

Instituto Superior de Ciências do Trabalho e da Empresa



China Luxury

**The case of a Portuguese company in China's
luxury garment market**

Pedro José Macário

*“Let China sleep for when she awakes,
she will shake the world”*

Napoleon Bonaparte

MSc. in Business Administration

May 2010

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ABSTRACT

Nowadays China is already out of Mao Zedong's shadow and people are experiencing western lifestyles. In opposition to Europe, money is new and the economy is already world number two. People are now educated, travelled overseas and are proactively seeking for new fashion trends worldwide. Purchasing power is growing and cannot be ignored thus creating enormous opportunities for western brands. Talking about luxury in China is an accurate and relevant assumption, especially in the garment sector having that the locals are collectivism-oriented and are constantly displaying status. However, approaching the Chinese consumers must not be done the same way it is done in Europe or in the USA and cultural adaptation must take place. The aim of this thesis is studying luxury garment consumers in China and the segments of consumption that are arising. Moreover, the performance of one Portuguese company already having a share in this market is analyzed and recommendations are drawn for future investments. This project is about Chinese consumer behaviors over luxury garment.

Keywords: China, consumer behavior, luxury garment, cultural adaptation

RESUMO

A China dos dias de hoje já se conseguiu afastar da sombra de Mao Tsé Tung e as pessoas vivem segundo padrões ocidentais. Ao contrário da Europa, o dinheiro na China é recente e a sua economia já é a segunda maior do mundo. Muitas pessoas já tiveram acesso a educação, viajaram pelo mundo e pesquisam proactivamente novas tendências da moda mundial. O poder de compra está em crescimento e é difícil ser ignorado, criando enormes oportunidades para as marcas ocidentais. Falar de luxo na China é uma iniciativa actual e relevante, especialmente no sector do vestuário, tendo em conta que a orientação para o colectivismo é uma realidade chinesa, estando estes constantemente à procura de formas para demonstrar estatuto. Contudo, a abordagem aos consumidores chineses não pode ser feita de acordo com as premissas utilizadas na Europa ou nos EUA devendo existir uma adaptação cultural. O objectivo desta tese é estudar os consumidores de vestuário de luxo na China e os segmentos de consumo que se têm formado. Adicionalmente é analisada a performance de uma empresa Portuguesa que já está presente neste mercado e traçar recomendações para futuros investimentos. Este projecto é sobre comportamentos dos consumidores chineses face ao vestuário de luxo.

Palavras-chave: China, comportamento do consumidor, vestuário de luxo, adaptação cultural

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CHAPTER I – INTRODUCTION

Executive Summary

Luxury brands have achieved in Asia their place in the sun. The phenomenon is so powerful that the continent is now the world biggest market for western luxury brands, representing more than half the US\$80 billion industry worldwide (Caffola, 2007). One would think there is a gold distribution by the thousands of people standing in Chinese main avenues, queuing up for days, undergoing into uncomfortable situations, but in fact it is another luxury brand store opening. There are cases of personal sacrifice in order to acquire certain brand product as if it was a code to be respected, as if it was a state of obedience (Radha Chadha and Paul Husband, 2006). In today's China people live by the standard of "you are what you wear" and luxury brands are part of a new social protocol, the authors refer. Chinese people are long-term oriented (Hofstede, 2003) and apply that value when it comes to buy garment. Whereas in the western society people want to be different and original, searching for uniqueness, in China there are socially accepted wear-codes and if one does not fulfil the pre-requisites it may be impossible to have recognition or any kind of success (Temporal, 2001).

This unbridled luxury consumption leads to mammoth opportunities for western companies and many brands are already profiting from their shares in the Chinese luxury garment industry. The case of a Portuguese brand that already has a share in this market and intends to expand that presence is analysed. The main goal is showing that luxury in China is not the same as the western concept of luxury and one can not approach the Chinese market the way it is done in Portugal, France or Italy.

In today's China, the old taboos and lifestyles are now behind the times and the country is almost out of Mao's shadow. People are proactive, curious and keep up with the latest trends, fashions and brands (Caffola, 2007). Chinese money is new for it is spent according to the new society protocols in opposition to more conservative lifestyles and

China is already the second economy of the world, representing a huge purchasing power. Finally, people are really into shopping, in an attempt to meet their belonging needs, forming segments of consumption, each one of them with their own specific characteristics.

The introductory chapter identifies the problem to solve, the focus of the study and its relevance. Additionally it stretches the research method, the kind of literature reviewed and the construction ideology behind the overall project. Second chapter includes the theoretical framework and the literature review and is divided in three stages, the first one respecting consumer behaviour in general. It is the basic theory which is used to give consistence to this project. The second stage includes all the social analyses done and the last stage merges the previous two, in order to have general conclusions, not only observed or reviewed in literature but also explained by theoretical models from stage one. Third chapter is more practical and basically exposes the case of a Portuguese company that already has a share in the Chinese luxury garment industry but is facing cultural problems. Chapter four includes recommendations for future investments in the Chinese luxury garment market and applies not only to Portuguese companies but also to European companies in general.

The timing for luxury brands and luxurious products is accurate but knowledge is the key, thus companies must understand what Chinese consumers of luxury clothes want and how they act. This thesis addresses that question.

Problem Definition

It is a fact that most companies aspire to make a difference during their existence, achieving a global presence and becoming multinational organizations. Many of them can proudly state they have done it but the question should rely in the approach they use in each market. Segmentation can be comprehensive when companies deal with similar markets and use clusters of consumers with parallel needs and preferences. However, the globalization competitive advantage becomes a threat when a company is used to deal with western markets and wants to define a strategy for the China. The country is twice the size of Europe, comprehending several regions, dialects, cultures and values,

so different from the western reality, especially when consumer behaviour is concerned. “In terms of market and consumers, what should a Portuguese luxury garment company do, when entering in China?” is the problem to be addressed with this dissertation. In the overall, it is intended to understand: (1) how the luxury garment market works in China as well as the consumer behaviours over western luxury garment and (2) to identify segments of consumers in the Chinese luxury clothing market, enabling companies to customize future approaches. Moreover, the particular case of a Portuguese company that has already a share in this segment in China will be analyzed in order to understand: (1) what prompted the company to move to the Chinese market, that is, whether and to which extent the market has been studied prior to the entry and what have been the results of such study; (2) what was the market entry strategy and the main problems encountered; (3) what is the current situation and the lessons to learn; (4) what recommendations can be evidenced and used by Portuguese companies wishing to have a share in the Chinese luxury garment industry.

Relevance of the Study

Answering the question “In terms of market and consumers, what should a Portuguese luxury garment company do, when entering in China?” is significant due to several aspects. In the first place, although there are numerous studies for Western brands and multinational companies, little research has been done so far applied to Portuguese companies wishing to enter the luxury market in China. Secondly, China’s economy is already world number two and there is a generalized accumulation of wealth throughout the country. The number of millionaires grow every day and Chinese people unbridled luxury consumption is covered by the media everywhere in the world. Besides being relevant and current, answering this question will not only help the company discussed in the case further in but also any company operating in the luxury garment industry and intending to have a share in the Chinese market.

Research Strategy and Method

This thesis is the result of an analysis done over seven months, six of them in the country which is the focus of the study. Data collection began in Macao, with a passage through the cities of Shenzhen, Guangzhou and Hong Kong, where direct observation was possible respecting the distribution of luxury garment stores and consumer behaviors.

The construction line of the project comprises three main pillars: an analysis of theoretical models of consumer behavior in general terms; a social analysis of the luxury market in Asia as a contextualization and the luxury market in China with more emphasis, always focusing in luxury garment; and a description and analysis of the case of a Portuguese company, a player in the luxury garment industry that faced problems while approaching the Chinese market with the adjacent recommendations for future investments.

The literature review includes several books, some quite old assuming the role of classic literature, essential for any credible dissertation. Additionally, recent works were used and a manual of consumer behavior directed to the Asian market has been consulted more thoroughly for a better perception of the Asian reality. Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel summarize all the relevant aspects related to consumer behaviour and this theoretical framework is the base for the second step of this thesis.

The second stage of the project is based on social analysis that comes from three sources. On the one hand, as might be expected, literature was consulted on the subject of luxury in Asia and particularly China and, although there is little, those that do exist are instructive. Radha Chadha and Paul Husbands' work relating to this subject had an important contribution on the development of this project.

Moreover, the findings of social analysis result from conversations with experts who live in Macao, Hong Kong and Nanjing. The purpose of these informal conversations was to understand what the perceptions of these people are, regarding western luxury garment, not as a demonstrative opinion of the reality of these cities, but acting as a sample of a larger reality, China.

Finally, and still regarding the social analysis, direct observation assumed an important role in achieving this thesis, not so much in line with drawing conclusions, but in the sense that it was essential for a better perception of the reality that I was already suspecting of: the luxury in China almost as a question of vassalage.

The third stage is based on the description and analysis of the case of a Portuguese company that in spite of having already a presence in the Chinese luxury garment market is now facing difficulties on the ground which led the management to decide to revamp the entire brand strategy. The problems encountered by the brand are directly related to the approach made to the Chinese consumers or better, the lack of it. A brand cannot be marketed in China assuming the same strategic principles that are used in Europe, for a cultural approach must take place. Data were gathered through conversations with the agent of the Portuguese brand in Hong Kong. Additionally, the responsible for AICEP - Agência para o Investimento e Comércio Externo de Portugal, in Macao, provided some information regarding a number of brand strategic details in the Chinese market. There is not a deeper understanding of the brand strategy in the Chinese market and I have not been provided any business plan. However, the information obtained is sufficient to draw conclusions and adjacent recommendations.

At the end of the project I encountered two situations: firstly, from the demand perspective, the perception of what Chinese consumers want in terms of luxury garment, how they behave to achieve it and the reasons for such behavior. Moreover, from the offer perspective, I had the knowledge on how a Portuguese company of luxury garment approached Chinese consumers in crucial aspects to the success (or failure) of the brand in the Chinese market. The merging of these two perspectives resulted in conclusions and recommendations for future Portuguese investments in China, from the perspective of consumer behavior and relationship with it, looking for success as a final goal.

CHAPTER II - THEORETICAL FRAMEWORK

Stage I – Consumer Behaviour

In an attempt to understand how consumers behave in China nowadays, it reveals to be mandatory getting back to basis and explore the framework behind those behaviours. The way consumers behave is explained by theoretical models, created years ago.

When a company plays a role in a certain market, it is automatically generating expectations in the consumers' minds. Either good or bad expectations, the important aspect here for a company is to meet those expectations. It is dramatic to a company when a consumer has a high perception and expectation regarding the company products or services and then, within the act of consumption, the service level or the quality of the product does not match what the consumer was expecting. This is a “dead end” situation, as this customer most probably will never come back again and even more will tell other people about that bad experience with the company products or services. Companies must always meet consumers' expectations. Once the expectations are met, that will lead to a scenario of satisfaction, therefore consumption and loyalty.

In order to understand how consumers act and react, companies must assign importance to Consumer Behaviour (CB). It might have taken years to understand the importance of CB analyses and even nowadays, some companies are still not giving the right importance to this issue but, it is a fact that today there is a more coherent agreement respecting the “Client is Boss” logic. The American Marketing Association (AMA) defines CB as the *dynamic interaction of affect and cognition, behaviour, and the environment by which human beings conduct the exchange aspects of their lives*. In other words, CB involves the thoughts and feelings people experience and the actions they perform in consumption process. According to Peter and Olson (2005) it also

includes *all the things in the environment that influence these thoughts, feelings and actions*. The authors refer that when a company is able to understand how and why people consume, it becomes easier to make improvements to its own portfolio, to develop new products or to pull customers onto them. Knowing the consumer allows having a better performance meeting its expectations, generating satisfaction and thus loyalty. Looking at the overall situation, CB analyses will have a direct impact on the company performance.

Moreover, the authors refer that CB is a comprehensive matter that involves psychology, sociology and anthropology among others. Therefore, it is not easy to find a single solution on how to study the way consumers act and the reasons for their behaviours. Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel (2006) refer there are some methodologies that can be applied as interviews, surveys and the experimentation but, despite their efficiency, the last one is probably the best way to learn about consumers.

The authors refer that the surveys and interviews are typical approaches that consist in gathering information from a sample of consumers, recording their answers and creating patterns. For the present assignment, some interviews were realized in order to achieve final conclusions and informal conversations let to important findings

Moreover, the authors define experimentation as a method consisting in testing consumer's reactions by manipulating independent variables and measuring its impact in the dependent ones and the observation technique as "spying" consumers during the purchasing and identifying how much time they spend comparing prices, labels and packages, understanding what kind of information they might ask and trying to capture what they value in the overall regarding the goods they are acquiring. This technique is agreed to be the most effective, as it allows both understanding present behaviour and predicting new trends.

