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# Dressing Up

*Capturing the Dynamic Growth of China's Fashion Market*



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# Dressing Up

*Capturing the Dynamic Growth of China's Fashion Market*

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## AT A GLANCE

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The fashion market in China, which tripled over the past ten years, is expected to increase threefold over the coming decade. Companies that understand the significant growth drivers and dramatic changes in demand will best be able to develop winning strategies.

### **A MARKET UNLIKE ANY OTHER IN THE WORLD**

The fashion landscape in China is unlike any other in the world. Until recently, men and women have been spending close to equal amounts, sportswear has dominated, and the fashion market has been defined by department stores.

### **THE NEXT TEN YEARS: THREEFOLD GROWTH WITH NEW TWISTS**

Chinese consumers' needs and behaviors are shifting, across city tiers, age groups, and genders. Shoppers are increasingly sophisticated and look for brands, products, and retail experiences that cater to their evolving fashion sense and needs.

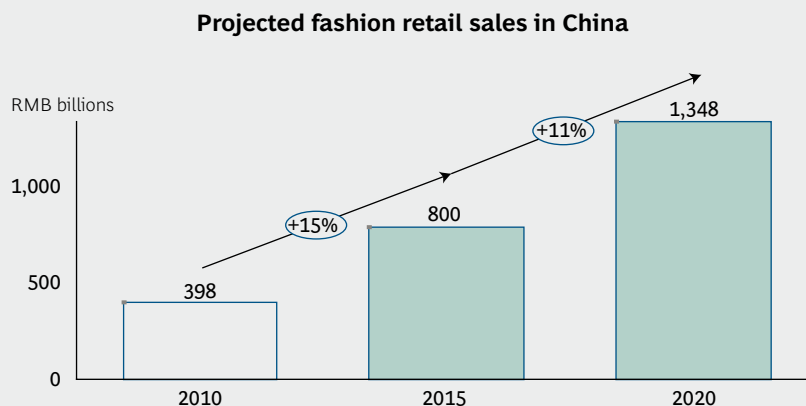
### **BACK TO THE DRAWING BOARD**

To capture the full spectrum of growth opportunities, companies need to expand their footprints, target emerging key consumer segments, and build competitive advantage through multichannel experiences and format innovations.

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OVER THE PAST DECADE, the fashion industry in China has tripled in market size, reaching nearly RMB 400 billion by the end of 2010.<sup>1</sup> Yet per capita fashion spending among urban consumers age 14 to 45 remains low—just RMB 1,150 per year, compared with the equivalent of RMB 5,770 in the U.S. and RMB 5,020 in the U.K. We anticipate that the fashion market in China will grow threefold yet again over the next decade, to more than RMB 1.3 trillion by 2020. (See Exhibit 1.) But benefiting from this growth is not guaranteed. Chinese consumers are evolving and the retail landscape is shifting as well.

#### EXHIBIT 1 | The Fashion Market Is Expected to Exceed RMB 1.3 Trillion by 2020



**Sources:** BCG China Fashion Research Survey 2010; BCG analysis; Economist Intelligence Unit; Euromonitor.

**Note:** This analysis includes spending on men's and women's apparel by consumers age 14 to 45 who live in urban areas; it does not include sleepwear, hosiery, accessories, and children's wear.

What's more, many of the global brands that are in China have a small footprint. For instance, Zara has roughly 70 stores in China, Benetton has about 25, and Gap has 5, compared with more than 1,000 stores each in their home markets in Europe or North America. And many globally or regionally popular brands, such as Topshop, J. Crew, and Ann Taylor, have yet to open a store in the country.

By contrast, consider the brands that have achieved early success in China. Many may be a surprise. Nike and adidas each has approximately 6,000 stores in China, and clothing company Bestseller has more than 4,000. Chinese sports brands Li Ning and Anta each has roughly 7,000 stores, while local casual clothing brands

For serious contenders, it is important to understand the forces that have shaped China's fashion market.

Metersbonwe and Semir have more than 3,000 stores each. Almost all of these are single-brand stores.

To win a share of the new wave of growth, companies need to adapt their strategies on the basis of their starting positions and emerging consumer trends. After interviewing more than 5,000 consumers age 14 to 45, who span a variety of regions and city tiers, we have identified the key trends that will determine how the fashion market will evolve from here.<sup>2</sup>

## A Market Unlike Any Other in the World

China's fashion market is unlike any other in the world. For any serious contenders in the coming decade, it is important to take a step back and understand the forces that have shaped the market.

The first decade of the twenty-first century did more than witness a tripling in growth—it ushered in the very birth of fashion as we know it in modern China. It was only in the late 1990s that the expression of individuality through fashion became possible in China, as consumer wealth began to rise and society opened up—and brands, both foreign and local, began to appear. Consumers' fascination with “big names” was rekindled; prior to that time, fashion simply meant a big brand logo across the chest, and brands were not distinguished to a great degree.

It was into an unsophisticated, yet eager, environment that early movers like Nike and adidas debuted in the 1980s. Consumers were hungry for highly recognizable brands, and sports brands not only filled the bill, but were also a perfect fit for the low-key wardrobe needs of consumers at a time when there were very few occasions that required more fashionable apparel. Local brands like Li Ning and Anta were established and gained scale during this period, too. Li Ning, founded in 1989, grew quickly through its association with China's star gymnast, lending the company instant brand awareness; its deep understanding of local market dynamics; and its clever focus on tier 2 and tier 3 cities, away from the most competitive markets and the challenges of international brands.

