Enhancing the Positioning Strategy of the Coach Brand in China: More Trophies of Success, Please!

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The luxury retail industry of China is still in its infancy, and its real market potential is not yet known. For Western labels, it is important to gain a better understanding of how special the concept of "luxury" is in China, and of what it takes to build lasting brand loyalty and offer continuous customer attention there. This analysis focuses on exploration of a positioning strategy for the Coach brand and suggests marketing approaches likely to enhance it, based upon close examination of recent trends in Chinese consumer markets and distinguishing characteristics of local buying behavior.

Many luxury brands are hastening to redesign their survival strategies under the pressure of global financial turmoil. This rather erratic process marks a radical departure from the approach taken by the luxury industry in the past. Major brands are quickly shifting direction, looking eastward of their former "major markets" and "target clients." Now they must learn how to cater to a generation of much younger but affluent customers in Asia, combat wide-spread piracy, compete within numerous distribution channels and face various pricing challenges simultaneously, and adjust more smoothly to the virtual markets, yet manage to retain an image of exclusiveness and superiority. In terms of daily operations, that means placing serious emphasis on e-sales and digital promotion, using social networks and blogs, and mastering new communication technology—life-streaming via Facebook, 3D formats, and holograms—in addition to delivering the traditional impeccable service, maintaining an immaculate image, and creating impressive window displays.

Since the about 2003, when the Chinese consumer became wealthier and experienced a remarkable surge in buying power, Western luxury brands have been actively penetrating China's retail market, with Giorgio Armani, Chanel, Givenchy, Hermès, Kenzo, Louis Vuitton, Gucci, Burberry, Salvatore Ferragamo, and Prada leading the wave of newcomers. With its brief history of approximately eight years, the luxury retail industry of China is still in its infancy, and its real market potential is not yet known. For Western labels, it is important to gain a better understanding of how special the concept of "luxury" is in China, and of what it takes to build lasting brand loyalty and offer continuous customer attention there. This analysis focuses on exploration of a positioning strategy for the Coach brand and suggests marketing approaches likely to enhance it, based upon close examination of recent trends in Chinese consumer markets and distinguishing characteristics of local buying behavior.

The luxury industry in China is currently in the process of defining itself. Western luxury brands have been rushing into the country in recent years, and annual growth in luxury sales is expected to reach 18% in two years. That would make China the world's fastest-growing luxury market, well on its way to becoming the largest in Asia and the second-largest consumer market in the world, valued at 27 bln. dollars by 2015 (1). The dynamics of growth suggests that there still exist many more opportunities for entering the Chinese luxury market, which is out-performing other markets even during the global recession. Obviously the rivalry in the luxury accessories industry persists among the iconic European brands: Louis Vuitton, Hermès, Gucci, and Chanel. Thanks to the relatively low intensity of competition and the small number of elite players, however, some mid-range, affordable, yet high-quality brands such as the American brand Coach have interesting prospects for market expansion there. Assuming that potential demand in the Chinese market is unlimited, Coach expects faster growth and is seeking better ways to the hearts and wallets of customers in China, in comparison with other countries where the brand is also present, such as France, Italy, and South Korea.

Coach entered China only recently but already operates 66 stores there (9 in Hong Kong since 1998, and 57 on the mainland since April 2010). By comparison, there are 345 Coach stores in North America and 176 locations in Japan (July 2011), but growth in China is faster and the success thus far is evident: Coach sales in China doubled to $100 million in 2010, and the company ambitiously intends to achieve a fivefold boost by 2014 by securing a 10% share of the luxury accessories market in China. Is that a realistic target? Much depends on the company's positioning strategy and depth of understanding of what the Chinese customer wants.

The purpose of purchasing luxury in China differs from that in Western countries, mainly because of the characteristic consumer mindset of the Chinese. In Western markets, consumers buy luxury accessories for two main reasons. First, they prefer the quality and charm of luxury accessories, which they regard as a major source of self-gratification. Second, luxury accessories act as intrinsic social messages, signaling the owner's access to a distinct and exclusive lifestyle that announces who the person is within a relatively small elite community. For example, Chanel products projects elegant chic, Versace, fashion "edge," and Prada, adorable yet perky simplicity. Choose one or all, and you are elegant, edgy, and/or adorable. These brand properties have intimate, even mysterious, associations for many people. Brand communities never share these linked emotions or ideas with strangers. Brands are consumed for personal self-indulgence.