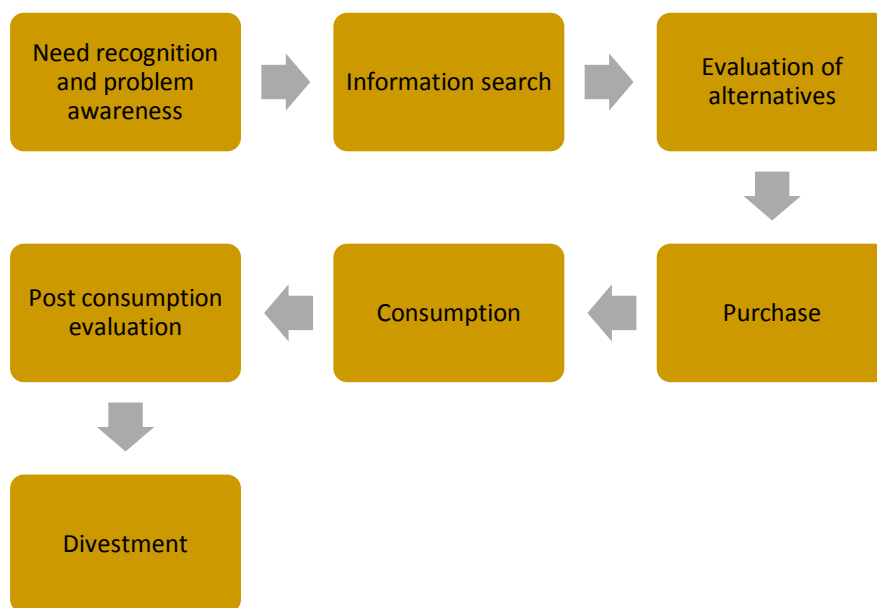
This assignment gathers interviews, informal conversations with specific individuals and observation, in addition to the literature review. Regardless the method used, the conclusion is expected to be always the same: people are different and act differently when it comes to buy and one of the great things about consumer behaviour is that it provides data to segment the market, creating clusters of people with similar needs and behaviours in the act of consumption. Having this, companies are able to adjust the

offer to specific groups of consumers, customizing the approach and achieving competitive advantages.

However, segmentation is supposed to be a business strategy that doesn't work in every market. In mass markets, for example, there is no point in using segmentation, as the costs would be higher and there is no need to segment an aggregated market. On the other hand, for the luxury clothing market, it can be very useful as there are few niches of consumers, who are willing to pay a higher price for the customization applied, inherent quality and brand awareness.

Nicosia (1966) defended a five stage model to explain the Consumer decision process. However, with the evolution of the garment industry and consumer's knowledge and demand, it is now behind the times. However, Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel (2006) agreed on a seven stage model, represented in figure 1. It is a representation of how consumers reason regarding purchasing and consuming.

Figure 1 - The Consumer Decision Process (CDP) Model



Source: Consumer Behaviour – an Asia Pacific approach (2006) by Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel

Figure 1 represents the author's seven stages of the Consumer Decision Process Model (CDP). Stage one is the "need recognition and problem awareness" phase. The authors refer that consumers don't buy because companies have products to sell but because they actually need what they are buying. It may seem inappropriate to refer that there is a need for luxury clothes, but according to Abraham Maslow in his work "A Theory of Human Motivation" (1943), there are different kinds of needs, stretched later in.

The research for the information regarding the products to buy is the second stage in the author's perspective where, after recognizing the need, the consumer realizes that the way to satisfy it is purchasing something that will erase that need. But at this stage the consumer is not ready yet to purchase, the authors refer. First, a research will take place, in order to find the specific good that can deal with the identified need, as well as alternatives, in order to have a more comprehensive knowledge of what is the offer in the market and what are the main characteristics of each offer.

Having the alternatives, the consumer will evaluate them, the authors refer. It is the third stage of the decision process and consists in choosing the alternative that best deals with the need. Then, the consumer is ready to purchase and is confronted with another set of variables, the authors say. Firstly, despite knowing what product/service to purchase, the consumer will have to choose a supplier and then, once being in the supplier store, the consumer may end purchasing the same product in another supplier store. According to the authors, this happens because there are several variables to take into account such as promotional items, seasonal campaigns and the quality of the sales force or even the store experience.

Once having the good, the consumer will consume it as the fifth stage in the author's model, which means giving it a practical meaning, immediately or not. Sometimes consumers buy more than they really need or buy with the purpose of using later in, which means delaying the consumption. Therefore, in the luxury garment industry makes sense to separate purchase from consumption.

The sixth stage in the author's model is the "post consumption evaluation", meaning that after the consumption, good or bad feelings about the experience will come up. If the expectations are met, the consumer will be satisfied and most likely will purchase and consume again. But the threat relies in when consumer expectations are not met, resulting in a bad experience.

The last stage in the author's model is the "divestment", referred as the destination of the product after being used by the consumer. When it comes to non durable goods, yoghurt for example, the package can be recycled or used for some other purpose. Yet again, in the case of a suit, there are different options of disposal as it can be re-used, thrown away, given to charity or whatever the consumer intention is.

The authors refer that, besides baring the CDP model, when trying to understand how consumers behave, in an attempt to segment them, making it easy to satisfy their particular needs, companies must be aware of what influences on them. The second model approached by the authors is divided in individual determinants and environmental influences and then subdivided in specific determinants of each.

The authors of *Consumer Behaviour – an Asia Pacific Approach* (2006) refer that a correct and precise segmentation of the consumers can only be done after knowing each consumer. According to the authors, there are three major groups of individual determinants: "demographics, psychographics and personality", "the consumer motivation" and "the consumer knowledge".

In the author's work, it is referred that demographic trends are used to predict changes in demand, trends in the market and needs evolution. While studying this determinant, companies can have a comprehensive perception of the market, the amount of potential consumers and its age or geographical distribution. Although demographics are considered the main determinant on consumer behaviour study, it doesn't explain everything on its own, the authors refer, defending that it is mandatory to cross the demographics indicators with the personality of each consumer.

For many years, analysts tried to study the consumer personality and ended up with three main theories to support the importance of this determinant, the authors referred, being the psychoanalytic theory, the socio-psychological theory and the trait-factor theory. Sigmund Freud (1995), the founder of psychoanalysis, refers that *personality derives from the conflict between the desire to satisfy physical needs and the need to be a contributing member of society. This stereotype leads to unconscious and identity motivations, where consumers buy to satisfy the need but also to pass an identity message, unconsciously*. The second theory to explain the personality determinant is the social psychology. Myers (1993) refers that *the individual strives to meet the needs of society, being there an interdependence relation, whereas society helps the individual to*

attain his or her own goals. The personality determinant can also be explained by one last theory, the trait-factor theory. Eysenck and his son (1985), refer that individual's *personality comprises traits, being traits the way in which one individual differs from another. These traits can be common to many individuals but can also differ from person to person, leading to segmentation.* Some examples of traits can be risk taking, self-consciousness or need for recognition the two authors refer. Moreover, the authors say that these personal traits lead to specific ways of purchasing and media choices and, in the overall scenario, can explain how consumers behave.

Finally, Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel (2006) define psychographics as *an operational technique to measure lifestyles with attributes relating to personality, values, attitudes, interests, or lifestyles.* Moreover the authors refer this determinant is often called AIO measures (activities, interests and opinions). By understanding deeply which the activities of each consumer are and what are their interests and opinions; it becomes easier to gather them in different groups, segmenting the market.

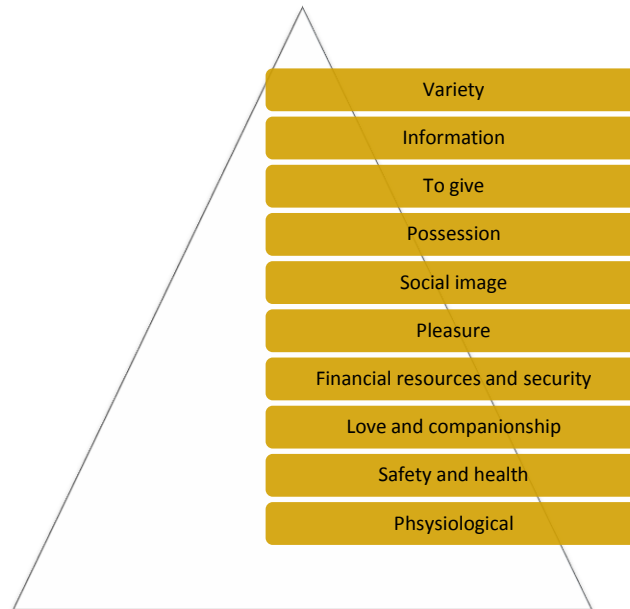
Besides analyzing the demographics, psychographics and personality determinants it is equally important to understand what the consumer motivation is, the authors refer, in an attempt to figure out the reasons that are in the foundation of consumer choices for one product over another.

According to the Portuguese Miguel Pina e Cunha, Arménio Rego, Rita Campos e Cunha and Carlos Cabral-Cardoso (2004), Consumer Motivation can be defined as the intention of satisfying needs through the purchase and consumption of a product/service. Basically, the authors refer that the motivation of each consumer can be translated into one's real needs and more than analyzing the consumer motivation a company would be analyzing the consumer's real needs.

Abraham Maslow (1943) refers that people's necessities can be organized into a hierarchy, from the bottom to the top, physiological, safety, love/belonging, esteem and self-actualization. The theory represents the main drivers of people's life. However, regarding consumers, Maslow's (1943) hierarchy reveals to be too comprehensive and Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel (2006), propose a hierarchy of needs focused on the consumer. This hierarchy is

illustrated in figure 2 and uses Maslow's hierarchy background with some adding from the consumer analysis perspective.

Figure 2 - Consumer need's hierarchy



Source: Consumer Behaviour – an Asia Pacific approach (2006) by Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel

In Maslow's (1943) vision, physiological needs are mandatory to human survival, assuming the highest degree of priority in the hierarchy and according to the authors of *Consumer Behaviour – an Asia Pacific approach* (2006), from the consumer perspective, they are also the first needs in motivation analyses.

In the second level of needs, Maslow (1943) pointed out safety, as being the need for stability in family and working environment, as well as personal and financial security and health issues. However, according to Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel (2006), in what consumer motivation is concerned, the second level of needs is the safety and health needs but focusing on physical matters. Examples of these needs might be natural disasters, criminals and diseases, while the financial security would appear in a higher level.

The third level of needs is, according to Maslow's (1943) theory, the sociality, meaning the emotionally-based relationships in general and the authors of *Consumer Behaviour – an Asia Pacific approach* (2006) agree and reinforce the importance of these needs in the consumer motivation analyses by stating that *products are often used as symbols of love and caring*.

In Maslow's (1943) theory, the esteem need appears in the fourth level of the hierarchy, being the need to be respected and having self-esteem and self-respect, also known as belonging needs. However, Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel (2006) defend a different approach when analyzing consumer motivation. According to the authors, the fourth level of needs in the hierarchy is the financial resources and security, meaning money and a stable financial situation respecting the consumer and its family, while the esteem from Maslow's (1943) theory would appear in an upper level, as social image needs. As it is referred in the five author's work, after the financial resources and safety needs, the need for pleasure takes place, meaning fun and excitement over a boring life.

The sixth level is, and now crossing again with Maslow's (1943) theory, the need for social image. The authors of *Consumer Behaviour – an Asia Pacific approach* (2006) defend that consumers care about what their family and friends think of them and more than that, what is society's perception of them. This level can be linked to the seventh level in the hierarchy defended by the authors, the need to possess. This implies two main drivers: comfort and, once again, the social image. Consumers want to possess more and up-graded products. For the purpose of comfort, they want a bigger house or a bigger car. Not only will satisfy the need for comfort but also will be a sign of 'good life' in society perception, the authors refer. The need to possess can be observed in Asia as being very much generated by the assumption 'you are what you wear' generated among society.

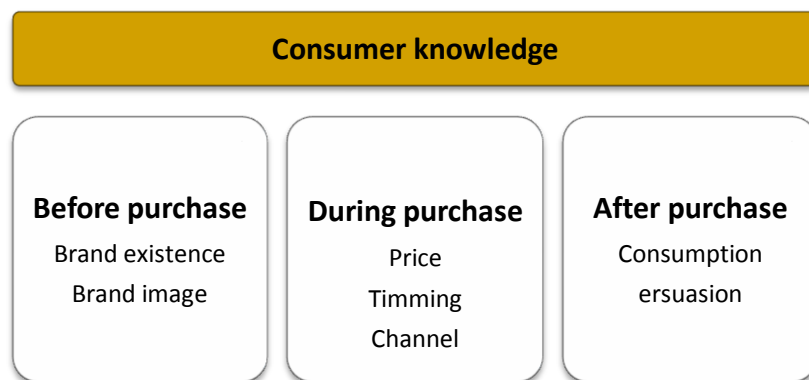
In the author's perspective, the social image and possession needs can, once more, be linked to the eight level of the hierarchy, the need to give. This can lead to issues such as charity and donations but the authors refer that the main issue in Asia is the gift giving. There are many seasons to do it and consumers don't even need a specific season to do so. It can represent a huge market especially in Asian countries governed by Chinese values as later in it will be depth.

The ninth level in the author's hierarchy of the consumer needs is the need for information. The authors refer that consumers want to know the different options they have and what the main characteristics of each one are, allowing them to better purchase according to their needs.

The last level is, in the author's hierarchy, the need for variety, stating that consumers seek for different products; they want a wide range of options and more than that, they want more features in the same product, the authors refer.

The last individual determinant to explain consumer behaviour is, in the author's perspective, the consumer knowledge, being all the information that the consumer has stored in memory and that will impact in purchase and consumption. The more the consumer knows about a brand and its products, the better will be the purchase, according to the consumer needs. Figure 3 illustrates the components of the consumer knowledge.

Figure 3 - Consumer knowledge components



Source: Consumer Behaviour – an Asia Pacific approach (2006) by Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel

The first component of the consumer knowledge is the brand awareness. The authors refer that when consumers have a specific need, the first thing they will recall is exactly which brands they know that can satisfy that need and the second thing is evoking in their memory specific associations and attributes about a certain brand.

Having done that, consumers will analyse the purchasing options they have stored in their minds, the authors refer, regarding price, timing and the channel possibilities. If a consumer is looking for a cheap product, for sure one won't take into account premium brands but, in the other hand, if the consumer seeks for high valuable goods, high positioned brands will be taken into consideration. Same thing can happen with the time of purchase. A consumer might buy a product right after it comes to the market or may wait several weeks, in the expectation that the prices will get lower, the authors explain. Finally, the channel choice also impacts in the purchase, as the consumer has to choose not only between stores but also considering internet, among other options.

