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Has 'Made in China' become the new 'Made in Italy'? The development of Chinese luxury brands in the Chinese luxury fashion market

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Has 'Made in China' become the new 'Made in Italy'?

*The development of Chinese luxury brands in the Chinese luxury
fashion market*

Abstract:

China has been important for the global luxury industry in the last decades. A recent trend in the Chinese luxury industry has been the growth of Chinese luxury brands, however, literature mostly focuses on the influence of Western brands in this industry. This thesis therefore analyzed what factors have had, and still have, the biggest influence on this quick rise and success of local Chinese brands in the Chinese fashion luxury industry. This is done through a combination of the meso-, and macro-environment analysis of the industry. Porter's five forces model and the DESTEP-model have been used to realize this. The results have shown that there are multiple factors that have contributed to the growth of upcoming Chinese brands in this industry. The factors that can be considered as most beneficial are the easy to enter market, growing sense of nationalism and the growing importance of sustainability.

Keywords:

Chinese luxury fashion industry, Chinese luxury brands, meso-environment, macro-environment.

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1. Introduction

The global luxury industry is huge, in 2023 the total market size was valued at over \$350 billion. The fashion luxury industry is the biggest segment as it has a market value of over \$111 billion (Statista, n.d.). The industry is still expanding, enjoying a steady growth of 4-5% since 2013. It is expected that this trend will continue through 2025. Gucci is an example of this growth as the brand experienced an increase in revenue of 36.9% in 2018, the most rapidly growing brand in this industry (Cabigiosu 2020, 21-22). Worldwide luxury fashion is characterized by the volume of Chinese buyers, which amounted to 32% in 2019. Their share has grown by 2% compared to 2018. Over the past ten years, China has accounted for 70% of the expansion in the luxury fashion market segment, and this dominance is predicted to continue till at least 2025. Chinese consumers are expected to drive the growth of the luxury industry, with the boost provided by the rising middle class (Cabigiosu 2020, 23).

This is not without reason, as the Chinese have had a long history with luxury products. Particularly during imperial times, China was known for its unique silk, refined teas, and more (Rovai 2016, 134). However, during the beginning of the People's Republic of China, the production of luxury items had come to a halt. At the time of Mao Zedong's reign luxury was not permitted among the public, to much dismay from the economic elite of that time. Only after Deng Xiaoping's reforms and the opening up of China to foreign investment in 1978, the concept of luxury products was brought back to the Chinese and China. Deng's motto in the 1990s, 'Get Rich is Glorious', motivated people to earn wealth. The Chinese who were able to achieve this started to have new needs, which was the need for luxury to differentiate them from others. Since this increase in wealth the luxury market in China has grown enormously, and it put China on the agenda of Western luxury companies. Many luxury brands opened their first stores throughout the nineties, and have since then spread across the country (Rovai 2016, 98; Daxue Consulting 2020).

Across the world, the Chinese are known for their love of international luxury brands, such as Gucci, Chanel, and Hermes. China's luxury sales have grown exponentially since 2010, and the country has even become one of the world's largest markets for luxury goods. For example, luxury spending by Chinese shoppers grew from a meager 1% of global luxury consumption in 2000, to a massive 33% of global luxury sales in 2018 (Wang 2021, 463).

Next to this, there is an increasing number of wealthy customers willing to buy luxury products due to the rise of the middle-income group. They can be considered as a new customer segment in China (Rovai 2016, 2). However, the kind of products that are longed for by the Chinese is changing. China's more sophisticated consumers are now looking for luxury brands that can ensure personalized service, exclusivity, and high quality in less visible goods (Rovai 2016, 24). And this is where Chinese luxury brands can diversify themselves from international luxury brands, as Western brands still need to learn how to adapt to Chinese culture (Oswald 2016, 52). For example, Chinese consumers believe that local luxury brands have a deeper understanding of their specific taste through customization. This is because local history, culture and craftsmanship shape Chinese

luxury brands. This makes them more easily able to adapt to what Chinese clients want (Daxue Consulting 2022 A, 6;9).

China used to be known as the 'factory of the world', and the term 'Made in China' had a negative aspect to it, as it was considered cheap and low quality (Rovai 2016, 57). However, this has changed over the last few years. The quality of products has improved immensely, especially for products that can be considered a luxury. A survey of 5,000 consumers in 15 Chinese cities found that the share of respondents who say they would buy a local Chinese brand over a foreign brand has increased from 15% in 2011 to 85% in 2020 (Zipser, Seong, and Woetzel 2021, 7). Chinese consumers are choosing local brands for their quality and innovation, and not just because of low prices or from a sense of national pride. According to Daxue Consulting (2022 A, 10;17), some of the reasons why the Chinese brought local luxury brands is the value for money and their innovative design. The preference for Chinese brands is seen as an enduring shift, noticeable in other industries as well (Zipser, Hui, Zhou, and Zhang 2022, 24-26).