In China, people's traditional preference of foreign brands to domestic ones, regardless of their physical properties or respective brand names, is a "collectivist phenomenon" that stems from Communist times. It ensures foreign brands almost immediate success, given that origin in a Western country is a compelling selling point. The Chinese care a great deal about their status in society, which means that many will pay extremely well for broad social recognition. They regard luxury products as symbols of wealth, success, and overall societal acceptance. Customers there are not particularly aware of brand differences, and for many Chinese the only thing that matters is high price and international reputation. The higher the price, the loftier the societal status they seek. This holds true even when for the time being, they can afford only one high-status item. Motivators such as superior craftsmanship, exclusiveness, innovative design, and unique materials are secondary to the effect of conspicuous exposure and recognition by others. Chinese customers regard expensive luxury products as trophies of their public success, and apparently they can never get enough of them.

That said, foreign brands of luxury accessories face almost no competition from the Chinese brands, and this situation will last for some time. The Chinese consumer is not sufficiently educated about brand origin, history, and brand comparison, and buys everything that looks good, popular, and expensive. China's ever-expanding and immature consumer market accommodates a great many brands at the same time. Moreover, there is no brand loyalty presumption in the marketplace, so it is relatively easy for any foreign newcomer to attract a customer quickly. Thus Coach has favorable prospects for staying in the market there and many opportunities for expansion and fine-tuning its adjustment to market requirements. The biggest challenge for the brand is establishment of its image in the minds of target Chinese customers as a likable and fashionable brand, based upon clear communication of its brand identity. Let us examine the current market-positioning strategies of the Coach brand in China.

The threat of a new, competitive entry is relatively low because market space for other foreign brands is very much available, and it is not realistic to expect any entrant to build a new, local brand of luxury accessories. First, success in that endeavor requires a long market presence, excellent craftsmanship skills, and proprietary quality designs. Second, the financial commitment to remain and grow in such a market is impressive. Brand awareness requires establishment of a competitive image through fascinating advertising and endorsements, which usually exceed the costs of manufacturing non-luxury consumer products. One more obstacle for newcomers is presented by local government. In China, the government plays a significant, sometimes very restrictive role in regulating the business environment, and is famously stand-offish and uncooperative with newcomers.

The bargaining power of China's affluent consumers varies slightly, depending on the class of luxury they can afford, but is generally very low. With respect to brands in the same price range as Coach, the threat of buyers' bargaining power remains insignificant. More-expensive items mysteriously disappear from store shelves faster than less-expensive ones. In the long run, however, as the Chinese market gradually becomes more sophisticated, the affordable luxury brands may face an increasing threat of customer bargaining power that presents a challenge to growth strategies.

In Shanghai, our interviews with Coach purchasers revealed that most are women between 25 and 35 years old, 80% of whom claimed that they could not afford another Coach bag within the next few years. Indeed, the majority of China's wealthy are young, and 80% of the wealthy are below the age of 35. This percentage share is 4 times higher than in Japan and nearly 3 times higher than in the United States. Thus Coach's target consumer in China is younger than in any other country where the company operates. Moreover, thanks to the Chinese cultural tradition of living with one's parents until marriage and the one-child policy, the young generation has greater discretional income and superior consuming power. Young consumers, who also have a better understanding of the Western luxury brand value than their parents, make frequent luxury purchases of various items. Right now, Coach does not seem well equipped to relate closely to young Chinese customers, because the brand's traditional marketing addresses a more mature consumer.

Another feature of the Chinese market is its unique male-driven luxury consumption pattern. China is the only market in the world where men consume many more luxury products than women. According to Coach, men account for 45% of spending on handbags and luxury accessories in the country's mainland, whereas they make up only 25% of spending across Asia and just 15% worldwide (2). In fact, a men's-only shopping mall—Landmark Men—opened recently in Hong Kong. Chinese men tend to buy luxury goods as gifts for wives, girlfriends, mistresses, and business contacts.

In 2010, men accounted for only 3% of Coach's US$ 3.6 billion sales, both globally and in China. Equipped with greater purchasing power than women, Chinese men earn an average of about $38,000 annually, care less about price, pay more attention to merchandise quality, are more brand-loyal, and shop frequently for expensive products for personal or business use. It was only recently that Coach started paying more attention to male customer needs at all. In some U.S. cities, the company has opened Coach Men stores, but it is surely a modest first step toward learning how to satisfy the overwhelming male demand in Asia.

The third feature is the expansive and booming tradition of business gift-giving in Asia. We estimate that around 50% of luxury consumption in China serves the purpose of giving presents. It is necessary to give gifts frequently to business partners, clients, and numerous bureaucrats. In many cases, gifts function as bribes and are required to be expensive. The high share of business-gift purchases should support higher bargaining power, but the appetites of modern bureaucrats on the receiving side decrease the price sensitivity of consumers buying leather accessories as gifts. Only expensive, not primarily utilitarian products could normally serve this purpose. The selection of business gifts at Coach stores is limited to briefcases, however, while local Chinese stores normally are better adapted to this tradition but lack desirable brand recognition. The obvious need is for substantial modification of the Coach product mix and development of new business-gift lines.