The last component of the consumer knowledge according to the authors is the persuasion. Often brands make efforts to gain customers by using persuasion tactics but the authors add that it is important to be aware that consumers don't know about them, otherwise brands might be perceived as manipulative

Additionally to the individual analysis, it is equally crucial to consider the environmental forces that influence on consumers, the authors refer. Each consumer can be seen as unique, with singular characteristics, needs or intentions. However, groups of consumers can be formed, with similar needs and parallel ways of behaving. While trying to understand what makes a consumer act in a certain way, one should bear in mind what is the origin of that consumer. The authors add that by analysing where one come from, what is one's culture, ethnicity and social class and if there are any family influences or group pressure, brands are able to have a deeper knowledge about the consumer behaviour and, therefore, a better preparation to use that knowledge in favour of the company goals.

In 1952, Alfred Kroeber and Clyde Kluckhohn (1952) compiled a list of 164 definitions of culture, from which resulted three basic senses: excellence of taste in the fine arts and humanities, also known as high culture; an integrated pattern of human knowledge, belief, and behaviour that depends upon the capacity for symbolic thought and social learning; and the set of shared attitudes, values, goals, and practices that characterizes an institution, organization or group. In that time, culture was already perceived as something from the past that impacts in the present and in the future. According to Roger Blackwell, Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel (2006) everything has a contextualization and so do consumers. The authors refer to

culture as being *a set of value, ideas, artefacts and other meaningful symbols that help individuals communicate, interpret, and evaluate as members of society* making it important that companies understand how culture can impact on people’s identity and their sense of belonging to society.

According to the authors, there are several influences on culture, as well as elements to communicate it, illustrated in figure 4.

Figure 4 - Culture as Consumer Behaviour Influence

Influences on Culture	Elements of Culture			
Ethnicity	Behavioral	Values	Material	Artifacts
Race		Norms		Technology
Religion		Rituals		Infrastructure
Regional or national identity		Symbols		

Source: Consumer Behaviour – an Asia Pacific approach (2006) by Roger Blackwell, Clare D’Souza, Mehdi Taghian, Paul Miniard and James Engel

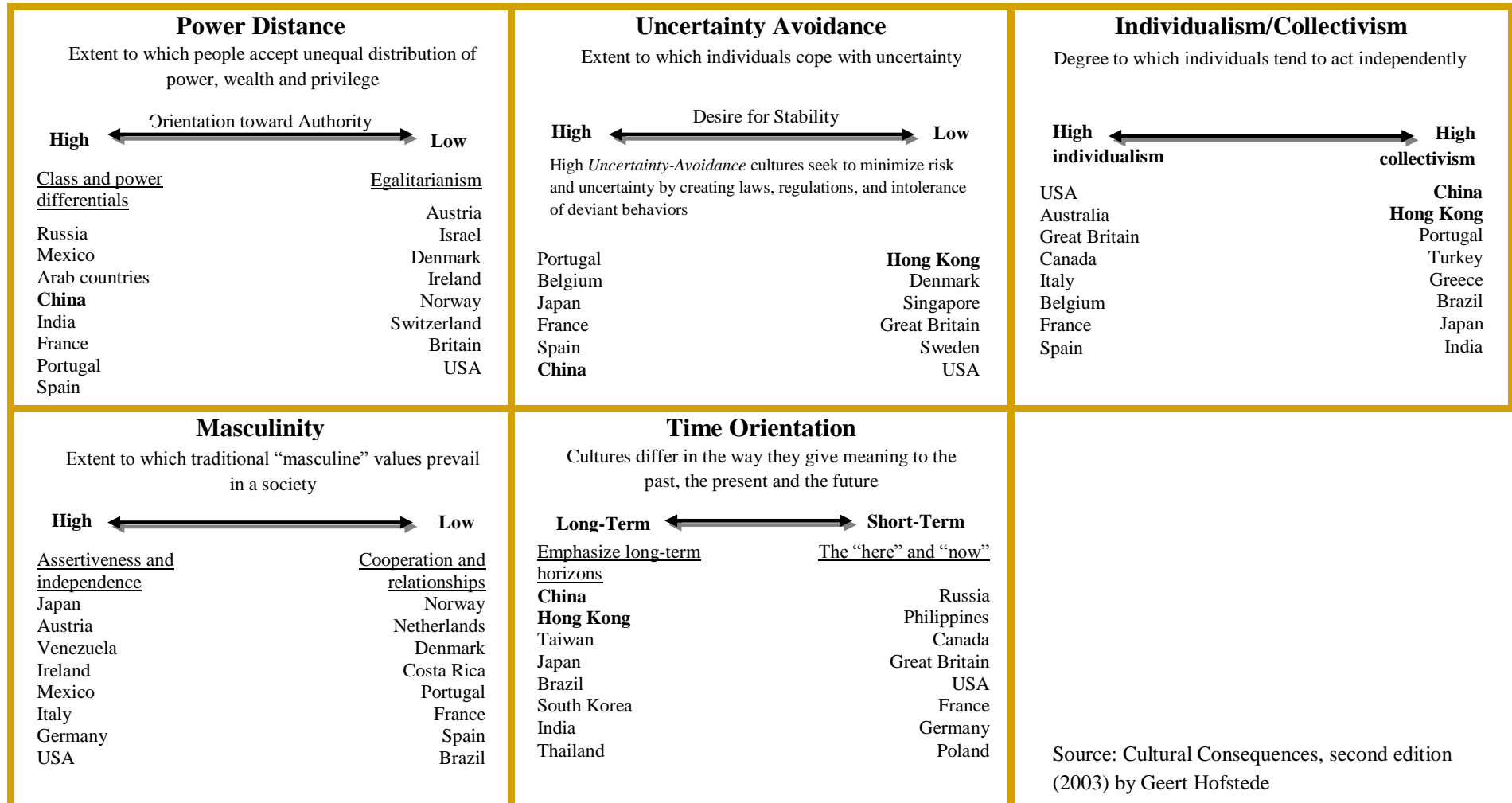
By analysing these influences and elements, brands will have a deeper knowledge on how a consumer from a certain ethnicity, race, religion or region is expected to behave, through the analyses of behavioural and material elements of culture, the authors refer. On the behavioural side, brands will be looking at values, norms, rituals and symbols. The Chinese tradition of relationship building, so called *guanxi*, which *oils the wheels of government bureaucracies and business alike*, is the single biggest factor spurring the growth of luxe in China according to Liana Caffola (2007), which confirms that Chinese values have a direct impact in consumption.

On the other hand, the material elements of culture refer to artefacts, technology and infrastructure and they can refer to specific objects to be placed in a luxury boutique, for instance, reminding customers of a specific object from their own culture and therefore creating a homesick feeling of familiarization. Roger Blackwell, Clare D’Souza, Mehdi Taghian, Paul Miniard and James Engel (2006) refer that the ultimate goal of

understanding what influences on the consumer culture is to segment the market, creating clusters of consumers with similar background and, once again, use that knowledge to improve the company performance.

One of the main influences on culture is the national identity. According to Geert Hofstede (2003), there are five cultural dimensions impacting on culture, being the power distance, the uncertainty avoidance, individualism/collectivism, masculinity and time orientation. Hofstede's (2003) cultural dimensions are illustrated in figure 5.

Figure 5 - Hofstede's Cultural Dimensions



The first dimension in Hofstede's (2003) work basically measures the degree to which less powerful members of a culture accept that power is distributed unequally. In countries with low power distance people relate as equals apart from formal positions, demanding the right to contribute in what happens in society. The opposite situation occurs in cultures with high power distance. Figure 5 shows that Chinese people accept autocratic and paternalistic relations and respect the hierarchical positions thus having a high power distance.

Hofstede's (2003) uncertainty avoidance dimension refers to the extent to which individuals cope with uncertainty. Despite nowadays this situation is changing, Chinese people used to be high uncertainty avoiders, preferring explicit rules and formally structured activities.

The individualism/collectivism dimension measures the importance given by individuals to the group opinions and standards. In individualistic cultures, people display their individual personalities and search for uniqueness, the author refer. Figure 5 reveals that China is the highest collectivist country in the world, meaning that the natives are group-oriented and highly influenced by the group decisions, preferences and behaviours.

Hofstede's (2003) masculinity dimension refers to the degree to which masculine values prevail in a culture. In more masculine cultures, competitiveness, assertiveness, ambition and accumulation of wealth and material possessions are valued. On the other hand, in more feminine cultures people value relationships and quality of life.

Finally, Hofstede's time orientation dimension refers to the importance given to the past, the present and the future. In short-term oriented cultures, people value actions and attitudes that are affected by the past or the present and conduct their life through short-term goals, the author refer. Figure 5 shows that China is, once again the top country in what long-term orientation is concerned, meaning that people value actions and attitudes that might affect future.

Hostede's (2003) dimensions are crucial to understand how China is culturally positioned, especially the collectivism dimension, which also has to do with the last three environmental influences on consumer behaviour explained by Roger Blackwell,

Clare D'Souza, Mehdi Taghian, Paul Miniard and James Engel (2006): social class, family and the group.

According to the authors, social class can be defined as a *category of people sharing similar economic situations, values, lifestyle, interests, education and behaviour, assuming an important role in segmenting markets*. The authors refer that the main idea here is to create perceptions in the consumer minds, either creating the perception of a low cost product or service, with the enough quality but for sure a very pleasant price, or creating a premium perception, generating high expectation regarding quality and the overall impact that being a consumer of that product or service will have in the society. Considering China's luxury garment industry, analysing Hofstede's (2003) collectivism dimension appear to be relevant, as it shows that people are collectivism-oriented and highly influenced by society, therefore wanting to display status.

Moreover, the authors of *Consumer Behaviour – an Asia Pacific approach* (2006) refer that, in addition to society norms, consumers are also influenced by the family, having in mind that many times the buyer and the consumer are different people or they can be the same person, but strongly influenced by family members.

The authors summarize the environmental influences by explaining how consumer behaviours are shaped by the group they interact with. By analysing Hofstede's (2003) cultural dimensions it is understandable that in some markets this trend is more visible than in others but the five authors refer that in the overall it is possible to state that groups have a significantly influence on individual's behaviour. There are several types of groups of reference, the authors refer, impacting on consumer's behaviour, as the family, the group of friends, professional groups, religious groups, memberships, artists and sport players, influent people and even the internet can shape consumer's behaviour. Moreover the authors recall that regardless the origin of the group, it is extremely important for companies to understand that *individual's fight a constant battle to "fit in" and to meet society norms*.

The authors identified three forms of influence in this area: informational, normative and value expressive. Informational influence, the authors refer, occurs when the consumer feels the need to accept recommendations from other people, seen as a credible source, whereas normative influence occurs when individuals shape their behaviour in order to meet the expectations of a particular group and value-expressive

influence is characterized by a need for psychological association with a group through the acceptance of its norms, values and behaviour. The individual likes or admires the reference group and attempts to mimic it. The last two are very common in China as it will be shown later in. *One of the most pervasive determinants of an individual's behaviour is the influence of those around him* observed Burnkrant and Cousineau (1975) in their pioneering work on social influence in consumer behaviour.

There are several models respecting consumer behaviour and the reasons that lead a consumer to choose one product over another. This assignment brings together some of the most relevant models for the purpose of the study, creating a theoretical basis for the social analysis done then, in an attempt to show that today's consumer behaviours are explained by theoretical pillars created many years ago. At the end of the social analysis, a matching between the theoretical models and social analysis will be done and general conclusions will be presented in an attempt to demonstrate the degree to which consumer behaviour can be explained and even predicted, bringing massive competitive advantage for brands operating in these markets.

Stage II – Social Analyses

Asia's Overall Scenario – Contextualization

Economic background

Before analyzing the Chinese market individually it is important to clarify some general characteristics of the Asian market as a whole, stretching its economic background and the consumer segments that arose from the continent economic development in the past years, as well as some general trends.

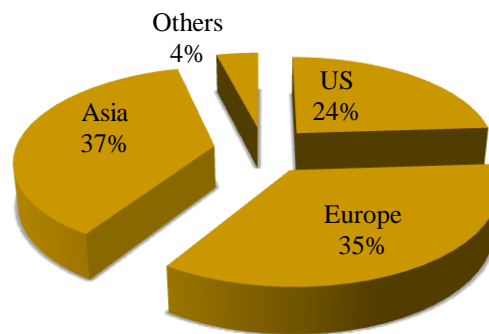
According to Radha Chadha and Paul Husband (2006), *western economies achieved financial stability during one or two centuries but in Asia, a few decades were enough. Thus, the money is new in Asia, carrying several implications and making the Asian market and its consumers so different from the West.*

The authors refer that the twentieth century was an important blot in what changes in Asia are concerned, meaning political, economic and social matters; and in all Asian systems the standard division was made according to profession and social class determined by birth with rare possibility to social class up grade, therefore defining people's identity according to the social class they were born into.

Notwithstanding, nowadays the picture has changed drastically, making money the higher status indicator. The authors make a reference to the Asian colonial period, after which the government's priority was to build powerful economies, limiting entrepreneur's power with its communist and socialist regimes, until the 1970s and 1980s when liberalization came in, reflecting in the economy. The entrepreneur role grew and getting rich, building companies, providing employment and contributing to the nation's growth was suddenly possible.

Additionally, foreign investment became part of the equation as well as multinational companies providing high salaries and heightening purchasing power. Yet, making money alone was not enough to gain social status; visibility was the other component, achieved through status display. And so it was born the world of luxury brands, as the way Asian people found to let everyone around know they have money, therefore power, therefore status and the right to belong to an upper class. Figure 6 shows the distribution of global luxury industry in 2006.