These circumstances, combined with the sports brands' early start, led to the utterly unique dominance of sportswear in China. By 2008, the year of the Beijing Olympics, 20 to 25 percent of a typical Chinese consumer's wardrobe (in value) was composed of sportswear. Thirty percent of consumers who bought sportswear wore it three times or more a week, even though most Chinese are not avid fans of exercise—average participation in sports is less than once a week. By comparison, in countries like the U.S. or Germany, which have more serious athletes, sportswear comprises just 10 to 15 percent of a typical wardrobe.

The “first-mover” brands—which in addition to sports brands included casual clothing brands such as Metersbonwe and Bestseller—also benefited from the adoption of franchising, specifically single-brand franchises, as their primary business model for growth. Franchising represented a standardized, easy-to-operate retail format that enabled rapid expansion and wide market access without the need for significant upfront capital. Nike, for example, grew its store network from

about 1,400 stores to roughly 6,000 stores between 2003 and 2009, a scant six years. And, given that consumers were not demanding in terms of seeking the latest styles and that sportswear, in particular, does not go out of fashion as quickly as casual-wear, franchisees could invest with a lower inventory risk.

Single-brand franchises predominated because, at this early point in the development of the retail landscape, there were very few multibrand retailers. Single-brand stores also had the benefit of assuaging consumers' fears about counterfeiting, because these stores made shoppers feel that they were buying directly from the brand company.

Until recently, the fashion market has also been defined by department stores. Through the early 1990s, department stores were the only available trade format for fashion retailing, giving brands access to millions of potential customers while offering consumers "retailtainment"—a place for families to hang out on weekends. Department stores defined consumers' conceptions of what it is to go shopping, and they will remain important going forward, especially in low-tier cities. Even though more innovative retail formats have cropped up in recent years, department stores still accounted for 35 to 40 percent of fashion retail sales in 2010.

All of these factors—the relatively crude early conception of fashion as big brands, the dominance of sportswear, the proliferation of the franchise model, and the entrenchment of the department store format—made China's fashion market different from any other market in the world.

## The Next Ten Years: Threefold Growth with New Twists

The next ten years represent a tremendously exciting time for fashion companies. The number of middle- and affluent-class consumer (MAC) households in the country—those earning at least RMB 74,000 (or \$11,400) per year (2010 nominal income)—will increase from 50 million in 2010 to 140 million by 2020. And fashion is among the top "trading-up" categories for such households. Of the consumers we interviewed, 50 percent said they intended to trade up in apparel in 2011, which is 5 percent more than in 2010 and 14 percent more than in 2009. Yet per capita consumer spending in China is still in the early part of the penetration curve compared with that in mature markets, giving China the potential to become an even more significant fashion market—accounting for about 30 percent of the global fashion market's growth over the next five years.

It is not enough, however, for companies to assume that they can sit back and be buoyed along with the coming wave of growth. Growth over the next ten years will manifest itself in very different patterns from those of the past ten years. It is essential that companies understand the full range of buying behaviors that will emerge across disparate consumer segments and city tiers. To that end, we have identified six key trends that will be vital to a company's success in this market.

The first three trends relate to demographics. Today, a typical heavy spender on fashion is in his or her early thirties, is only slightly more likely to be female than male, and lives in a high-tier city such as Beijing, Shanghai, or a coastal or provin-

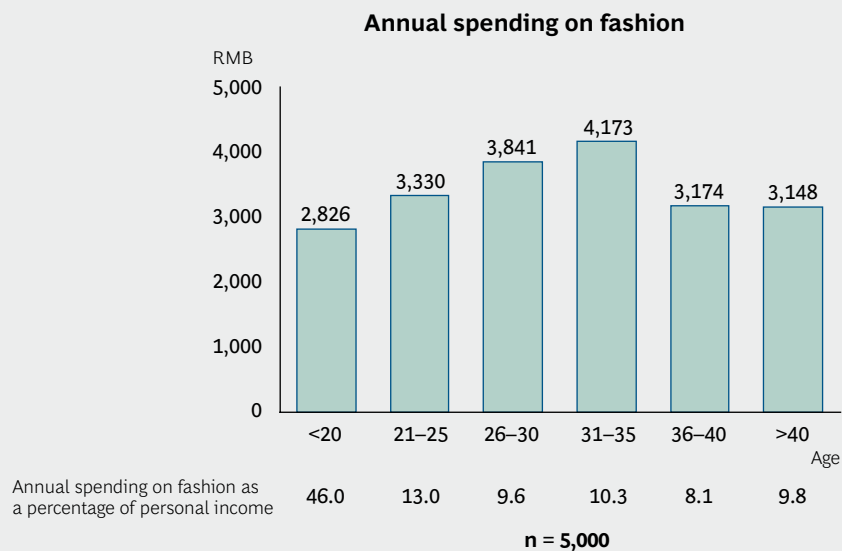
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China has the potential to account for about 30 percent of the global fashion market's growth over the next five years.

cial capital city. In ten years' time, however, that typical consumer will look very different.