Finally, we are witnessing a rise in the purchasing power of female Chinese entrepreneurs, who now account for almost half of luxury sales. McKinsey reports that women spent 22% more money on luxury in 2010 than in 2008, while men spent only 10% more. Understandably, women feel more pressure than men to stay fashionable, especially in the areas of ready-to-wear clothing and matching accessories. Women also are more active in online purchases driven by micro-blogs such as Sina Weibo and various social networking sites. In the future, per The Wall Street Journal, Chinese women, especially the college graduates, generally will have better prospects of a management position with decent pay than their counterparts in the United States (3). Right now, 11 of the world's 20 richest self-made women are Chinese, according to the *Hurun Report*, published by a Shanghai-based marketing research company. All the market trends mentioned above suggest that Coach's Chinese operations might have great prospects, but the company must do a great deal of extra work to become a market staple.

The bargaining power of suppliers in Asia in general and in China in particular is rather weak. That explains why many luxury brands, including Prada, have already moved their manufacturing to China, India, or Thailand (4). Some very expensive brands, especially Louis Vuitton, still stay away from Asia, though they have admitted buying items such as quality zippers from the region's suppliers. Competition among suppliers is so severe that the luxury brands are able to pay very reasonable prices indeed for high-quality input and labor. Interestingly, Prada took a risk by offering the Chinese "made in China" products and was successful because the company found the right blend of Italian-made and Asian-made products to attract patrons. This example suggests that stereotypes can be reversed, and that high quality in locally made products distributed under the foreign luxury brands can help dispel negative stereotyping among consumers. Asian manufacturing is becoming very reliable in terms of quality but still needs additional support with regard to public opinion. Countries like China have been persistently working on this problem. U.S. viewers recently watched a Chinese government-sponsored TV commercial proclaiming "Made in China, made with the world."

Coach has decided to identify additional manufacturing opportunities in Asia. The company announced that within the next five years it will cut in half its manufacturing in China (which now accounts for 85% of total global manufacturing) by opening new factories in low-wage economies: Bangladesh, India, Vietnam, and the Philippines (5). This strategic move is necessitated by the continuously growing cost of labor in China, where wages rose by 20% in 2010 alone, especially in coastal manufacturing cities such as Shenzhen. Expensive labor threatens to lower the company's profit margin, currently estimated at around 80%. By shifting priorities in China from manufacturing to sales, Coach expects to achieve a significant boost in company revenues country-wide. This highly realistic strategy reflects the dynamics of market forces and the firm's strategic intent to stay in China.

The general product policy of Coach is global release of new product lines. In Chinese stores, there is little difference between the lines of bags for sale in comparison with other countries where Coach operates, including the United States. Styles such as Poppy, Chelsea, Madison, and Kristin were launched in China and the United States simultaneously. Other styles, however, such as Alexandra and Leah, which have been discontinued in the United States, are still being sold in China. On the other hand, the speed of innovation at Coach is much faster than for other high-end brands. Coach is capable of launching several new styles every season. Unlike other luxury retailers that emphasize the quality of the products alone, Coach employs a costlier "fashionable experience" approach by dynamically changing seasonal selections. Thus Coach represents, to a great extent, a contemporary and "fast-moving" brand in the luxury accessories industry in China.

To cater to Chinese market trends even more successfully, the company should adopt four main product strategies, we believe. First, Coach should develop exclusive style editions specifically for the Chinese market. Because the price of Coach goods in China is almost twice that in other countries, special editions will make higher prices more "psychologically justifiable" in terms of product exclusivity and from the standpoint of cross-market comparison. Owing to the higher prices, Coach's current "affordable" market positioning in China seems confusing and counterproductive. It ought to be more upscale there than in other countries, moving closer to the first-tier luxury brands instead of selling "luxury for everyone" as its business strategy traditionally has suggested. Coach has a good opportunity to "uplift" its image with positioning ploys such as offering styles in limited editions with greater local consumer appeal, including products designed specifically for the market and incorporating Chinese imagery. Otherwise, a price-sensitive Chinese might feel betrayed by paying double for exactly the same product just because it is being purchased in mainland China and not, say, in nearby Hong Kong.