Figure 6 - Global Luxury Industry distributions



Source: *The Cult of the Luxury Brand* (2006) by Radha Chadha and Paul Husband

In 2006, luxury brands were a US\$80 billion industry worldwide with 37 percent coming from Asia and another 15-20 percent coming from Asian tourists shopping abroad, making Asian people responsible for more than half the business that year, the authors of *The Cult of the Luxury Brand* (2006) refer.

Consumer behaviour and segments of consumption

Having these information, it is possible to assume that Asian people have an inherent need to show status, doing so through luxury brands but the pertinent analyses is to figure out why they do it to satisfy collective and belonging needs instead of individual satisfaction. Hofstede (2003) explains this binomial relation, through the individualist-collectivist mapping, where China is the most collectivism-oriented country in the

world, having other Asian countries collectivism characteristics also, whereas US and European countries in general tend to be more individualistic.

According to Paul Temporal (2001) western world seeks for individualism, uniqueness and differentiation factors, as part of their personality while Asian people give a lot of importance to the norms set by the group they belong to, shaping their identity but giving them the feeling of belongingness. Additionally, it has to do with Chinese value of “face”, the author refer, which refers to prestige, success and displaying status and despite being a Chinese value it extends to all Asia.

Having an institutionalized change all over Asia perceptible through the analyses of the economic background leading to the spread of the luxury enthusiasm, segments of consumers started to appear, Radha Chadha and Paul Husband (2006) refer.

According to the authors, there are three main categories of luxury consumers in Asia that can, *a posteriori*, be used to segment the Chinese market. The greatest consumers in amount of money, the authors refer, are the *luxury gourmands*, being high net worth individuals (HNWI) with more than a million dollars in financial assets. Moreover, the authors refer that according to Merrill Lynch/Cap Gemini’s World Wealth Report (2006), one in four millionaires resides in Asia, as far as 2006, leading to 2.4 million HNWI with a combined wealth of US\$7.6 trillion, more than the combined GDP of UK, Germany and France in that year. It is a huge amount of money and represents a mammoth purchasing power. These people are mainly men in their 40s and 50s, known as *tycoons*, meaning very rich men but despite having a huge purchasing power they are not the greatest luxury consumers, leaving that role to their wives, commonly known as *tai-tai* and their sons and daughters. The authors also add celebrities as being part of this segment and along with the *tai-tai* and the mistresses and second wives they represent the greatest luxury consumers, entitled to special note ahead.

The *luxury regulars* represent the second set of luxury consumers, according to the author’s segmentation. They are affluent people with financial assets in excess of US\$100,000, as far as 2006; and there were around 30 million of them in 2004 in Japan, China, Hong Kong, Singapore and South Korea. They are mainly doctors, lawyers, entrepreneurs, consultants, bankers and corporate players, also entitled to special note ahead.

The last cluster of luxury consumers in the author's segmentation is the *luxury nibblers*, composed mainly by junior executives, office ladies and teenagers, the last two entitled to special note ahead. All of them share the same profile, having no assets and no savings and spending what they earn. This group of consumers represents US\$500-2,000 spending a year, as far as 2006; but there are large numbers of them, the authors refer, representing a considerable cluster. Figure 7 summarizes Asian luxury consumer's segments.

Figure 7 - Asian luxury consumers segmentation

Luxury Gourmands	Luxury Regulars	Luxury Nibblers
<ul style="list-style-type: none"> • Tycoons • Tai-tai • Tycoon's mistresses and second wives • Tycoons sons and daughters • Celebrity set 	<ul style="list-style-type: none"> • Doctors, lawyers, entrepreneurs, consultants and bankers • Corporate players 	<ul style="list-style-type: none"> • Junior executives • Office ladies • Trendy teens

Source: The Cult of the Luxury Brand (2006) by Radha Chadha and Paul Husband

Although Radha Chadha and Paul Husband (2006) divided Asian luxury consumers in three main segments, some special references should take place as they refer to great luxury consumption. Firstly, within the *Luxury Gourmands* segment, a reference must be made to the celebrity set, the *tai-tai* and the mistresses and second wives clusters.

The celebrity set includes people from the world of entertainment, fashion, business and politics, the authors refer. They have money and media attentions are focused on them. Additionally, the authors state that brands and celebrities learned how to build a win-win relation, given that it is beneficial for brands to have celebrities using their products. After all, media coverage is an important ingredient in the luxury business and having the right celebrities by one's side can be a competitive advantage.

Still within *Luxury Gourmands*, the expression *tai-tai* means “wife” in Chinese but according to the authors it is commonly used to define “ladies who lunch”. Whatever name one calls it, these women have a huge bank account, resulting from their marriage with *tycoons* and their day to day basis consists of three main activities: beauty treatments, shopping and having lunch with their group of friends in expensive restaurants. They perform real shopping expeditions and try to outdo each other in what amount of money spent is concerned. Yet, they are realistic or at least they know what to expect regarding their husband loyalty and trustiness, so they consider perfectly fair to spend masses for own satisfaction. This way they don’t give a lot of importance to mistresses and junior wives, which are also entitled to reference.

Theoretically, having a mistress is ethically and socially awry anywhere in the world. Ethics aside, in Asia it is socially accepted for one man to have mistresses or even a second wife, better known as the younger woman, the authors refer. They both contribute greatly to the luxury industry in the Asian continent, as all first and second wife and mistresses have a substantial annual shopping budget, due to the fact that they share the same fortune.

Secondly, within the *Luxury Regulars* a special note should be done concerning the corporate players where a business suit is expected to be the dress code for these men working in law firms, banks, financial organizations and consultancies. According to the authors of *The Cult of the Luxury Brand* (2006), they are senior managers, having a high purchasing power and prefer expensive pieces to satisfy the status need, normally starting at US\$2,000, whereas the *yuppies* give preference to fashion brands and, having a lower collection of very expensive suits, they use them only in important meetings. In what corporate women are concerned, besides the suit they are big accessories shoppers, making them an even more important luxury consumers set in the corporate world. Additionally to working clothes, being well succeeded in the corporate world is making them delaying marriage to live with their parents, therefore having fewer expenses and resulting in a higher purchasing power applied in luxury goods.

Finally, within the *Luxury Nibblers* and still regarding women, the office ladies are an important luxury segment, being less sophisticated, with no education overseas or no education at all and with a lower bank account; nevertheless with the same desire for luxury brands, especially for bags and accessories. These women have no prospects of

rising up the corporate ladder and see in the *tai-tai* the ideal lifestyle, therefore trying to be like them, eating out, holidaying abroad and doing a lot of luxury shopping, obviously in a different scale.

Moreover, the *trendy teens*, not only but mainly girls, are basically high school and college individuals with a mindset focused on designer pieces, the authors refer. They can't afford luxury garment, so they present a teen dress code with designer accessories, following the leads of their idols, pop stars and celebrities, many times submitting themselves to personal sacrifice and morally wrong behaviour in order to get the luxury they so much desire.

Still regarding the *Luxury Nibblers* and due to having a low purchasing power but the same desire for luxury products as the other segments, Radha Chadha and Paul Husband (2006) refer that the industry itself has been adapting to this particular segment, changing completely the rules of the market and driving into a democratization of luxury. The authors call it the *mass luxury consumer era*, where the *premium-products-to-premium-consumer's* policy does not apply anymore. Nowadays, it is all about being omnipresent and that means having lots of stores, in crowded places and having variety of products allowing prices to range from very high to more accessible ones. Additionally, there are import shops with same products at lower prices, second-hand outlets and even rent-a-bag services. Luxury products becoming accessible is a new trend in Asia, the authors conclude.

Apart from the segments of consumption, there are some general trends happening in Asia and developing every day:

- i. The status marker vassalage

If you are seeking a status marker, the price of a product acquires a great deal of significance, as your standing is being gauged by the amount of money you are seen to be spending (...) the price needs to be universally known (Radha Chadha and Paul Husband, 2006). Asian people have an inherent need to show status and the way they like to do it the most is through luxury clothes and accessories, having that these are a universal symbol of status. In some countries such as China, Japan and Hong Kong it is

really a question of vassalage, where people buy according to what it is socially accepted to buy, almost ironic, as it was a state of obedience.

ii. Mixing the cheap with the pricey

The second phenomenon worthy of reference has to do with the fact that many people in Asia, and obviously excluding the wealthiest, tend to mix really expensive luxury items with cheap ones. Radha Chadha and Paul Husband (2006) refer that the logic behind this trend is *being able to show status at all times, without being able to afford it in reality*. One can find women in Asia having a humble wardrobe, but carrying very expensive accessories, the authors refer, being able to maintain a high status level. And the same logic applies to men. The authors refer that the head of a Hong Kong-based company confessed to having traded down from US\$3,000 famous suits brand to US\$125 local brand suits but accessorizing them with belts, ties, shoes, watches and bags from expensive brands. According to this man, the status is not affected because people will think it is a designer brand suit, since everything else is. The authors go further giving the example of the cell phones that, according to Tom Doctoroff, CEO, JWT Greater China, are a *powerfully public means of projecting individual identity so consumers pay up but when it comes to home appliances the logic is not the same as they are not displayed and only the family uses them*.

iii. What it takes to bear status

All around Asia there is a generalized phenomenon of sacrifice in order to maintain a high status or at least one that allows being part of the group, part of the society, particularly for the youngsters; and this becomes in bearing luxury items. The authors of *The Cult of the Luxury Brand* (2006) point out several examples to emphasize the sacrifice for status concept as youngsters in Seoul under nourishing themselves and investing the saved money in luxury clothes and accessories or Japanese teenage girls practicing part-time prostitution for the same purpose. The reality is that in Asia luxury

items are as important as basic needs and without them one is socially unaccepted, even within groups of friends, leading to self-sacrifice.

iv. Just-in-time fashion

Another phenomenon across Asia can be described as the just-in-time fashion. According to Radha Chadha and Paul Husband (2006), people don't wait for products to be placed in stores and they don't make blind shopping expeditions. On the contrary, the virtue is in knowledge and consumers adopt a stance of proactively seeking out information and new trends, through fashion magazines. These media tools act like a catalogue, the authors refer, advising, analyzing trends and in fact pointing out what is socially accepted to wear, forcing youngsters to trust and follow them. Additionally, they link and show the latest western fashion trends with the celebrity and retail scene, having an enormous impact in Asian young consumers and consumers in the overall. The authors refer that having media coverage and being part of the recommended social meaning brands is essentially to every luxury brand; the challenge should be in balancing this relation with the media.

v. The Mall Phenomenon

In order to monitor Asian people mentality changes and their willingness to buy, Asian cities had to adapt by creating modern infrastructures with world class quality, capable of housing several western luxury brands stores. Radha Chadha and Paul Husband (2006) recall that department store chains in Japan were the pioneers and malls quickly started to appear in the 1980s with a slight acceleration in the 1990s. These malls offered a mix of retail, food and entertainment, making it pleasant to be there, therefore, pulling a lot of people and creating the perfect conditions for luxury consumption. Additionally, they placed in the market a lot of available retail space, which was already a problem in some cities. From the consumer behaviour point of view, malls in Asia also played and still play an important role, helping consumers to learn about luxury

brands and the intended lifestyle to pursuit. The authors refer that as consumers spend time in malls, they are not just buying but also comparing, analyzing, observing other consumers and some may even be defining their own lifestyle. People get informed in malls, not only regarding the new items released but also observing what other people are wearing at the moment. Moreover the authors refer that by analyzing which part or floor of the mall a consumer goes, it is possible to conclude one's favourite brands, amount of money spent and therefore social class, as if it was a positioning acquired through these malling expeditions.

China

China has come a long way for twenty years ago there was no luxury market at all and now it seems to be unstoppable in what top end retail is concerned. Caffola (2007), states that China's consumption of luxury goods will rise from 12 percent to 29 percent by 2015 – making it second only to Japan – in a global luxury market worth an estimated US\$80 billion a year. *The philosophy is 'enjoy life today' against the old Chinese custom of saving, saving, saving*, the journalist was told by Lawrence Lau, management controlling director in the consumer product division at L'Oréal China. From the times of Mao's regime to nowadays, many changes have undermined the country, having a direct impact on patterns of consumption and making it become the second biggest consumer of luxury goods by 2015, according to the journalist.

After all, it is the country where wishing a Happy New Year is expressed with *Gongxi facai* (Mandarin) or *Kung hei Fat choi* (Cantonese) which, in both cases, stands for "become rich" (Virgínia Trigo, 2006).

Table 1 - Country Official Data

Country name	People's Republic of China
Area	9,596,961 sq km
Population	1,345,922,895 (2010)
Age/gender structure	0-14 years: 19.8% (male 140,877,745/female 124,290,090) 15-64 years: 72.1% (male 495,724,889/female 469,182,087) 65 years and over: 8.1% (male 51,774,115/female 56,764,042) (2009 est.)
Population density	138,9 sq km (2008)
Capital	Beijing
Other important cities	Shanghai; Guangzhou; Shenzhen; Dongguan; Tianjin; Chongqing; Wuhan; Harbin; Shenyang; Chengdu; Zhengzhou

Religion	China's main religion is Buddhism although there is also Daoism and some Muslim and Christian minorities
Language	The official language is Putonghua (Beijing dialect, commonly known as Mandarin) although in the southwest and southeast local dialects are spoken
Currency	Yuan (renmimbi) 1 EUR = 9,03055 CNY (April 2010)

Source: China Economic Review (1) and CIA (2)

Economic Background

For centuries China assumed a leading position regarding arts and science issues until the 19th and early 20th centuries when the country suffered a civil unrest with famine, military defeats and foreign occupation. After World War II, the Communists under Mao Zedong established in 1949 an autocratic socialist system that, while ensuring China's sovereignty, imposed strict controls over everyday life and cost the lives of ten millions of people. After Mao's period, Deng Xiaoping (political leader of the People's Republic of China between 1978 and 1992) and other leaders focused on the development of a market-oriented economy. Population living standards improved in general and freedom to choose and people's identity was given back. Hereupon, China became the world's leading producer for many years in several industries such as steel, copper, aluminium, cement and coal, according to Tang (2009) and surpassed Japan, as a resource consumer, as the globe's second largest importer of petroleum in 2005. It also became the world's second largest auto market in 2006, with total sales of 7.2 million vehicles and a production level of 7.3 million and the world's top producer of merchant ships, the author refers. Moreover, the author states that in 1990, estimates pointed China's average per capita national income to be around US\$350 and within almost a decade, that figure was already in US\$1,000. At the end of 2008, the figure tripled and China's average per capita national income reached US\$3,000. If this sequential growth continues, China's average national income will reach US\$8,500 by 2020 and US\$20,000 by 2030, the author predicts.