**More Spending on Fashion by Younger Generations.** Spending on fashion is only beginning to increase among people in their twenties and thirties, who today outspend the urban average by 18 percent in value. (See Exhibit 2.) This so-called post-1980s generation is the first wave of consumers born after the Cultural Revolution. They have not “eaten bitterness” the way their parents did, and many have a good job at a foreign or local enterprise—all of which translates into a strong sense of optimism. Fashion spending will continue to increase among the post-1980s generation and be amplified through even younger and more fashion-savvy generations—the so-called post-1990s and beyond.

#### EXHIBIT 2 | Younger Generations Are Spending More on Fashion



**Source:** BCG China Fashion Research Survey 2010.

**Note:** This analysis includes spending on men's and women's apparel by consumers age 14 to 45 who live in urban areas; it does not include sleepwear, hosiery, accessories, and children's wear.

**A Larger Proportion of Spending on Fashion by Women.** As spending on fashion takes off over the next ten years, the consumer base will skew more heavily toward women. Up until now, Chinese men and women have spent close to equal amounts on fashion. Currently, spending on menswear represents 46 percent of the total spending on fashion among urban consumers age 14 to 45, while spending on women's apparel constitutes 54 percent of the total. As women's incomes increase, we are seeing their spending on women's wear pick up significantly as compared with that of men who earn the same amount. This trend is consistent with patterns observed in developed markets such as the U.S., the U.K., and Japan, where women spend 1.5 to 2.5 times what men do on fashion.

That said, in low-tier cities (tier 4 through tier 7), in which spending on fashion is still modest, spending by men will remain as important to total fashion sales as

spending by women. In fact, right now, in tier 4 through tier 7 cities, annual spending on fashion by men is slightly greater than that by women; 54 percent of fashion purchases are made by men. Even as consumers in the very lowest city tiers become significant fashion spenders, men will still most likely outspend women. In high-tier cities (tier 1 through tier 3), however, the balance shifts, with 43 percent of fashion purchases made by men and 57 percent made by women.

**More Heavy Spenders on Fashion in Low-Tier Cities.** In the next ten years, we expect that a much larger proportion of heavy spenders on fashion will live inland or in a low-tier city. In 2010, low-tier cities made up about 50 percent of the fashion market. By 2020, two-thirds of the MAC population will reside in tier 4 through tier 7 cities and will account for 60 percent of the overall growth of the fashion market. For companies, this means that the prize will be spread over a larger number of cities. Currently, companies need to have a presence in 462 cities in order to reach 80 percent of the market for mid- to high-priced fashion. By 2020, they will need to extend their presence to 568 cities in order to sustain that same market coverage. What's more, many of the trends we have identified will play out differently in low-tier versus high-tier cities, which will require companies to tailor their approach in order to penetrate the underserved low-tier market.

The next three trends relate to consumer needs. Previously, the available offerings and channels for fashion were limited, and this has led to a disproportionate affinity for sportswear among Chinese consumers and the dominance of big brands and department stores. Within the next ten years, however, consumers will be more sophisticated about fashion, resulting in a greater necessity to segment offerings by occasion and consumers' emotional needs.

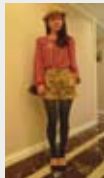
**More Casual Occasions and Events.** The profound economic changes driving all the previously mentioned demographic shifts are bringing with them profound changes in people's daily lives. Ten years ago, the range of entertainment options and social occasions was limited. People in provincial capitals might occasionally go out to dinner or for karaoke, but for the most part life consisted of school or work and home, in one's home city. Today, the typical consumer's realm of experience is vastly expanded. Tang Qinqin, for instance, is a 25-year-old woman we interviewed who lives in fashion-conscious Shanghai and has studied overseas; in addition to her studies, she enjoys traveling, karaoke, and socializing over the weekends. Yet even Lin Shan, a 20-year-old university student in the tier 5 city of Maoming, Guangdong, has been to Shanghai and cites a diverse array of daily activities that include shopping, school, and going to dance clubs. (See Exhibit 3.) The fashion choices of these two young women, who live in very different cities, reflect a shared belief that there are "right" outfits for different situations; consequently, they are building up bigger wardrobes.

With the growing proliferation of occasions, there is a growing need for fashion that suits this new lifestyle. Chinese consumers will continue to experiment with what to wear for different occasions. For companies, all this means that there will be opportunity to shape consumer behavior and preferences. Companies can become winners by marketing and merchandising offerings targeted to consumers' occasion-specific needs.

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In the next ten years, we expect that a much larger proportion of heavy spenders on fashion will live inland or in a low-tier city.