Second, the brand must maintain a fast pace in new product development. China's well-developed counterfeit industry quickly turns every popular original into a successful, affordably priced street-wise copy. Coach's global strategy of launching new styles every season is a definite advantage here. Admittedly, it is costly to implement and even takes some glamour away from promoting "timeless" and "classic" pieces or from the overall aura of Coach luxury. But saving on cheap Asian manufacturing makes the strategy feasible, and it might significantly boost the company's sales in mature markets as well.

Third, in the company's attempt to expand its target market, it must launch more styles of more-affordable small accessories, consumer electronic cases, perfumes, and cosmetic items. Thanks to China's one-child policy, the members of "Generation Y," born in the 1980s, are spoiled by their parents and can buy whatever they want, and in many versions. They may not earn much money, but they are well supported by their families, and their drive to consume is overwhelming, in comparison with older generations of Chinese. Affordable small accessories will surely engage them in the world of luxury, just as Chanel did in the past, and as Louis Vuitton is doing now with its first fragrance launch. Young females may not be able to purchase Chanel suits or bags, but at least one Chanel cosmetics product is always in their purses. Once they earn enough money themselves, they will consider buying more Chanel products and tell others about their purchases.

Fourth, Coach needs to create a new line of business-gift products and increase the variety of products available for men. Because the role of men in the luxury market in China is so strong, business gifts and products for men can no longer be ignored. In the context of China's gift-giving culture, people are accustomed to buy expensive and not necessarily utility-oriented gifts to show their respect to a client or business partner. With regard to shoes, clothes, and fragrances, Chinese men would not be especially choosy when these items are introduced by their trusted, familiar luxury brand Coach, and expansion into those products therefore would involve less risk.

As emphasized earlier, the image of the Coach brand in China is intended to evoke the idea of affordable luxury. But in reality, it is not the most luxurious accessory brand, though it is very expensive locally. For instance, a Chelsea bag priced at $1,200 in the United States costs $1,875 in China. The prices of the same products are, on average, 50 to 100% higher in China than elsewhere. McKinsey estimates that consumers with annual incomes of $45,000 to $152,000 account for 45% of luxury goods consumption in China. Interestingly, the much less well-off customers with annual incomes of just $5,385 to $37,888 are also a part of the mix, spending as much as 14% of their household income on luxury goods. The consumption of luxury goods by this subset of households is expected to grow from the current 12% to 22% of total sales in 2015. Many women in this income category are accustomed to spend two to three months' salary on a handbag. Nevertheless, with such a short history of market presence, no well-established brand image, high prices, and a lack of truly hand-crafted products, Coach cannot expect demand to continue growing at a rapid rate. Coach prices may look competitive only in comparison with more upscale European brands. So far, people who buy Coach know little about luxury and cannot compare brand values. They buy Coach products mainly because the brand is American and is cheaper than any European luxury brand.

There is still a possibility that Coach can be turned into a top luxury brand in China, through increased efforts at communication, promotion, and image-building. Because Coach is a fairly new luxury brand to the market, price ranges should be wider. The starting price of a bag, now RMB 3,250 ($510), well exceeds the median monthly salary of a white-collar employee in the first-tier cities of China. Launching additional small accessory lines priced under $150 without lowering the prices of the bags will not have a negative effect on the brand image and should attract the attention of broader income subsets of local customers, and that in turn will create more traffic in the stores.

With income increasing and local currency appreciating against the U.S. dollar, many Chinese consumers shop for luxury products abroad or in Hong Kong. A report shows that Chinese shoppers spent $8.6 billion purchasing luxury products in mainland China, compared with $11.6 billion overseas. According to a Nielson survey (6), 59% of Chinese tourists outbound to Europe and 53% of those going to North America would buy luxuries during their travel overseas. Another reason for disappointment is the still-inadequate customer service in mainland China in comparison with the customer experience in Hong Kong or overseas. Two of every three consumers are dissatisfied with the indifferent attitudes and lack of attention displayed by local salespeople in stores.

Recently the Chinese Ministry of Commerce announced that it is considering lowering duties on some imported goods, including luxury items, to boost domestic consumption. Because of the positive effect this move is expected to have on the internal market, it is very important for Coach to build more flagship stores in the key cities of mainland China. In recent years, many brands have built highly visible flagship stores to showcase their products in China's first-tier cities. For example, Louis Vuitton opened its largest flagship store in Shanghai in 2004. Other companies, such as Prada and Armani, have followed this same strategy. These stores have helped to reach literally thousands of new Chinese consumers, as the density of the urban population is very high. Coach opened its flagship store in Shanghai in April 2010, but there is as yet no expectation of big stores opening in Beijing, Guangzhou, and Shenzhen.