In addition to a rapid increase in income, consumers find themselves with no mortgage obligation, largely free medical care and public education, low rents, no income tax except for a few, which means the personal savings rate of Chinese households is 30%,

according to Tang (2009). This situation has a direct impact on consumption, changing spending patterns and driving up sales of many consumer goods, with special emphasis in the luxury market.

When Deng reached the power in 1978, the efforts to develop a market-oriented economy included an open policy, in an attempt to open the barriers to the western world. According to Trigo (2006), this open policy had four stages starting in 1979 with the creation of four Special Economic Zones (SEZ) in the provinces of Guangzhou and Fukien; and Hainan island in 1983. In 1984, fourteen coastal cities were declared open areas and between 1986 and 1988 the same happened to the Delta. The author refers that the third phase consisted in opening the cities near the borders with countries as Russia, India, Myanmar, Laos and Vietnam and the areas along the great rivers. The fourth phase in Deng Xiaoping's vision is still happening nowadays, characterized by the spreading of the coast to the interior lands, the author refers.

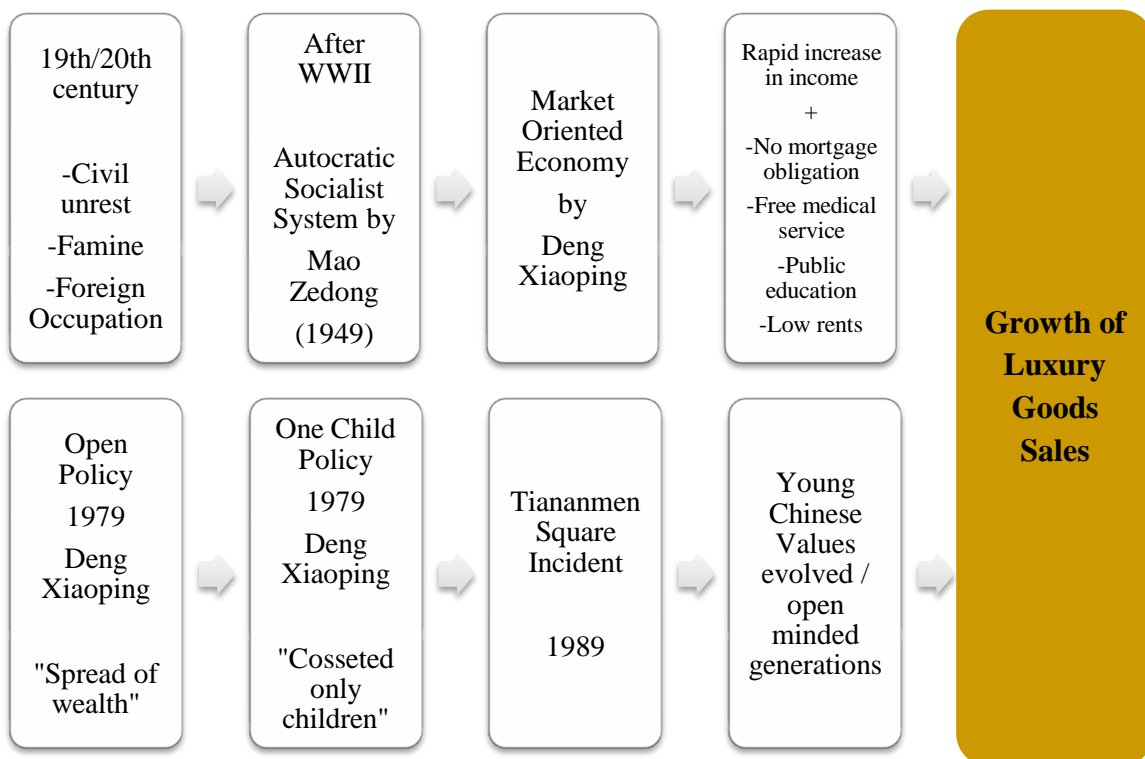
In addition, in 1979, Deng also established China's one child policy to limit the population growth. According to Pan (2008), it was supposed to be a temporary measure but, as far as 2008, it continues. The policy limited couples to one child, with consequences to disobedience. Caffola (2009) refers the policy created a generation of cosseted only children, each raised by six adults, making them little emperors nowadays.

Moreover, after the Tiananmen Square incident in 1989, where students and intellectuals protested for seven weeks against government's authoritarianism, ending with hundreds of deaths, young Chinese values evolved, adopting a more open minded approach to external environment and life itself (Pan, 2008).

Finally, Trigo (2006) refers that one of the main revolutions that happened in the interior of Chinese economy was the processing and progressive settlement of the big state companies and the consequent growth of the private sector both domestic and foreign. It started in 1994, when the government picked a hundred big state companies and tried a new procedure, where these companies would be managed according to a modern system. Traded shares were introduced and non-governmental investment was possible. Companies now had self-management policies, separated from the government leading to a situation of huge foreign investment influx.

Altogether, these facts contribute to a minefield of market opportunities, including the luxury industry. Caffola (2009) refers the first to act on the potential of the Chinese market were the older European brands who still have the biggest piece of the market and whose heritage and quality ticket resonates with status-hungry Chinese consumers. *It started with a trickle of top brands cautiously opening a few outlets in the 1990s. Now the influx resembles a stampede: Luxury retailers can't get in fast enough, and once in, they are spreading themselves around the country like wildfire* the journalist refers. The reality nowadays is very different from the past and Chinese consumers are really into shopping. Figure 8 summarizes China's economic background.

Figure 8 – China's Economic Background Summary



Before analyzing Chinese consumer behaviours, it is important to recall Chinese values as a vital factor in understanding consumption patterns.

Chinese cultural values as drivers of consumer's behaviours

Wright (1973) described the Chinese culture with a system of thirteen values while Yau (1988) proposed a new classification of twelve and there are also some generalist approaches. Additionally, Parsons and Shils (1951) defended five cultural values to explain human action.

Many approaches were conceived to classify Chinese cultural values however they are now behind the times. According to Trigo (2006), there are four key values in the Chinese culture, mandatory to understand Chinese business context. Firstly, the hierarchy appears to be extremely important and one should always agree with a superior even if not. Only in a second stage and in private, the differences can be revealed but always maintaining a low profile approach. According to the author, Chinese leaders adopt, in most cases, a paternalistic approach towards the employees, inviting them for personal activities, helping them financially and even visiting relatives. For years the system has been working in this clear acceptance of hierarchical positions. This is the reason why, the author refers, it is important to have same hierarchical position members within a negotiation between two companies, for example.

Secondly, according to the author the family is the base for a stable and harmonious society, where there is a feeling of devotion and mutual help between generations. In economic terms, for Chinese people the family is the first resource for opinions, new employees or financial support, simply because they are the ones that can be trusted. I observed that Chinese people appear to be quite suspicious and cold towards strangers with whom relationships have not been established yet. They seem to be expecting dishonesty, *a priori*, which means that trust must be established before any serious business relationship can be cemented.

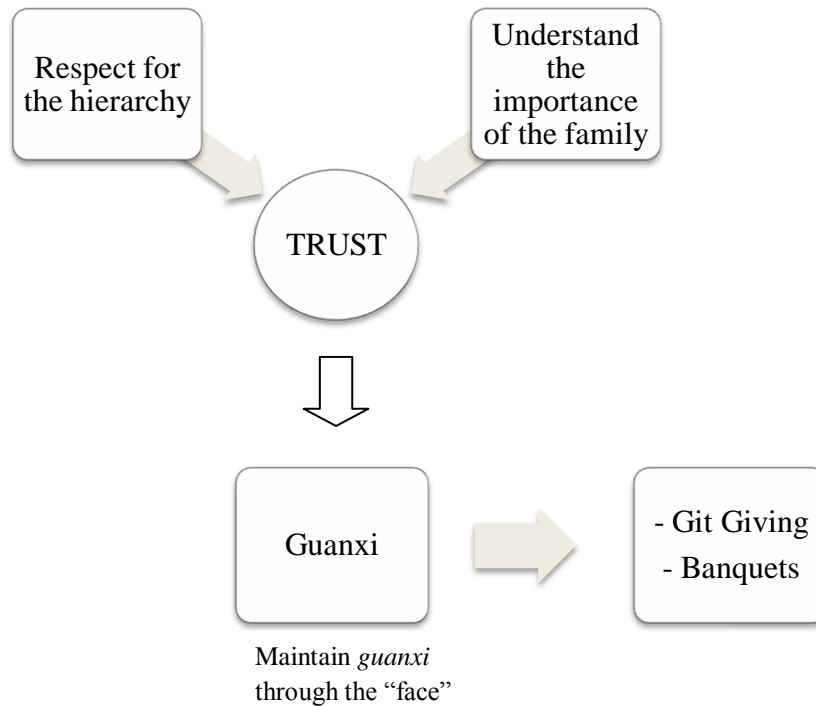
Moreover, the author of *Cultura Económica Chinesa* (2006) refers that *face* is an extremely important concept on the Chinese culture. Chinese anthropologist Hu Hsien Chin (1944) distinguished two different aspects of *face*: *mianzi* and *lian*. *Lian* has a deep moral meaning and refers to respecting someone for the moral reputation one has, as someone that fulfilled all the obligations despite the contingencies. *Mianzi* refers to

reputation, wealth and power. One can “win the *face*” by offering a diner, Trigo (2006) refers, “borrow the *face*” being connected to successful people or “give the *face*” through participating in charity events for example. It is important to maintain the *face* and respect the one who loses it. Once someone wins a negotiation for example, must preserve the other’s *face*. On the contrary to the western system where people are expected to lose with dignity, in China, that focus goes to the one who wins. One can win the *face* or give the *face* as a way of winning it, but the risk relies on losing the *face* and once it happens, it cannot be recovered.

In Trigo’s (2006) vision China is not a country where one can function alone and maintaining a good network of relationships (*guanxiwang*) is extremely important. Firstly, it is important to understand that *guanxi* (relationship) cannot be sustained between two parties if there is no need of reciprocity. The one who has first received a benefit is expected to repay it later. As a consequence, there will be less hesitancy in being the first and for most Chinese, a transaction or exchange will only take place when there is mutual benefit for both parties involved. Secondly, the author refers that for Chinese people, *guanxi* works as an investment for future, having a long term orientation. Once *guanxi* is established, both parties will try their best to keep this relationship for a long time, by reciprocating benefits. The concept of *face* is once again important and in China it translates into gift giving and banquets for example.

Summarizing, Chinese cultural values have direct impact in the consumption of luxury items. Firstly, the hierarchy must be respected in China in order to achieve harmonious relationships and the family should be respected as it represents the central focus for Chinese people. Having this, one can be trusted, building *guanxi*. Once there is *guanxi*, it must be maintained, through the *face*, winning and giving it. In practical terms, gift giving and banquets are expected to maintain good relationships and seen as a long term investment in the Chinese business context, up-scaling sales of luxury goods. Figure 9 summarizes Chinese cultural values impact on the luxury industry.