So while the Chinese luxury market has been dominated by the Western luxury markets since the 1990s, the number of domestic Chinese brands has been on a steady growth as well. For example, the first Chinese luxury brand opened its doors in 1994. The brand *Shanghai Tang* is a Chinese luxury brand that takes inspiration from ancient China with carefully selected natural raw materials. In many of their collections, parts of Chinese culture and history have been taken as inspiration. It is a well-known brand, especially in Asia. It has two-third of their boutiques in Asia. Most stores can be found in China's tier-one cities, but also smaller cities in China have *Shanghai Tang* stores (GMA 2013). Thus, since the reopening of China by Deng Xiaoping the country has become relevant for the luxury industry, if not a very important part of it. Especially since recently more and more domestic brands are entering the luxury market and challenging the already existing Western luxury brands.

However, before turning to the research of this thesis on the luxury industry of China some of these already acknowledged terms have to be discussed first. For example, the vague concept of luxury. An universally recognized definition for luxury goods does not exist in literature, however, there are general characteristics shared between these products. Examples include high price, superb quality, heritage and reputation of the brand, exclusivity, and inaccessibility (Gao 2009, 10-11). A luxury product may be viewed as a status symbol and become more desirable when the price is higher (Li et al. 2021, 161). To describe luxury, this research will follow the elements mentioned above. According to Li et al. (2012, 1517), there are also certain characteristics on how to identify success for a luxury fashion brand. These are global recognition, core competence, high quality and innovation, powerful advertising, immaculate in-store presentation, and superb customer service.

The Chinese consider price as the defining feature of luxury goods across all age groups. It needs to have a high price, otherwise it does not count as luxury. Other defining features are the profound history and the unique design aesthetics of a brand. The last two characteristics define Chinese luxury brands. According to Chinese luxury consumers, Chinese luxury brands are about their essence. They should draw from Chinese culture and history, employ local traditional craftsmanship and interpret modern design with Chinese eyes. Traditional features defining the country of origin, such as the nationality of the

founders or designers, are considered less important in labeling a brand as Chinese (Daxue Consulting 2022 A, 4;9).

In this thesis the research question “How and which factors of the meso-, and macro-environment have had, and still have, the biggest influence on the quick rise and success of local Chinese brands in the Chinese fashion luxury industry?” will be answered. This will be done by comparing which factors have had the biggest impact on the rise of Chinese brands. The reason why this question should be answered is because the luxury industry is growing immensely. Year-on-year growth of the industry in China has been positive for many years. Next to this, the luxury industry itself is also changing as the Chinese consumers have changing preferences. This dynamic economic environment and unique consumer culture make the Chinese luxury fashion industry an interesting market to study. Gaining a better understanding of the Chinese luxury shoppers behaviour should benefit the Chinese luxury brands as well, as it has potential to improve the relationship between the customer and brand. However, as it is a relatively new development this topic has been understudied. The literature that has already been written on the Chinese luxury industry focuses on the growth of Western brands only. Academic literature on the growth of Chinese luxury brands in its local market has been rare, and often only focuses on one or two factors that influences their growth. This thesis will therefore provide new information in this gap of literature by broadening the theoretical research.

This gap in literature will be diminished through a combination of a meso-, and macro-environment analysis in this thesis. A meso-analysis consists of research on the industry in which a company is located. In this case, the luxury industry in China. It will look at several factors that a company has a limited influence on, such as competition in the industry and the power of customers. The macro-analysis looks at factors that a company does not have an influence on, such as China’s demographic and political factors. Examples are the income distribution or government policies. The meso-, and macro-environment will be able to show what factors have had the most effect on the success rate of an industry, and a company itself. As the results from this research has shown, not all factors have an equal impact on the industry. The factors that have contributed the most to the growth of the upcoming Chinese luxury brands are the easy to enter market, growing sense of nationalism and the growing importance of sustainability.

2. Literature review

The international luxury industry is a topic that many have written about in both business and sociology literature. It is a global industry with revenue amounting to \$354.80 billion, of which the luxury fashion industry is the largest segment as it has a market value of \$111.50 billion in 2023 (Statista, n.d.). Therefore it is unsurprising that much literature has been written about this continuously growing industry. However, instead of focusing on the global industry, this thesis will research the luxury fashion industry in China. Focusing on one specific country already limits the amount of research done, but as China has a growing economy for the luxury fashion industry there is still a lot of relevant literature available.

The vast amount of literature on China's luxury fashion industry concerns the presence of international luxury brands. For example, Li (2012) researched the development of international luxury brands in various cities in China. He found out that these international brands are still growing in numbers in more and more Chinese cities. Lin and Shi (2017, 132) agree with this conclusion, as they state that "China's luxury market still has a huge development space" and therefore there is still space for more of these international brands in China. Researchers often focus on the success of international luxury brands. For example, Cui et al. (2015) conducted a case study to research how international luxury brands will be able to succeed in China.

This shows that there is a lot of focus on international brands in China, however lots of factors also depend on the Chinese themselves. For example, research has been done on the cultural factors of the purchase of a luxury product (Perry, Ye, and Barnes 2020; Heine and Atwal 2022). Besides cultural factors, political factors are also a frequently researched topic. Bartikowski, Fastoso, and Gierl (2021) studied how nationalistic feelings affected the luxury market in China regarding brand reputation. Next to this, Kuo, Huang, and Huang (2023) researched the political regime in China and how it influenced the purchasing behavior of luxury products.