### EXHIBIT 3 | There Is a Contrast in Fashion Choices by City Tier

|           | High-tier (Shanghai): Tang Qinqin                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Low-tier (Maoming): Lin Shan                                                                                                                                                                                                                                                                                                                                                                             |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Life goal |  <b>Ambitious, clear career goals in mind</b> <ul style="list-style-type: none"> <li>• Aims to be a college professor, teaching art and running a gallery</li> <li>• Not willing to sacrifice her career for family life</li> </ul>                                                                                                                                                                                    |  <b>Seeks a comfortable and easy life</b> <ul style="list-style-type: none"> <li>• Wants a stable nine-to-five job</li> <li>• Prefers to remain in her hometown with her family</li> </ul>                                                                                                                              |
| Style     | <ul style="list-style-type: none"> <li>• Wants to be a trendsetter instead of a follower</li> <li>• Regards style as more important than brand</li> </ul> <p>"I usually mix fast fashion with expensive shoes and bags to elevate my overall look."</p> <p>H&amp;M Topshop<br/>Zara</p>                                                                                                                                                                                                                 | <ul style="list-style-type: none"> <li>• Wants to be iconic and unique among her peers</li> <li>• Perceives brands as representative of taste</li> </ul> <p>"I like the hip-hop style. My dream brands are Converse and Levi's."</p> <p>Neb girl Yishion<br/>Metersbonwe</p>                                                                                                                             |
| Occasion  | <ul style="list-style-type: none"> <li>• Dresses for the occasion</li> </ul> <div>  Travel            Clubbing            School            Shopping         </div> | <ul style="list-style-type: none"> <li>• Has the concept of "occasion" in mind but doesn't differentiate her style that much</li> </ul> <div>  School, sports, and travel            Shopping, karaoke, and clubbing         </div> |

Source: BCG China Fashion Research Consumer Interviews 2010.

**Consumers Defined by Emotional Spaces.** Growing consumer sophistication and the enormous structural change in people's daily lives are bringing a growing emotional dimension to consumers' thinking about fashion.

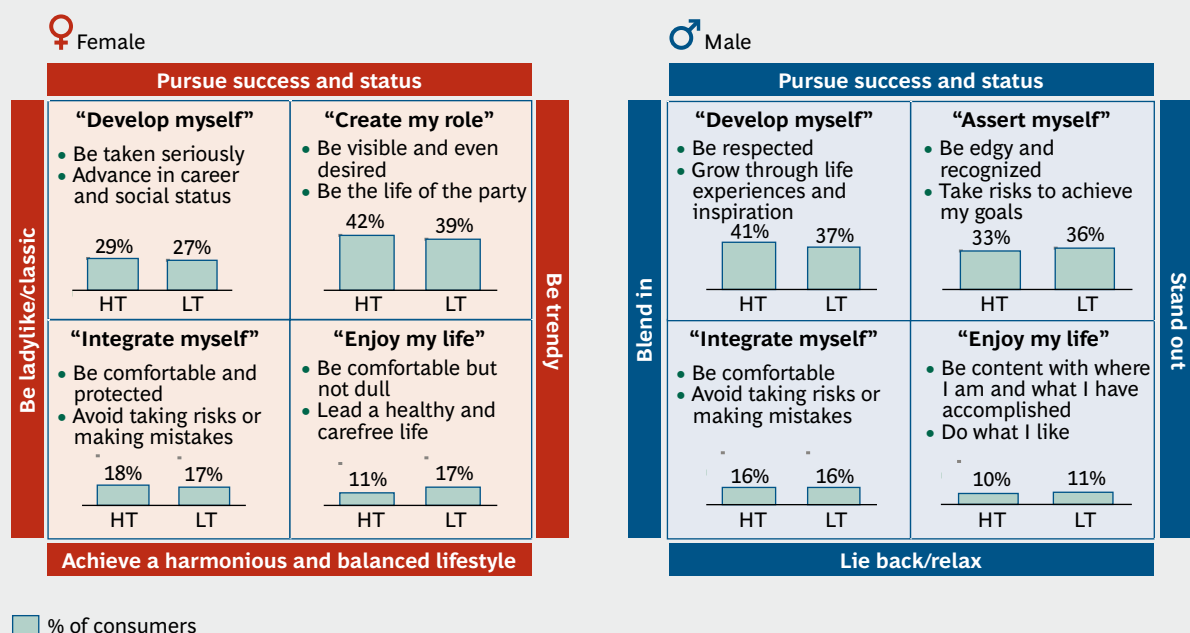
Ten or more years ago, consumers gravitated strongly toward brands, but thought very little about how brands might reflect personal identity or express their outlook on life. By contrast, today's twenty- and thirty-somethings are more likely to say that they feel a sense of emotional fulfillment from fashion. And it is through fashion that many consumers in China express their desire and optimism for upward mobility and social status—an optimism that is common among most Chinese consumers, whose standards of living are rising by leaps and bounds at a speed never before seen.

Companies can no longer rely simply on being a known brand. Consumers are looking for brands that resonate at a deeper level; apparel must strike an emotional chord with the consumer.

We have observed four consumer "emotional spaces" emerging for men and women that are important for companies to understand in order to situate their offerings accordingly.

There are many possible ways to segment and define emotional spaces. Here we share two prominent dimensions observed through our in-depth interviews. (See Exhibit 4.) The vertical dimension is success oriented: at the top are professional

## EXHIBIT 4 | New Consumer Emotional Spaces Are Emerging



Source: BCG China Fashion Research Survey 2010.

Note: HT refers to high-tier cities (tier 1 through tier 3); LT refers to low-tier cities (tier 4 through tier 7).

achievement, social status, and self-improvement; at the other end of the spectrum are a laid-back, more relaxed, and life-enjoyment orientation. Importantly, 60 to 70 percent of Chinese consumers skew toward pursuing success. With the enormous upward mobility opening up in society, people are consumed by the idea of progress and personal betterment. Because women will spend more on fashion than men, high-power women will become an especially important consumer segment.