Figure 9 – Impact of Chinese Cultural Values in consumption



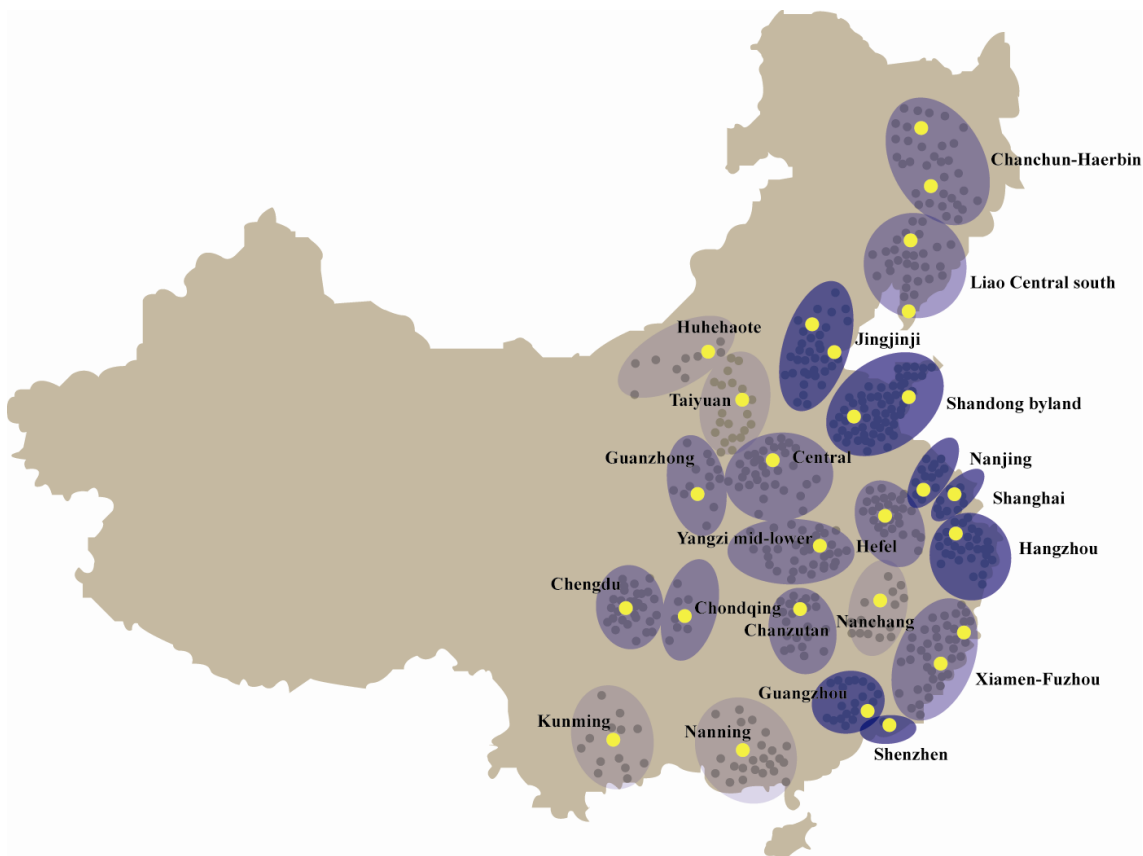
The Chinese market

China hosts an intensely varied and distinctive geography, ranging from coastal plains in the east to high mountain plateaus in the west and the hills and fertile valleys of the southeast, with the Yellow River and the Yangtze dividing the country from west to east. The Chinese are a people with diverse physical traits, dialects and traditions. They are a multi-cultural, multi-religious and multi-ethnic society, having as many as 55 ethnic groups as diverse and interesting as the geography and the history of the country they inhabit (Anil, 2006).

China can not be represented as a single market due to its size and multicultural surface. Anil (2006) refers that regional differences in the level of economic development, infrastructure, consumer purchasing power, and distribution and transportation logistics are some reasons to understand that a standardized approach to the Chinese market is a blind guess. China consists of multiple markets segmented by income, age, consumer values and lifestyles, regional economic development and local culture.

According to the 2009 Annual Consumer Study by McKinsey, the *vast size of the Chinese market and the varying pace of growth makes prioritization a must*. There are more than 800 cities in China, from which 200 have a population of over a million each, the study refer. The market has become more fragmented and market segmentation and targeted marketing have become increasingly important for a successful performance by companies. According to the consultant, China can be divided into twenty-two city clusters rather than analysing the market city by city and achieving competitive advantages. Each cluster represents a group of cities that are developing around one or two large cities and it comprehends the industry composition, the government policies, demographic characteristics and more important for the present analyses, the consumer ability to consume. The clusters are identified according to the population size and GDP percentage when compared to total urban GDP and they can be *mega, large or small* clusters as one can see in figure 10.

Figure 10 – China Cluster Map



Source: Annual Consumer Study (McKinsey, 2009)

As figure 10 shows, all eight *mega* clusters appear in east China, meaning Chinese coast. In first place, Khan, Griffin, Risk and Zhao (1993) had already stated in 1993 that the government had a policy to “let some people get rich first”, creating tremendous economic disparities between coastal cities and hinterland regions. Moreover, on Sunday 22nd of August 2004, BBC News (4) referred that *Deng Xiaoping opened up foreign trade and set the stage for the rapid development of China's coastal regions in the hope of kick-starting the whole economy.*

The eastern part of the country includes top three markets: South China with two *mega* clusters (Guangzhou and Shenzhen), East China with four *mega* clusters (Hangzhou, Shanghai, Nanjing and Shandong byland) and North China with one *mega* cluster (Jingjinji).

According to Trigo (2006), bureaucracy becomes higher in the north, as far as 2006, especially in Beijing where the government is the highest employer and *guanxi* is even more important. Pierre Xiao Lu (2008) referred that south and east China have more luxury followers than the north, having that in this region consumers are more conservative, less susceptible to outside influences and have less awareness for foreign brands.

Regarding south China, Trigo (2006) refers that people tend to be more entrepreneurs, travelling overseas and having consistent negotiations skills when dealing with the exterior, being highly outward-oriented.

East and West division is, in Trigo's (2006) vision related to the coastal/non-coastal characteristic, the first one having higher living standards.

Summarizing, Chinese market must be segmented for a better performance and the segmentation depends on the product. For the luxury industry it makes sense going to where the money and fashion sense is, meaning coastal areas, for the segmentation should reside in south, east and north. All three regions are densely populated areas and highly urbanized, having the highest GDPs in the country. However, money and sophistication are not twins, for interior lands should also be considered; despite its population have less fashion sense, the wealth can be astonishing.

Consumer behaviours and segments of consumption

It may sound strange talking about luxury consumers in a country where the majority of people are poor, but the fact is that China has been the scene of a fulminating growing economy with income levels growing in equal proportion. According to Chan (1999) there were four segments to target China’s consumer market, as far as 1999. Despite being old, Chan’s segmentation can still be applied for with modifications. Chan’s segmentation of Chinese consumers is illustrated in table 2.

Table 2 - Hybrid approach to segmenting Chinese Consumers in 1999

Segment/attribute	Nouveau Riche (baofahu)	Yuppies (dushi yapishi)	Salary Class (gongxin jieceng)	Working poor (qionglaocong)
Size of segment	100,00	60 million	300 million	840 million
Geographics Residence Place	Coastal urban areas	Major urban areas	Small cities	Small towns and rural areas
Demographics Household Income Age Education Occupation	Above \$5,000 30-65 Various Entrepreneurs, business people, government officials and celebrities	\$2,000-\$5,000 25-45 College Managerial, professional, technical	\$1,000-\$1,999 18-60 High school Office clerks, factory workers and teachers	Less than \$1,000 All age groups Elementary school Manual laborers, peasants and migrant workers
Psychographics Orientation Innovativeness Risk Aversion Readiness for foreign goods	Optimistic Innovators, trend setters Low High	Hopeful Early adopters, opinion leaders Moderate Moderate	Status Quo Early majority, emulators High Low	Uncertain Late majority and laggards Very high Minimum

Segment/attribute	Nouveau Riche (baofahu)	Yuppies (dushi yapishi)	Salary Class (gongxin jieceng)	Working poor (qionglagong)
Lifestyles Mobility Activities	Active Wheel & deal, dine & wine in exclusive clubs, frequent shopping binges	Mobile Busy work schedule, frequent dining out & excursions	Confined Trapped 8 to 5, limited disposable income, occasional outings, cameras and parks	Immobile Menial labour, hand-to-mouth, “mass” style entertainment such as sports on TV

Source: Consumer Behaviour in Asia: Issues and Marketing Practice” (Chan, 1999)

As far as 1999, the vast majority of Chinese population, approximately 70%, belonged to the segment of *Working Poor* (qionglagong). They were the least educated group, with no marketable skills and disadvantages in what benefits of reform are concerned. They used to perform manual work in small state and township enterprises or were displaced workers, retirees on a fixed pension and majority of China’s peasants. According to Chan (1999) these people were conservative and need-driven, not innovative and highly averse to risk, searching for local and cheaper products and favouring mass entertainment. As far as 2006, this segment still exists, accounting for 10 percent of the Chinese population, according to Radha Chadha and Paul Husband (2006). Later, Pan (2008) referred that official data did not correspond to the real one and that poor people in China were much more than published. Anyway, whatever the real estimate is, this segment is not relevant for this study, as they can’t afford luxury garment.

In Chan’s (1999) vision, the second segment of Chinese consumers as far as 1999 was the *Salary Class* (gongxin jieceng) including state workers with a fixed salary and some bonus that made them perform their daily routines faithfully. They got paid on time and had medical expenses covered. However, with fixed salary and escalating inflation their disposable income wouldn’t grow that much. They had a positive attitude towards

foreign goods but their spending was infrequent, confined to occasional outings, therefore not being relevant for this study.

Chan's (1999) third and fourth segments of consumers as far as 1999 are the ones relevant to luxury consumption analyses in nowadays China. The *Nouveau Ritche* (baofahu) were the highest spenders group. In 1999, some estimated there were 100,000 to 200,000 of them in China, the author referred. The group essentially included entrepreneurs, business people, celebrities, and government officials and they were located in China's booming coastal cities and other major metropolitan areas. These high spenders maintained a very active lifestyle, dining and wining in exclusive clubs. They used to travel overseas, were very optimistic about the future and, being rich, their aversion to risk was minimal. This small cluster frequently acquired very expensive products to show off their status.

Nowadays, this segment still represents the greatest luxury consumers segment, being the *luxury gourmands* in Radha Chadha and Paul Husband's (2006) segmentation, though some adaptations should be made and another trend must be emphasized. According to the authors, as far as 2006, the highest spenders in the Chinese market are the government officials and the ones with senior positions in state-owned companies. They desire luxury brands as much as the rest of Asia, the difference being in the needed low profile, therefore going for low outstanding luxury products. French and Italian suits are the first preferences and there is plenty of space for other countries to join the market, the authors refer.

Besides this set of consumers, Chan's (1999) *Nouveau Ritche* or Chada and Husband's (2006) *luxury gourmands* also include China's business elite, meaning entrepreneurs and businessmen. These high spenders are important people in the corporate world and dress accordingly. Both segments share two common characteristics. Firstly, they are both constituted by men, referring to a special trend in the Chinese market. China is typically a male-oriented market, probably the only in Asia with this characteristic, which makes it so interesting for male-oriented brands, to have a share. In second place, in both segments, these men are *tycoons*, with huge bank accounts and outstanding purchasing power, leading to another strong consumer segment, their wives, *tai-tai*. Again, this segment spends gigantic amounts of money in luxury shopping and is

known to be even more extravagant than the ones in Hong Kong, the authors of *The Cult of the Luxury Brand* (2006) refer.

Radha Chada and Paul Husband's (2006) vision of the *luxury regulars* have a specific translation in China; entitled *nouveau chic* segment. This set of consumers include well educated managers, doctors, lawyers, entrepreneurs, consultants and bankers earning fat salaries and spending it on fashion for own identity in addition to status displaying. They are refined, confident and informed individuals, proactively seeking for new fashion trends and discussing it within the group of friends.

Chan's (1999) last segment of consumers as far as 1999 was the *yuppies* (*dushi yapishi*) segment, composed of people between 25-45 years, college educated at least and with some additional technical training. In 1999 there were 60 million of them, residing in the major metropolitan areas, the author refer. They used to work in China's new enterprises, joint ventures and foreign companies. The author stated that this Chinese middle class *was young, better educated, experimenting new lifestyles by adopting new trends and putting high value in premium products and modern stores*. Chan's (1999) *yuppies* segment can be crossed with Radha Chadha and Paul Husband's (2006) *Nouveau Cool*, meaning China's youngsters, teens and early twenties, some of them already working and having purchasing power therefore being a relevant segment and the others being forecasted to become soon. They are starting to deviate from Hofstede's (2003) collectivism-oriented dimension regarding China, being more individualistic, experimenting new fashion trends and trying to define a self-concept of fashion.

Summarizing, although the majority of people in China are poor, there were around 400 super rich people in China in 2008, according to Rich Chinese List, published by Forbes Business Magazine in 2008 (5) with a combined wealth of US\$173 billion; equivalent to almost half the Portuguese GDP in the same year. Chinese millionaires were another 414,900, according to Merrill Lynch and Capgemini World Wealth Report (July 02, 2008), with financial assets in excess of US\$1 million and there were around 4.7 million people with a purchasing power of more than US\$30,000. Finally, there were around 170 million people in 2009 who the China Association of Branding Strategy claims that can afford to buy luxury brands, representing 13 percent of the population (Ernst and Young, 2005).

Altogether, they represent a huge purchasing power which, combined with their desire for luxury products, translates into enormous profit figures for companies operating in the luxury industry.

The figures are impressive and while trying to understand the reasons behind this, the Cultural Revolution must be approached. According to Pan (2008) the Cultural Revolution (1966-1976) was designed to end with all culture, demolishing the elite and bringing everyone down to the same level of existence. Regarding social effects, the author refers that people in China experienced a feeling of freedom after Mao Zedong's death in 1976. When the dark days were gone, wealth became the new fashion statement and its manifestation was more important than its existence (Pan, 2008).

Moreover, Radha Chadha and Paul Husband (2006) refer to five major drivers to explain the reasons supporting the Chinese unbridled luxury consumption. As seen before *guanxi* (relationship) is a Chinese value and part of Chinese people's life's and businesses. It translates in a gifting policy that used to be done through hard cash in the early days but nowadays it is being replaced by luxury items, representing around 50% of luxury sales, as far as 2006 (Chadha and Husband, 2006).

Secondly, despite not having that in mind, when Deng Xiaoping set the Open Policy in 1978, allowed the world to come to China and the Chinese consumer to go abroad, resulting on a luxury flow. By coming back to China, Chinese people who were living abroad brought money, sophistication and a western lifestyle. Moreover, these people were better educated and open minded, being highly requested to manage companies in their home country, for high salaries, resulting in a high susceptibility for luxury items. The Open Policy also led to high spending in travelling as Caffola (2007) refers that Chinese people spend abroad twice as they do in Hong Kong, which is China's mall and is expected to be the greatest place for shopping.

The third luxury driver in China is related to rich people background versus their actual life. Chadha and Husband (2006) refer that it is important to understand that these people used to be poor and started from the lowest levels of austerity and nowadays they can have everything. Their mentality is based on this assumption that in ten years they have built such an empire and for the next ten, there is no limit and having such an optimistic view of life has a direct impact on spending.