Second, expansion into second-tier cities is of key importance. Development of a strong retail network in key strategic locations is a move in the right direction in China. It is estimated that by 2015, 75% of Chinese will live in non-coastal cities such as Chengdu, Chongqing, and Wenzhou as wealth gradually trickles into China's interior (7). McKinsey's report suggested that the luxury-goods market will remain concentrated in the top 36 Chinese cities that will account for 74 percent of market growth and 76 percent of total luxury sales by 2015. In Chongqing, a new district now under construction will be the largest financial and business center in China. Most of the international brands are stepping up expansion there. Brands such as Louis Vuitton, Gucci, Prada, Chloë, and Armani have already expanded to Chengdu. Coach has yet to catch up with this trend and is not seizing the opportunity to capitalize on a new round of economic growth in China.

Besides brick-and-mortar stores, online luxury retailing is catching customers' attention worldwide. In China, luxury brands need to be especially cautious about selling products online. Online stores in many cases have already become "educational" platforms for customer brand consideration, but they might also feed the counterfeit industry with images and dilute the authenticity of the brand image. Coach, which has vast international experience in selling online, should use this channel more actively to entice new legions of Chinese customers into its brand community there. According to a survey conducted by us in Shanghai, 100% of the interviewees claimed that they really care about prices and usually search for information about styles, selection, and customer opinion before they buy Coach products in stores. Hence the online store plays an important role in creating pent-up demand and improving customer recognition of the brand. It is especially important to cooperate with the numerous social media agencies popular in China to monitor and shape online exchanges and to help customers identify brands they will consider trying.

Many third-party websites such as www.5lux.com (a luxury trading website run by Feisun Ya) are taking advantage of the gap between domestic and foreign prices, including prices of Coach products, by developing online platforms for successful resale of luxury products. Facing this pressure, some luxury brands have already set up their own online stores. Gucci, for example, launched its online boutique at http://www.gucci.com/cn; it ranks first in the popular Baidu search engine. It is crucial to launch an authorized online store that is trusted by consumers before third-party websites can rush to occupy the brand's luxury market space. The online customer experience could be much enhanced by developing various mobile applications, using social media actively and smartly, and initiating web blogging that provides information and attracts the attention of potential buyers.

Because China's consumers are willing to pay a premium for what they regard as a famous brand and are prone to "showing off," they expect to be noticed on the streets, and they take pride in that. Products with top-line Western brand logos are and will remain very popular in China. Western retailers must be aware that upward mobility in the country is an active, fast-moving process, and all brands must face the challenge of expanding brand awareness by reaching a much broader customer base than the target market of today. This means that besides relying upon many traditional fashion magazines (such as *Vogue*, *Cosmopolitan*, and *Elle*, which have local Chinese editions), normally regarded as the only channels of luxury promotion, brands must add other media such as TV commercials if they want to mature. For instance, Louis Vuitton has pioneered by launching a TV commercial, "What Is a Journey?" describing the values of the brand for Chinese consumers (8), and has received unexpected positive coverage by local social media outlets.

The barrier for cable TV advertising in China is the limited reach of national cable media. According to McKinsey's study, out of 3,000 TV channels, only a few are available nationwide. In some areas, only 5% of consumers watch national television. Other media—newspapers and radio broadcasting—are even more localized. The only solution is to use billboards and in-store advertising in main cities and inside malls, airports, hotels, and other public venues.

As suggested above, Chinese consumers demonstrate a much stronger preference for foreign luxury brands, and there are almost no popular domestic luxury brands in existence. In light of this situation, some attempts to localize the Western way of communicating brand essence appear premature. Chinese customers relate more readily to global ways of brand advertising. For instance, our interviews in Shanghai showed that using local celebrities and local motifs in advertising is much less effective than showing Western original versions. The lesson learned is to focus on the upscale end of the product lines and use images of international celebrities in advertising.

Coach entered China at a time when customers seem very interested in Western luxury and are becoming more sophisticated in terms of brand recognition and comparison. The next progressive step for the company should be working on customer brand loyalty in light of the growing competition. The unique features of China's luxury market make the following procedures likely to further the success of the Coach brand: target young people, especially males, by introducing newly developed and extended product lines; pay attention to men's substantial interest in buying high-value business gifts; focus on the higher end of the existing product lines instead of taking the "affordable luxury" approach; simultaneously launch reasonably priced small accessories that will increase traffic in the stores; open more Coach stores in coastal cities and gradually move into the mainland manufacturing hubs; develop online brand enhancements to boost sales; promote products through global message and imagery; actively share brand culture via social media outlets; and consistently build long-lasting relationships with Chinese consumers.

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