That said, this slant toward personal success and status is more pronounced in high-tier cities. In low-tier cities, where the pace of life is slower and people enjoy a lower cost of living, consumers are able to save more and to spend a larger proportion of their income on leisure and fun. They are less consumed with career and social status, and, as a result, trend more strongly toward the life-enjoyment end of the spectrum. For example, in low-tier cities, 17 percent of the women polled fell into an emotional space we call “enjoy my life,” as compared with 11 percent in high-tier cities.

The horizontal dimension to emotional spaces is fashion-oriented, with avant-garde fashion trends at one end and “blending in” at the other. Our findings show that women are more likely to want to be expressive through their apparel. Reflecting social expectations based on gender, we found that men will largely skew toward wanting to blend in, with a laid-back, low-key look. (For more about the next generation of fashion consumers, see the sidebars “Ren Chengwu—Career Focused and Aspiration Driven,” “Tang Qinqin—A Post-1980s Independent Woman,” and “Lin Shan—‘My Style Reflects My Personality.’”)

## REN CHENGWU

### Career Focused and Aspiration Driven

Ren Chengwu, a 21-year-old college junior in Shenyang, the capital of Liaoning Province, is typical of the “develop myself” male consumer who will be prevalent over the next ten years: career-focused, aspiration-driven, and drawn to serious apparel.

Reflecting his aspiration for security in career success, he refers to his father, a local official in the education sector, as being his biggest influence. He also describes a friend and mentor as “mature” and “career-oriented.” Although he is considered handsome and has no trouble finding a date, he spends weekdays “hiding” in the library to study, indicative of where his priorities lie.

Chengwu says he prefers neutral or dark-colored apparel, “tasteful but not flashy,” in order to keep a low profile at his university. He considers his grey Jack & Jones jacket, dark-striped shirts, and dark-wash jeans among his staple wardrobe items. He cites Brad Pitt and George Clooney as among those who influence his style because, he says, they have “good taste.” “I don’t want to be too flashy at school,” says Chengwu. That said, he does feel the occasional need for more stand-

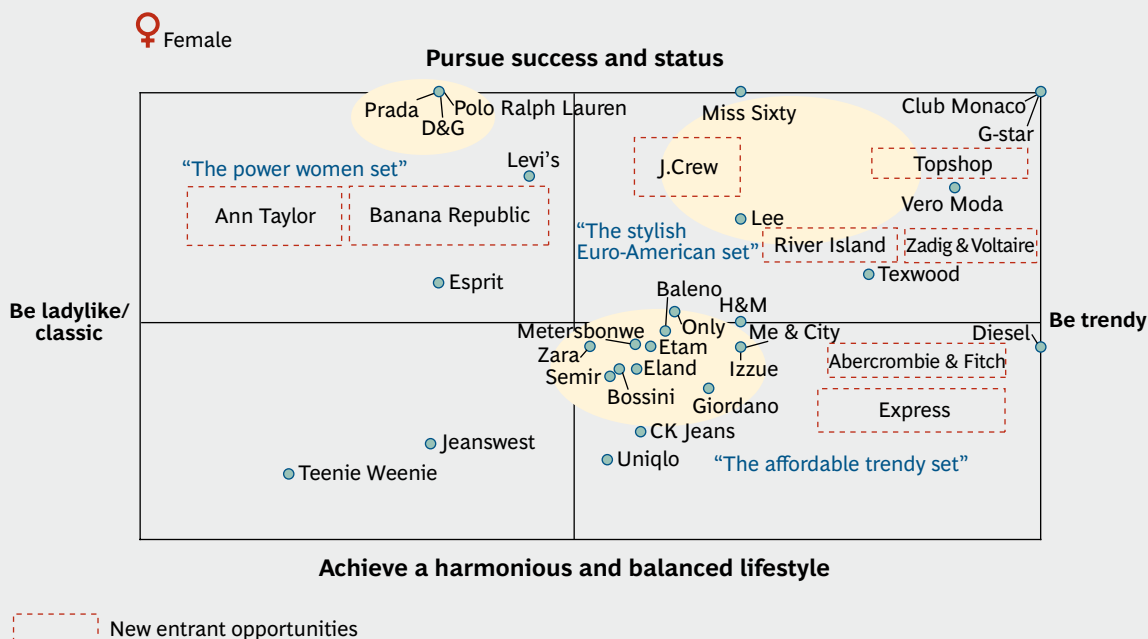


out apparel. He wears bright colors when teaching English to his pre-school students, for example, and also when clubbing with friends. “I don’t want to be overly serious either,” he says.

We mapped the top brands in China to the four emergent emotional spaces and found not only that relatively few brands have entered the market but also that the few that have are overwhelmingly clustered in the “enjoy my life” space—a space best represented by young people in low-tier cities. (See Exhibit 5.) There is enormous opportunity open to brands that position themselves in the other spaces—particularly in the fashion-conscious and attention-hungry “create my role” space and in the “develop myself” space.

Companies that take consumers’ emotional needs and their brand essence into account, and position themselves in the emotional spaces in which there are a

## EXHIBIT 5 | Consumers Increasingly Look for Brands They Identify With Emotionally



Source: BCG China Fashion Research Survey 2010.

limited number of brands, will have a significant advantage over competitors who fail to formulate a targeted strategy for where to enter China's fashion market.

**New Distribution Channels and Retail Formats.** Companies must consider geography and city tier in determining the right distribution channel with which to enter, and expand in, the market.