Additionally, China's magazine industry is booming and is already a luxury driver. Consumers want to be informed and search for professional help when it comes to choose and decide, being highly influenced by society. And in this field, no better player than fashion and lifestyle magazines to perform that role. It is the just-in-time fashion described before as an Asian trend, where people are proactively seeking for new trends. But more than that, the authors refer that in China it is like creating a buzz, where the most talked-about brands will be the ones selling more. Media coverage is very important in China, for it brings brand awareness and secondly because it creates perceptions and willingness to buy. When Chinese people walk into a store they already have perceptions and opinions about certain products, for they have spent time discussing it with friends. According to Chadha and Husband's (2006) research, more than 200 fashion and lifestyle magazines have appeared in the market in the last eight years as far as 2006, for the demand is huge and when Chinese people buy fashion magazines, they buy at least three different ones in order to have a more comprehensive perspective of the fashion scene.

Lastly, it is important to understand that notwithstanding China is a 1.3 billion market, the money flow happens in few cities, mainly in the coastal areas. Figure 10 shows both the location of the strongest clusters in what wealth is concerned, therefore purchasing power, therefore luxury consumption and also the areas with high modernization degree and superior quality infrastructures, also leading to the spread of luxury.

Having this rapid industrialization and modernization of Chinese cities and the consumer hunger for luxury at the same time, it reveals to be the perfect timing for luxury brands to spread their stores throughout the country. Additionally and following Asia's trends identified by Chadha and Husband (2006), especially Japan's slope to department stores and Hong Kong's mall phenomenon, it is important to bear that in China they are both relevant as well as five-star hotels that are probably the most prestigious location for a luxury brand to set a store, being the origin of this industry in what location is concerned.

China is getting out of Mao's shadow and living in a state of obedience to luxury items and clothes in particular. One must follow social patterns to be considered part of the society. It is hard to maintain *guanxi* without assuming this "imposed by society" lifestyle and without *guanxi*, one can not find harmony in China.

Stage III – Conclusions

In this stage it is presented the most relevant conclusions obtained from the merging between the theoretical framework stage I and II. The conclusions are prearranged in three subjects for a better perception of the reality analyzed and will be the base for recommendations further in. Table 3 identifies Chinese luxury consumers, focused on the clothing industry and stretching its main characteristics while table 4 summarizes Chinese consumer behaviours over luxury garment. It identifies what consumers want in each stage of the purchase: before, during and after. In table 5 it is presented a summary of the main reasons for the unbridled luxury consumption observed nowadays in China.

Table 3 - Chinese consumer segments for luxury garment

	Segments	Remarks
Male-oriented market	Government officials	They are the highest spenders in China in what clothes are concerned and the interest relies in the fact that they desire luxury as much as everyone else but maintaining a low profile, therefore going for European expensive suits excluding highly visible brands.
	Business Elite	Entrepreneurs and businessmen are a great target for luxury brands, for they are important people in the corporate world and need to dress accordingly.
Around the man	<i>Tai-tai</i>	There were around 400 super rich people in China in 2008 along with another 414,900 millionaires. Taking into account that in China it is socially accepted to have second wives and considering that many of these numbers for sure do, the <i>tai-tai</i> , second wives and mistresses are growing in number. They share the same fortune, a huge fortune, for they have deep pockets and shopping is their hobby.
	Second wives	
	Mistresses	

	Segments	Remarks
Middle class	<i>Nouveau chic</i>	It captures the same desire for luxury; just the fashion variable is added to the equation. Includes well educated managers, doctors, lawyers, entrepreneurs, consultants and bankers earning fat salaries and spending it on fashion for own identity in addition to status displaying. They are refined, confident and informed individuals, seeking proactively for new trends and discussing it within the group of friends.
Cosseted only-children	<i>Nouveau Cool</i>	Deng Xiaoping “created” them by setting the one child policy in 1979. This set is composed by China’s youngsters, teens and early twenties, some of them already working and having purchasing power and the others being forecasted to become soon. Anyway, they are only children and grand-children, representing the same open-mind, individualistic personality and effort to define a self-concept of fashion than the same generation in Europe and in the U.S.A for with a higher purchasing power.

Table 4 - Chinese consumer behaviours over luxury garment

		Remarks
Before purchase	Need recognition and problem awareness	As if it was a state of obedience, Chinese people desire luxury as much as they must satisfy basic needs, many times leading to personal sacrifice. They have an inherent need to show status, in order to meet social norms, doing so through luxury clothes.
	Information search	Consumers are proactive and in constant search for new fashion trends. They travel overseas, buy loads of fashion magazines and perform real pre-shopping/shopping expeditions in order to observe and identify what is socially accepted. Television stars are important trend settlers.
During purchase	Evaluation of alternatives	Chinese consumers like variety. Not only they know what they want, they will also search for the best alternative, performing malling experiences and wandering in and out of each store. The store experience assumes a huge importance at this stage, as it can 'steal' customers from other brands.
	Purchase	Many times the buyer and the consumer are not the same person. Staff should be prepared to make recommendations.
After purchase	After purchase	Chinese people are collectivist and consumers will measure the social impact of the clothes they purchased, meaning whether friends, family and people in general liked it or not.

Table 5 - Reasons for the luxury unbridled consumption in China

	Remarks
<i>Guanxi</i>	It is part of people’s lives and maintaining it is vital. In commercial terms, <i>guanxi</i> translates into gift giving, representing around 50% of luxury sales, as far as 2006.
Open Policy	It was set by Deng Xiaoping in 1978 and allowed Chinese people to see the world and to increase wealth and sophistication levels. Chinese people are now open minded and westernized, searching for global fashion trends and acquiring luxury “made-outside-China”.
Past Vs Present	With one of the poorest backgrounds in the world, China is now its second strongest economy. Such a change has a direct impact in people’s personality and life style, therefore leading to a greater consumption which, when merged with Chinese people desire for luxurious items can explain, in part, the luxury unbridled consumption observed nowadays.
Knowledge	Knowledge is the key and consumers are proactively seeking for socially accepted fashion trends. Like a gossip, for brands being talked-about is a competitive advantage. The magazine industry is benefiting in a huge scale but the fact is that Chinese consumers buy loads of fashion magazines, which makes it so important for brands to have media coverage.
Geography	Despite its market size, in China money flow happens in few cities, mainly in the coastal areas, with high modernization degree and quality infrastructures.

CHAPTER III – THE CASE OF A PORTUGUESE COMPANY IN CHINA’S LUXURY GARMENT MARKET

Description of the case

This case aims to demonstrate the way a Portuguese company approached Chinese consumers of luxury garment. The company is positioned as being in the luxury segment in Portugal and Europe in general and some consumers perceive it as being Italian. Unrivalled uniqueness of production, tradition and comfort are values governing the life of this Portuguese brand with an established presence in Europe and at an early stage in Asia. The brand portfolio comprises formal garment as shirts, which are the main source of profit, suits, ties, blazers, trousers, shoes and jerseys.

The first store in China was opened in the city of Wenzhou in summer 2008 and the brand intends to expand its presence in the country by opening more stores and selling its products through department stores. However, after a year and a half, serious strategic reformulations took place. This case is an attempt to perceive, through interviews and informal conversations, what happened to this company that justifies the step behind. The company’s agent in Hong Kong prefers to remain anonymous thus the interview cannot be posted. However, the next chapter analyses all the information provided in terms of approach to the Chinese consumer, having that it is what is relevant for this dissertation.

Findings, Analysis and Conclusions

Apart from interviews with the company's agent in Hong Kong, the information regarding the brand strategy for the Chinese market was also obtained through conversations with the responsible for AICEP - Agência para o Investimento e Comércio Externo de Portugal in Macao; the conclusions over the information provided are shown below, prearranged by subjects.

Firstly it is analyzed the preparation, prior to entry, taken by the brand. As mentioned the company in question already has a store in the Chinese market and this step aims to verify to what extent planning was or was not done. A second step will analyze aspects related to the strategy, from the perspective of operational marketing and positioning will be discussed in third place, in terms of what the company intends to convey to Chinese consumers. Finally it will be verified to what extent the company made a cultural adjustment.

Alongside with the facts relating to the approach done by the company to Chinese consumers, some remarks are drawn in an attempt to recreate the ideal scenario in each situation analyzed and recommendations will be outlined for future initiatives in the last chapter. The conclusions presented further in do not concern the brand's strategy in general terms: they concern the approach done to Chinese consumers.

Table 6 - Planning

Planning		
Reasons for the choice	Facts	<ul style="list-style-type: none"> -The brand was aware of the potential of Chinese luxury garment market; -The brand aimed to continue the process of internationalization; -Existence of a contact in the city of Wenzhou, available to start a partnership.
	Remarks	<ul style="list-style-type: none"> -The first thing to consider when moving to China is whether the company's product is desired and needed in that country.
Preparation	Facts	<ul style="list-style-type: none"> -The process of approaching the Chinese market lasted about four years before the company finally decided to open the first store in the city of Wenzhou in Zhejiang province; -The company did not do an intensive study of the Chinese market and did not prepare a specific business plan to the new internationalization project; yet was aware of some crucial aspects for the Chinese market: the importance of not generalizing; importance of the public sphere as being a necessary condition to maintain a good relationship with the government; and ensuring support from public institutions and banking; -In this matter, the company had the support of QREN - Quadro de Referência Estratégico Nacional; -The brand entered the Chinese market directly and without any agent. However and taking into account the goals set for the next few years, considered the importance of having agents to guarantee those same objectives on the ground; it is expected from the agent to develop a work towards achieving the targets set by the brand, picking and analyzing the economic viability of spaces intended for retail in China (owned stores), finding partners interested in the development of the brand in the Chinese market (franchising) and finding clients (department stores) wishing to offer the brand in their stores.
	Remarks	<ul style="list-style-type: none"> -Lack of information about the market/consumers; -Lack of a local partner to ensure those aspects plus the decision of the initial investment.

Planning

Barriers to entry	Facts	<ul style="list-style-type: none"> - Complications in the communication process due to language differences; - Additionally, within a first approach to the market, the company was supposed to split the investment with a Chinese partner which, on the one hand, would facilitate cultural and linguistic diversity and, secondly, allow a tailing of the initial investment costs; the possible partner dropped out the partnership and the company decided to invest 100% of the necessary capital, creating a wholly foreign owned enterprise (WFOE); - This situation limited on the outset and for financial matters, the company intention to be present in the Chinese market with all the necessary guidelines for success.
	Remarks	<ul style="list-style-type: none"> -Language problems led to trustiness issues that hindered the process of <i>guanxi</i> with the environment; -Being a WFOE is the same as saying that the company had to cut expenses and apparently that was done in the store experience.
Cultural adaptation	Facts	<ul style="list-style-type: none"> -The company was aware of the importance of having a good relation with the government as an essential factor to the brand success in China; they knew however that "government" should mean local governments and not the provincial government or central government, and these too comprehensive; -In what Wenzhou Government is concerned the company has some good contacts, through the person responsible for the store in this city.
	Remarks	<ul style="list-style-type: none"> -There were contacts, but they were not used. There was no support from Wenzhou Government; that support could represent extra money for the store experience; -Lack of control gave the store manager the possibility to wander around without really corresponding to the responsibilities assigned.

Table 7 – Operational Level

Operational level		
Preferred Location	Facts	<p>-The brand strategy at geographic location level is based on 3rd-tier-cities, meaning that the largest Chinese cities will be excluded in a first approach to the market;</p> <p>-Because of political and legal aspects, the brand opened its first and currently only store in the city of Wenzhou;</p> <p>-For new openings, the brand has drawn strategic guidelines for the opening of four own-managed stores: three in the provinces of Hangzhou, Fujian and Liaoning; and one in the Special Administrative Region of Hong Kong; and another ten stores through franchising;</p> <p>-Although all strategy is based in the coastal areas, the brand considered the possibility of opening a store in the province of Chongqing, in the countryside.</p>
	Remarks	<p>-It makes sense for a Portuguese brand to focus on the coastal areas and in 3rd-tier-cities, having that in China the brand has no awareness and going directly to the strongest Chinese cities in terms of purchasing power would be risky;</p> <p>-However, the company intends to open a store in an interior city and that is also correct, since brands should go to where the money is, regardless of the fashion sense.</p>
Closeness to Competition	Facts	<p>-The brand intends to be close to the competition in terms of location of the stores, considering such proximity as a competitive advantage;</p> <p>-Also considered different possibilities for location, such as "avenue stores" in shopping areas, malls and five star hotel's galleries, justifying that it can vary from city to city. In the case of Wenzhou, the store is located in a five star hotel gallery. It depends on the market acceptance and the negotiations for the desired space.</p>
	Remarks	<p>-The closeness to competition is a competitive advantage and regarding the location of the store, the brand did a right bet.</p>
Pricing Policy	Facts	<p>-The brand decided to increase the selling price of its products in the Chinese market by about 10% to 20%.</p>

Operational level		
	Remarks	-The same shirt can be considered luxurious in Portugal and not in China. Expensive is what matters to display status in the eastern world. The brand's pricing policy is correct.
Target	Facts	-The brand target are men between 30-65 years old, with an active social life, sophisticated and having sensitivity for the art and fashion; -It is a <i>trendy</i> segment, irreverent and cult, looking for a unique style, original and exclusive; framing in some way in the <i>Nouveau Chic</i> segment; -The brand believes that the buyer and the consumer of its products are the same person, justifying that being a male-oriented brand, it is up to the men to choose their own products.
	Remarks	-The brand target is accurate since there is a consolidated but still growing corporate arena in China; and business means suit; -Moreover, there is a growing number of Chinese people with a fashion sense. Being travelled overseas opens their minds and gives them an idea about the fashion scene worldwide; -However, even considering men garment, in China many times the wife is responsible for the purchase; buyer and consumer are not always the same person, even with suits; -Moreover, gift giving is, in part, responsible for the mammoth luxury market in China which means there are loads of consumers purchasing to offer.
Promotion	Facts	-The store in Wenzhou has a small area for discount products, from the previous collection. This area was only created after the brand realized that consumers were actually searching for discounts; -However, the reference to the discount is discreet and only made on the label.
	Remarks	-It may seem strange to consider making discounts or having sales seasons when a luxury brand is considered; however, in China that is normal procedure and positioning will not be affected; -It is the "era of luxury massification" where luxury brands are accessible to a growing number of people; Chinese consumers want discounts and brands simply have to do it.

