an order to having it delivered, the process is often less than 15-20 minutes making the need for a kitchen practically obsolete. Many Western brands still today do not accept this as a fundamental change because, in their home markets, habits are different.

Similarly, Porsche may be facing a disaster in China with the advent of the Xiaomi SU7. Some reviewers call it the "best car I ever reviewed."

At a fraction of the price of Porsche's Taycan, it delivers superior performance and great looks, making the brand's flagship electric sedan suddenly look less exceptional while the model still commands an exorbitant price point.

Instead of applying strategies to further increase the value perception of the Taycan and speed up the development of significantly upgraded versions, Porsche, according to Mr. Kaminski, started to offer significant price reductions and discounts in China, causing outrage among existing owners who paid the higher prices and eroding their trust into the value retention of the brand famous for its iconic 911.

The price reductions did not convince people to buy the SU7, as even after Porsche's discounts, the Chinese car is still a fraction of the original pricing. Instead, as a result, the brand's reputation suffered.

These examples show that China stands out as both a place of immense opportunity and a terrain fraught with challenges. Despite the allure of China's upper and middle class and their insatiable appetite for luxury, many Western brands find themselves faltering.

The reasons are multifaceted, but common threads run through their missteps, offering valuable lessons for those who seek success in this dynamic market.

Common pitfalls
One of the most glaring mistakes Western brands make is underestimating the complexity and diversity of the Chinese market.

China is not a monolith. It is a mosaic of regional preferences, cultural nuances and rapidly shifting trends.

In many of my training sessions and masterclasses on selling luxury in China, I am amazed that brands still adopt a centrally steered product-focused, one-size-fits-all approach. They quickly find themselves out of sync with local clients.

The lack of local insight and cultural sensitivity often leads to approaches and campaigns that, at best, miss the mark and, at worst, offend the very audience they aim to captivate.

Another critical error is the overreliance on established reputations. Western brands often rest on their laurels, assuming that their global prestige will carry them through.

However, Chinese consumers are discerning and demand tailored experiences. They expect brands to invest in understanding and building genuine relationships, rather than merely leveraging their historical cachet, and when a brand falls out of favor, it does so rapidly.

Recent history provides stark examples of how cultural insensitivity can derail even the most prominent brands. Dolce & Gabbana's 2018 campaign is a case in point.

The brand's depiction of a Chinese model struggling to eat Italian food with chopsticks was widely perceived as patronizing and offensive. The backlash was immediate and severe, leading to boycotts and a significant and lasting reputation and sales dent.

This incident underscores the imperative for brands to engage deeply with cultural nuances and to approach local markets with respect and understanding.

Navigating cultural trends
Understanding and leveraging cultural and societal trends is crucial for success in China. Brands need to redefine their decision-making processes to adapt to the high-speed ecosystem clients are used to.

The digital landscape, particularly the prominence of social media platforms like WeChat, Weibo and Xiaohongshu, or Little Red Book, plays a pivotal role in consumer engagement and brand discovery.

Western brands must master these platforms to create seamless, personalized shopping experiences. Many Chinese brands now have a 1.8-second customer journey from finding a product to purchasing it digitally.

It is impossible to compete with brands that offer fast and seamless experiences when their own customer journeys are much more complex and much slower.

Additionally, there is a growing trend toward nationalism and local pride. Chinese consumers increasingly favor brands that show genuine respect and appreciation for their culture.

Furthermore, the shift toward sustainability and ethical consumption is gaining traction. Brands that align with these values and communicate them effectively can gain a competitive edge.

Brands must invest in local teams and leadership who understand the cultural context and can guide brand actions and communications. They must also invest in luxury training as Chinese clients are among the most discerning.

Looking ahead, the biggest opportunity for Western brands in China lies in a paradigm shift in speed and refocusing from a product-driven approach to a client-centric localized approach. Luxury training needs to be on top of the agenda, internally and externally, for client-focused teams.

However, challenges abound. Navigating complex regulatory environments, intense local competition and staying culturally relevant and sensitive in a rapidly changing market are significant hurdles.

Success in China requires a deep understanding of local culture, a commitment to genuine engagement and the insights and speed to anticipate and adapt to rapid market changes and take action. Do not make the costly mistake of falling behind.

Luxury Unfiltered *is a weekly column by Daniel Langer. He is the CEO of quit, a global luxury strategy and brand activation firm. He is recognized as a global top-five luxury key opinion leader. He serves as an executive professor of luxury strategy and pricing at Pepperdine University in Malibu and as a professor of luxury at New York University, New York. Mr. Langer has authored bestselling books on luxury management in English and Chinese and is a respected global keynote speaker.*

Mr. Langer conducts masterclass management training on various luxury topics around the world. As a luxury expert featured on Bloomberg TV, Financial Times, The New York Times, Forbes, The Economist and others, Mr. Langer holds an MBA and a Ph.D. in luxury management and has received education from Harvard Business School. Follow him on LinkedIn and Instagram.