In low-tier cities, the prevalent shopping formats—department stores and single-brand stores—will remain the most popular choice for consumers, who lag behind those in high-tier cities in their exposure to more diverse shopping experiences. New midrange and premium-priced department stores should do especially well, since department stores, if any, in lower-tier cities tend to be rundown, state-owned affairs. Modern, more sophisticated department stores able to create a pleasant shopping experience will continue to be weekend destinations in these cities, in which new store openings still attract long lines. Beneficial innovations can be as basic as having clean bathrooms, good lighting, and attentive salespeople, or as advanced as full-fledged membership clubs and fashion shows in retail venues to attract large numbers of customers.

Even in high-tier cities, department stores are still contenders—accounting for more than 35 percent of apparel sales. Further, brands' access to department stores remains highly competitive. One floor manager tells us that “new brands only have a three-month window in which to prove themselves.”

Overall, though, consumers in high-tier cities are becoming more demanding and

## TANG QINQIN

### A Post-1980s Independent Woman

Tang Qinqin, a vivacious 25-year-old woman from Shanghai, is emblematic of the “create my role” emotional space that the preponderance of females in high-tier cities will occupy.

College-educated with a master’s degree from an overseas university and now earning a PhD in public art management from Shanghai University, Qinqin is creative and carefree, yet also serious about her career. She embraces a diverse fashion aesthetic to match these attitudes. “I can’t adapt to nine-to-five jobs—art is the right fit for me. I need freedom,” she says. She adds that she enjoys living in Shanghai because “I always have access to the most cutting-edge things.”

Qinqin models for pocket money and is not afraid to try what may be considered, in others’ eyes, sexier clothing. When traveling, she might wear a strapless, brightly colored dress; when she is out for karaoke or at clubs, she likes to be stylish and flashy. For school, though, she switches gears with classic, serious clothes in neutral colors.

Qinqin’s expenses are low because she lives with her parents. She is also engaged and, after marriage, it is likely that her husband will pay their rent. She makes more than RMB 20,000 per month, which means she is able to spend a lot on apparel per month.

Like an increasing number of women in high-tier cities, Qinqin shops multichannel (in stores, through



catalogues, and online) and seeks out new retail experiences. “For girls my age, I think style is, in general, more important than brand and quality, especially for apparel,” she says. Consequently, she rarely spends more than RMB 1,000 on a single piece, and often mixes expensive accessories, such as a designer handbag, with fast fashion clothes that she finds in high street brand stores and boutiques. Her favorite brands include Topshop, River Island, H&M, and Zara. She says she only occasionally goes to department stores and malls because, she notes, “the clothes there are usually overpriced and lack uniqueness.”

## LIN SHAN

### “My Style Reflects My Personality”

Lin Shan, a 20-year-old college student, lives in the tier 5 city of Maoming, Guangdong, a five-hour train ride from the provincial capital Guangzhou. She is typical of the “enjoy my life” emotional space that is prevalent in lower-tier cities. She lives with her older sister, expects to work for a local company in a nine-to-five job after graduation, and has no desire to leave her hometown. Outgoing and carefree, Shan typically changes her hairstyle three times a month, lists shopping as one of her top weekend activities, and approvingly describes one of her favorite friends as “fun loving.”

When it comes to her wardrobe, Shan says “I want to be unique in my style.” She describes that style as “trendy,” hip-hop inspired, and following fashion magazines. Though she wears jeans and casual tops to school, on weekends she wears flashy items such as a faux-fur, animal-print coat and high heels. She describes her ideal style as “foreign and exotic.” Shan currently spends around RMB 400 per month on fashion—about half of the RMB 800 to RMB 1,000 per month she receives in



pocket money from her father. When she runs out of pocket money, her sister funds her shopping activities as well, and she earns extra cash through tutoring and modeling at RMB 30 per hour.

expect more positive and novel shopping experiences with high-quality service. As a result, they are turning away from department stores, which suffer from such drawbacks as open floor plans with little differentiation in available fashion brands and uneven quality of staff, who are trained by the separate brand companies. And, of course, department stores have simply been around for a long time. Customers are dismissing department stores as “been there, done that” and are seeking new shopping experiences. As for the alternatives, shopping malls are positioned to do well because of their wide range of selection and because they tend to be up to date on the latest trends. Single-brand stores or concession counters, however, will still be the dominant format for growth as consumers continue to be eager to buy specific brands.

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We estimate that the number of Internet shoppers in China will increase from roughly 145 million in 2010 to about 329 million in 2015.

The question of whether a multibrand versus a single-brand retail channel is right for a brand depends on its position in China's fashion market. In markets like the U.S., department stores such as Saks Fifth Avenue and Bloomingdale's act as a curator for consumers, helping them narrow down their selection to a few choice styles from many brands. This strategic winnowing process does not happen to the same extent with multibrand retailers in China, which makes them less appealing to consumers. But there are some multibrand retailers, such as the Hong Kong company I.T, which have carved out a niche for themselves introducing trendy, lesser-known specialty brands into China's fashion market. This distribution format is ideal for smaller brands that lack the resources to run a single-brand store. As brands get bigger, however, they will want to have more control over their merchandising and will most likely shift to single-brand retailing.