Operational level

Distribution	Facts	-In addition to own-managed stores, the brand intends to market its products through department stores with a premium positioning; Lane Crawford and Harvery Nichols in Hong Kong, Harrods and Selfridges in London or the Galleries Lafayette in Paris are some examples of these multi-brand stores.
	Remarks	-The brand should consider several options to offer its products. Department stores are definitely a good option, as they have a good positioning in China.

Table 8 - Positioning

Positioning	
Facts	<p>-The brand considers itself as being a luxury brand. However, is aware that its image at the level of store and communication is far below the expectations of luxury Chinese consumers. Aspects such as the staff, the product disposition, the website and all communication in general do not correspond to a premium positioning; thus accepts the possibility of being identified as a luxury brand in a massification level, with affordable prices to many people and without truly luxurious infrastructures and sales procedures;</p> <p>-Regarding pricing policy, the strategic rise allows to equal the direct competitor's prices.</p>
Remarks	<p>-The brand identifies itself as being luxurious and for what the sale price in China is concerned, that is right;</p> <p>-However, regarding the physical evidences, the brand's positioning goes down every day and should be reviewed immediately. The buzz is the most important factor for a luxury brand success in China; and without a good store experience there is no buzz.</p> <p>-Increasing the price is not enough to maintain a luxurious awareness.</p>

Table 9 – Cultural Adaptation

Cultural Adaptation		
Marketing	Facts	<ul style="list-style-type: none"> -The company did not draw a marketing strategy focused on the Chinese market, going for a global approach; -Only the pricing policy was reviewed; -In terms of communication, the brand has been present in some fashion magazines and local television channels with clips from 5-10 seconds but very occasionally, since those opportunities came through the person who manages the store in Wenzhou; there is not a strategy regarding communication.
	Remarks	<ul style="list-style-type: none"> -“Think global, act local” is a famous slogan that can be applied in this situation. Not customizing the approach to the Chinese consumer is a serious mistake; -The magazine industry is responsible, in part, for the luxury unbridled consumption in China; it is crucial to be present in fashion magazines and be one of the “talked about” brands; once again, it is the buzz working.
Synergies	Facts	<ul style="list-style-type: none"> -The brand has no synergies with the media; only through the manager of the existing store, but nothing relevant;
	Remarks	<ul style="list-style-type: none"> -Not only the magazine industry, celebrities are also an important focus, as they inspire thousands of people; -In china, everything has to do with status display and every occasion or social event is a good opportunity to do it; -Selling luxury garment in China does not only mean having stores full of clothes; it means showing up here and there, being visible, being part of the buzz and therefore desired.

Cultural Adaptation

Physical evidences	Facts	<ul style="list-style-type: none"> -When the first store was opened there was not a specific approach to the Chinese consumer. The store experience was entirely left to one side and there was no care for visual merchandising, shop windows or staff; -Additionally, the company took and adapted some existing displays from a multi brand store; -The disposition of the products is weak and it does not broadcast the values of premium and exclusive that the brand intends; -There is an exceeding quantity of products from past collections in the store and no focus is given to the new ones; -The lack of variety is another reality, since there are loads of shirts, broadcasting the idea of being a shirt brand, which is not; -The store visual merchandising, besides being of inferior quality, recreates a typical Chinese scenario and it does not transmit the idea of western luxury or any luxury at all. -The staff was chosen by the store manager and have the wrong profile for the positioning intended: lack of product knowledge and no fashion sense; -The store manager was once seen wearing a jersey of a football team behind the counter.
	Remarks	<ul style="list-style-type: none"> -The store is basic, almost low cost and there is no care for the visual merchandising; -The store recreates a Chinese scenario instead of imposing a western feeling; -Few new products and no fashion sense; -It gives the idea of a low cost brand telling by the store; -Lack of variety and that is a huge mistake; Chinese people want variety; the store was almost full of shirts; -The staff must be trained to have excellent manners, product knowledge and fashion sense.
Brand awareness	Facts	<ul style="list-style-type: none"> -In China the brand is not known in general terms; -In the labels, the brand identifies itself as being Portuguese, having that everything is produced in Portugal, except for the tissues which are bough in Italy or England; -The company believes that the perception of Made-in-Portugal at the textile level is strong and positive in China; -However, sometimes in Europe the brand is perceived to be Italian and the company does not make an effort to contradict that image.

Cultural Adaptation

Remarks

-Firstly, having that the brand is not known in China, addresses the possibility of constructing any positioning intended; that and reading this dissertation;
-It is not wrong wanting to show Portugal's name in the label; however it is safer to go for "made-in-Europe"; the reference to Portugal can be made in another place, a more hidden location.

CHAPTER IV – RECOMMENDATIONS

As the number of companies wishing to have a share in the Chinese luxury garment market increase and there is little review on this subject, here are some direct recommendations on how to act when dealing with Chinese luxury consumers. One cannot approach China with the same assumptions used in Portugal, leading to a dead-end situation as it was evidenced in this work. Portuguese firms and western firms in general are advised to bear in mind the following recommendations; the recommendations are focused on the approach and only the approach to Chinese consumers of luxury garment.

- i. As shown before, social image, possession, gift giving, knowledge and variety are prerequisites for a Chinese consumer of luxury clothes. Companies wishing to have a share in China's luxury garment market must understand that Chinese people desire luxury as much they need to eat and they will do anything to have it. The first step to operate in this market is offering truly luxurious clothes;
- ii. Alternative brands are growing in number. It is mandatory for a company operating in the Chinese luxury market to have its products appearing in fashion magazines, as they are the drivers of new tendencies and more than that, of what is socially accepted to wear. With so many luxury brands operating in China nowadays, using the support of the media is halfway to success;
- iii. An interacting, easy to use and updated website will put online platforms users up to date with brand's new products and promotions, if applied. Knowledge is the key and consumers are proactively seeking for new trends, new

combinations and new products to display their status or simply to feed their hunger for luxury;

- iv. Additionally, having your stores located close to other luxury brands is a competitive advantage. Do not fall in the mistake of wondering that consumers will not get into your store when they have famous stores side by side with yours. Luxury consumers love shopping expeditions and despite having a pre conceived idea of what they are buying they will walk into every possible store in order to see which are the new fashion trends, what other people are wearing and eventually, they will purchase impulsively;
- v. The store experience is mandatory in China. One can not sell luxurious clothes in China without having an even more luxurious store. Chinese people go for highly visible brands. The more exquisite is your store, the more consumers will wander in and out, eventually buying something even if they did not have that in mind;
- vi. Having variety is mandatory. Consumers are not looking for “one-stop-shop” concepts, but having several products in several colours with several accessories is a competitive advantage;
- vii. The store experience can not be complete without the suitable staff. Train your staff in what product knowledge is concerned, teach them etiquette, make sure they have fashion sense and don’t forget to give them appropriate clothes to wear on duty;
- viii. Increase your price. Luxury for a Portuguese or French differs from the Chinese concept of luxury, the last ones giving a totally different importance to money. Money is the base for status display and Chinese people don’t display status

with low cost items. Portuguese companies operating in the Chinese luxury clothing industry must review the pricing policy and offer the same quality with a higher price;

- ix. Have always in mind that Chinese people are constantly playing the show off game and go for extremely visible brands with a strong logo-fiction. On the other hand, if your production line does not include logos, there are other ways to ensure the western status marker. For Chinese people foreign products are perceived to be better than the nationals in terms of quality and more important than that, in terms of status display. However, Portugal is still at an early stage through the luxury world in China and for companies, communicating in a global basis is a competitive advantage. Made-in-Europe instead of Made-in-Portugal appears to be an option with competitive perks;
- x. The preferred location to open luxury stores relies in the coastal areas, as one can see from the analyses of McKinsey's cluster Map, where there are highly developed cities attracting foreign investment, endowed with world class infrastructures and a huge purchasing power in parallel with a greater fashion sense than the interior areas.
- xi. There is a greater fashion sense in the coastal areas for these should be the first step in terms of opening luxury stores. However, it is important to understand that the greatest luxury consumers are not necessarily the more sophisticated ones but the ones with money. Therefore, it is possible to find in China some regions that, despite not showing the same sophistication and industrialization levels as the coastal areas, might as well be good markets for the luxury industry, since people there are wealthy. Focusing on the coastal areas in a first step is a good strategy, but never losing the geographical mobilization mindset for the interior lands as a second level strategy.

- xii. Chinese people are long-term oriented and *guanxi* is the base of their lives. Maintaining *guanxi* with customers is a competitive advantage as Chinese consumers give a lot of importance to consistent relations and will most probably be back if they are satisfied with the service level and inherent quality of the products. Therefore, the store experience assumes a great importance once again and so it does the quality of the staff. Don't try economies of scale in what store is concerned as in China the image projected by the brand is the key for every possible sale. Additionally, always keep to your promises, meaning that if you state it is possible to make a deliver, you should really do it or if you guarantee to your customers that the post-sale service will not fail, than it really should not. Chinese people value long-term relationships. Conquer trust to achieve *guanxi*; maintain *guanxi* and your brand will achieve customer loyalty.

- xiii. Bench marketing is a tool to be considered while approaching Chinese luxury garment industry and it should be adapted to each city. Following leading brand's pricing policy, visual merchandising, sales force capabilities and the store experience in general will not only put your brand up to date with the fashion scene but also allow you to have a better performance in what sales techniques are concerned.

- xiv. Give a practical meaning to the experimentation method. Test your consumer's reactions by manipulating independent variables and measuring its impact in the dependent ones. This means changing product displaying, trying different campaigns and different sales techniques. Study the consumers, identifying how much time they spend comparing prices and labels; understanding what kind of information they might ask and trying to capture what they value in the overall experience regarding the goods they are acquiring;

- xv. Gift giving is one of the greatest drivers for China's unbridled luxury consumption which, from the store perspective, means being capable of advising. Many times the buyer and the consumer are not the same person and it

is extremely important for brands to have staff with fashion sense capable of advising the customer.

Wrapping up, although China has a past of poorness and civil unrest, those days are gone; the reality is different nowadays and translates into one word: luxury. Chinese people are constantly playing the show off game as a result of their need for belongingness, achieved through ostentation. As if it was a question of vassalage, people must wear what is socially accepted to wear or they will not fit in the society. In business terms, this translates into mammoth opportunities for luxury brands and the challenge is in understanding that selling in China can not be done with the same assumptions used in Europe or in the USA; brands that do not understand this, will be stepping back soon.

Firstly and almost as if it was common sense, a brand must offer truly luxurious clothes; Chinese consumers need to show off status and they go for highly visible brands with strong logofication. On the other hand, there are segments of consumers searching for luxurious suits with low visibility for example; there is demand for several kinds of offer. Moreover, in order to satisfy the status needs, Chinese luxury consumers give a great importance to the price of the products they purchase. A luxurious piece of clothe is expected to be expensive and so it must be.

Secondly, for a Portuguese brand entering Chinese luxury garment market it is advised to follow leading brands strategies. Closeness to competition is important because Chinese consumers perform real shopping expeditions wandering in and out of luxury stores. Even if they don't intent to buy, they will do it eventually. However, to achieve impulsive sales, extra attention must be focused on the store experience. Chinese consumers want visibility and luxury for the store must have both. They want variety of products, variety of features in each product and variety of prices. Promotions are normal procedure in the luxury business in China. One might think it will destroy the premium positioning but we live in an era of the massification of the luxury where brands are accessible to a greater number of people and promotions and discounts are part of the reality. Finally, trained staff is mandatory. The buyer and the consumer may not be the same person in the luxury business, as Chinese people are really into gift

giving. As an effort to win the *face* in order to maintain *guanxi*, gift giving is a huge business in China and brands must have staff with fashion sense, capable of advising and capable of constructing trust, therefore *guanxi*, therefore customer loyalty.

In third place, it is important going to where the money is. This means locating stores in the coastal areas, where the wealthiest people are and the sense of fashion is greater. However, not being sophisticated does not necessary mean one does not have millions. Although the interior lands are known to be less open-minded, there are many wealthy cities to be considered.

Whatever the location is, never loosing the ability to experiment is a competitive advantage; trying out consumers is agreed to be the best way to predict them. Moreover, brands must have a website, a luxurious website. The number of internet users grows every day and people in China are proactively seeking new fashion trends worldwide. It is mandatory to have an electronic platform where the products can be consulted, generating a climax of trust and desire. Additionally, it is important to bear in mind that China is a highly collectivist country where people are extremely influenced by the others. It is like a buzz, where the most talked-about brands are the ones socially accepted to wear. Thus, having good relations with the media is extremely important.

People in China are really following Deng Xiaoping's philosophy "To get rich is glorious" and they make sure they show it off. Brands just need to adapt properly to Chinese behaviours over western brands. The desire is there; the money for sure is there. Luxury is booming in China and it is the perfect timing for Portuguese brands to have a share in the country's luxury garment market.

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