It should also be mentioned that the franchise model will remain key to fashion retailing in the next ten years, especially in lower-tier cities. Franchisees currently contribute between 50 to 90 percent of the revenue of the major casual and sports brands in China. Going forward, more brand companies will start to take more direct control of their retail in high-tier cities, but in lower-tier cities they will continue to rely on distributors and franchisees to penetrate and expand their presence in the fashion market.

Online shopping will certainly grow in importance as well, given that the rising wave of shoppers hails from the Internet generation. We estimate that the number of Internet shoppers in China will increase from roughly 145 million in 2010 to about 329 million in 2015. In fact, apparel is already the most popular category of online purchases among Chinese consumers, and we see continued opportunity for success through online retailing. For example, apparel constitutes the most-shopped category on such popular Chinese marketplace sites as Taobao. The most popular online fashion retailer, Vancle, has achieved rapid growth through its value pricing and wide product selection. Yet few brick-and-mortar retailers are fully multichannel. Items bought online usually cannot be returned to a physical store owing to most brands' franchise-based business model.

The race to build a truly multichannel model has just begun. Players who can first center their retail and service model around target customer segments and embrace them with a consistent, 24/7 online and offline experience will have a tremendous competitive advantage over their peers.

## Back to the Drawing Board

We anticipate that the next ten years will bring threefold growth to China's fashion market, accompanied by growing complexity in the consumer landscape.

Traditionally, for fashion players, the keys to winning were having a "big" brand name, a low-cost supply chain, and the ability to rapidly develop a retail footprint through franchising. To win in the future, however, companies need to adapt their strategies in response to new demands from consumers. Doing so calls for answers to the following critical questions: Which consumer segment is right for our company? Do our offerings meet the needs of those consumers? Where should we

penetrate the market? Are we maximizing the distinct opportunities in different geographic areas? Are we utilizing the right retail channel or channels for those areas?

Below we discuss just a few of the companies that have done a good job of answering these questions and creating the right approach in meeting consumers' needs.

**A Plan for Low-Tier Cities.** Having the right footprint strategy is important to success in China. Companies should identify the right locations—that is, those with the appropriate affordability and retail infrastructure for them—and deploy there in a logical manner to achieve maximum impact with limited resources.

By 2020, 50 percent of MACs will live within a 50-kilometer radius of a tier 1, tier 2, or tier 3 city, in what we call a *city cluster*—a number of cities in close geographic proximity grouped together for the purposes of creating an expansion plan. This concept allows companies to invest resources into one city in a cluster and leverage them in other nearby cities within the cluster. For apparel, examples of such resources could be a management team to oversee franchisees' operations; advertising and promotion activities that can reach all cities in the cluster; and training and management of store personnel, logistics, and warehousing.

We have observed some retailers, such as supermarkets, taking a clustered approach, but we have not observed many fashion players structuring their footprints this way. Fashion companies, especially those that have already penetrated high-tier cities, could borrow a chapter from retailers in other sectors when they design their expansion plans. Meanwhile, companies need to recognize the unique requirements for success in fashion when they seek to serve low-tier cities in a cluster. For example, low-tier consumers have less exposure to fashion and require more education and guidance in “mixing and matching.” The willingness to pay for fashion is also lower in low-tier cities than it is in high-tier cities, therefore requiring specific considerations in merchandising.

The local sportswear brand Li Ning has found success by paying attention to, and developing a deep knowledge of, the retail landscape in each type of city tier. Li Ning closely monitors its footprint and has built up strong surveying capabilities through a nationwide retail landscape database, giving the company real-time intelligence about movements on the ground. The company knows when a new commercial road is built or when a competitor opens nearby, and it reacts quickly, grabbing prime new locations or converting failing competitor stores.

**An Emotionally Relevant Value Proposition.** The still-underdeveloped retail landscape in China is marked by an insufficiency of brands in specific emotional spaces and undifferentiated product offerings in similar emotional spaces. Foreign players must carefully consider which of their successful brands are right for the market, while local companies need to identify or create their unique positions within the market and differentiate themselves from competitors. It is important for both foreign and local companies to understand what consumer emotional space their brands own versus what space they should own, and they need to align themselves accordingly with shoppers' emotional desires.

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It is important for companies to understand what consumer emotional space their brands own versus what space they should own.

Casual retailer Bestseller has distinguished itself in China by successfully creating a credible presence in multiple emotional spaces, and by clearly differentiating its offerings in them. It currently has more than 4,000 stores in China under four different brands, offering consumers a portfolio of brands targeted at different emotional spaces. Vero Moda is its basic, midrange casual and professional women's brand. Jack & Jones is its casual men's brand. Its Only brand is trendier, more youth-oriented, and pitched at a slightly lower price point than the other two, and Selected is its premium, more expensive men's brand that is only available in top-tier cities.

**A Unique and Differentiated Consumer Experience.** As consumers grow savvier about fashion, shopping, and the Internet, companies need to think more about the way their products are being brought to the market and create an exciting retail environment for shoppers. This is especially important in high-tier cities in which consumers who have grown overly familiar with traditional retail formats are seeking out new and more stimulating avenues for shopping, and in which growth is increasingly happening outside of physical retail channels.

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Although apparel is the top e-commerce category, as of now, there are few retail players who have developed a true multichannel retail experience in China.

Hong Kong company I.T has proven itself one of the most buzz-worthy fashion players to watch because of its signature “multibrand, multilayer” approach. It currently has more than 300 outlets in Greater China—and counting. Merchandising is its strength. The company manages more than 300 brands, rotating 50 brands per year, in its four different multibrand formats, each aimed at a different and clearly defined demographic. Among its offerings are an upmarket cutting-edge format that carries established international labels like Alexander McQueen and Givenchy; a youth-oriented format with a focus on Japanese designs; and a street-style unisex format. Poorly performing products are dropped quickly, and the constantly rotating inventory means that consumers' visits to its stores remain fresh and exciting in a uniquely style-focused environment. The company has also moved beyond its original value proposition of introducing new brands alongside established ones and now has seven of its own in-house brands, which earn higher profits than some other brands in its multibrand stores.

Bestseller is also worth noting for its development of value-added services that enhance shoppers' retail experience. The company devotes much attention to staff training, aimed at creating deep knowledge of the brand's product offerings. It also coaches its staff to suggest single items or combinations of items for customers to try on—a service model that is highly effective in lower-tier cities where consumers' sense of personal style is not yet strongly developed and that has resulted in a much higher rate of purchase per “try on.”

Although apparel is the top e-commerce category, as of now, there are few retail players who have developed a true multichannel retail experience in China. As companies try to expand their footprint online, they face the issues of real-time inventory visibility, reliable logistics service, product returns, and consistent promotion across channels. Also, few companies have integrated systems that would enable a consumer, for example, who found an interesting item in a store that was not available in his or her size, to pick up the telephone and order it. In addition, VIP accounts are seldom integrated among physical and online stores.

One company, Uniqlo, the flagship brand and format from Japanese fashion powerhouse Fast, is beginning to break out into a multichannel approach. Its most notable strength has been in integrated marketing. The company has made a number of bold moves in China that have generated extensive buzz and excitement. It has set up an official online storefront on Taobao Mall (part of Taobao, the vast leader in e-commerce in China). It has also collaborated with Renren.com, a major Chinese social networking site, to produce an original interactive experience in which users can create customized avatars and “line up” virtually to enter a lucky draw, while communicating with other registered members to effectively generate a sense of community around the brand.

Any company able to pull off true multichannel success will have access to China’s coveted 329 million online shoppers by 2015.

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The next ten years will be a definitive time for China’s fashion market; now is the time for established and aspiring players to rethink their strategies.

## The Top Ten Questions for Ambitious Companies to Consider

The next ten years will be a tremendously exciting and definitive time for China’s fashion market and will bring an unprecedented opportunity for growth. Right now is the time for established as well as aspiring players to think—or rethink—their strategies.

The top ten questions that any companies with serious ambitions in China should consider are the following.

1. *What will be the key consumer segments, occasions, and needs going forward? Who will be the primary buyers at the key price points over the next three to five years? How will consumers learn about fashion and form preferences?*
2. *What are consumers’ current perceptions of your brands and product offerings? Are those perceptions intended and consistent with the brands’ own visions?*
3. *What are the most attractive “sweet spots” in the market over the next five to ten years, from a price, demographic, and “emotional spaces” standpoint? Should you leverage an existing brand or should you build a new one to serve the target audience?*
4. *Are your consumer experiences compelling and differentiating enough to win—especially when both local and international competitors are investing and innovating aggressively?*
5. *How should you expand your footprint over time? Which brands and where? How to manage high- and low-tier growth opportunities differently? At what pace and with what ownership model?*
6. *What are your strategic objectives for pursuing a multichannel approach? To acquire new customers or to increase the loyalty of existing customers? To offer additional transaction channels or to reshape the entire experience so that your customers receive consistent service across the Internet, telephone, and physical stores?*

7. *How should you leverage the power of new media and points of interaction unique to your target consumers?*
8. *Do you have the right business model and capabilities to execute a seamless experience across a large number of cities and multiple transaction channels?*
9. *Across the fashion value chain, what capabilities should you buy versus build? Where should you leverage third parties' capabilities or assets rather than maintain in-house control?*
10. *How should you recruit and retain talent across different functions and locations when your competitors are also growing at a rapid pace?*

**C**HINA'S FASHION MARKET was shaped by unique forces over the past ten years. Looking ahead, it will almost surely experience another decade of dramatic changes. Consumers will become more sophisticated at an unprecedented rate and move in directions drastically different from before in their demand for brands, products, and retail experiences. They will be exposed to a tremendous number of innovations and exciting offerings through new media, travel, and the many foreign and local players pouring investment into this market. The fight for share of mind and retail real estate will be even more intense than in the past ten years. Anticipating such dramatic changes and developing the right offerings early on will be the key for companies with the ambition to win in China. Ignoring the megachanges ahead will render one's brand and offerings irrelevant in what is expected to become one of the world's largest fashion retail markets in the next five to ten years.

#### NOTES

1. This analysis includes spending on men's and women's apparel by consumers age 14 to 45 who live in urban areas; it does not include sleepwear, hosiery, accessories, and children's wear.
2. The BCG China Fashion Research Survey 2010 covers select urban areas in China from tier 1 to tier 7—including four directly governed cities, 15 sub-provincial-level cities, approximately 270 prefecture-level cities, about 360 county-level cities, and roughly 1,600 counties. These areas contained about 350 million consumers age 14 to 45 (roughly 55 percent of China's total urban population in 2010).

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