The growing influence of technology, especially the use of the internet, has also benefited the luxury fashion industry in China. According to Zipser, Seong, and Woetzel (2021) and Assembly (2022), the number of Chinese that use a digital environment to purchase their luxury goods is ever-increasing, especially since the COVID-19 pandemic. Li (2021) concludes that this development of increasing online shopping can be a development that could be very useful to companies selling their products in China. That is why it is expected that the percentage of the revenues of fashion companies invested in technology will be doubled in 2030, from 1.6-1.8% to 3.0-3.5% (Balchandani 2022, 2-3).

Another recent development in the Chinese luxury fashion industry is the *Guochao* movement. According to research by Daxue Consulting (2022 A, 16), "*Guochao* has been a prominent trend accelerating the emergence of many local brands". This movement aims to revive the traditional customs and art of China. Instead of following Western trends, the Chinese want to become trendsetters themselves. The trend makes the Chinese purchase more of their luxury goods from local brands, therefore it has to be considered when researching the Chinese luxury industry as it changes purchasing behavior. Next to this,

most followers of the *Guochao* movement are from the relatively younger generation in China. This group accounts for at least 15% of the luxury spending in China. Considering that the percentage of this part of the population is increasing, their influence in the luxury industry is also increasing (Daxue Consulting 2022 A, 15-18). This is a group that purchases goods differently from the previous Chinese generations, according to Perry, Ye, and Barnes (2020, 4-5).

Continuing with the growing consumer base in China, there are also changes happening in this group. According to Perry, Ye, and Barnes (2020, 5), “Chinese luxury consumers’ knowledge and tastes have evolved significantly” over the last decade or so. Their preference has changed from highly conspicuous items to favoring quieter and more exclusive pieces. They are focusing more on the quality of the product instead of using a brand as a symbol of wealth. This change can be considered as a cultural change when buying luxury goods, slowly stepping away from collectivism and turning to more Western consumerism and materialistic urban lifestyle (Perry, Ye, and Earned 2020, 5).

The question is if this change in the luxury market can be seen as the turning point for ‘Made in China’ goods. Especially since slowly more and more Chinese luxury brands are gaining momentum and trying to compete with international luxury brands (Daxue Consulting 2022 A, 8). Some examples of these upcoming Chinese brands are *Ms. Min*, *Ming Ma*, and *Angle Chen* (Li 2021, 161). All three of these brands are owned by Chinese designers whose style blends traditional Chinese and modern Western fashion. They have been presented at several Fashion Weeks for several years now. While some Chinese shoppers are still hesitant to purchase locally created luxury, JWT (Vaughn 2012) does predict that China will increasingly try to overcome its perceived leading customer market role and try to develop home-grown luxury brands to compete with international luxury brands, not only at a local level but globally as well (Rovai 2016, 77;135). This change is all due to the improvement of the production of luxury products in China. For example, traditional Chinese brands are starting to reimplement traditional craftsmanship techniques from Ancient China (Daxue Consulting 2022 A, 9).

The conclusion is that almost every piece of literature suggests that Chinese brands will slowly become more prominent participants in the Chinese luxury market. However, the academic literature only deals with individual factors separately from each other. Almost all researchers only focus on one or two factors that might be influencing the Chinese luxury market, most of the time also not even discussing the fashion sector of the industry. For example, Sun, D’Alessandro, and Johnson (2014) article focuses on Chinese cultural values and political ideologies only. However they do suggest that future research should explore the link between these values and ideologies, and how this influences the individual Chinese. This is, for example, something that this thesis does touch upon. Next to this, Yu, Yu, and Liu (2022) have researched the priming effect of patriotic and nationalistic views on specific products. However, these were relatively simple everyday products. They suggest further research on how the nationalistic ideals would have an influence on China-made products signaling prestige and social status. This thesis provides one, as it has a focus on China-made luxury products, thus high prestige goods. Finally, another article by Sun, D’Alessandro, and Johnson (2016) on luxury value perceptions suggests that further research should also develop multidimensional research that measures the unique values separately. While this thesis does not provide an actual scale, it does analyze how individual

factors influence the perceptions of the Chinese on the luxury industry. Ultimately, the academic literature misses a complete overview of the Chinese rise in the luxury market, which also shows the relation between the multiple factors.

Therefore, this research will provide one through a meso-, and macro-environment. The factors used in this analysis will show what has affected the Chinese luxury fashion industry the most. It will try to give an overview of the general environmental factors that could have influenced the rise of Chinese luxury brands in such a relatively short time period. Its impact will be measured by what effect a factor might have had on the industry. Next to this, this research will also compare the different factors and show the relation between them. It will be analyzed which factors would have the most influence on the market.

By providing an analysis of the environmental factors of the luxury market in China, this thesis might also be able to provide new information as well. Some of the external factors discussed in this thesis are competition in the industry, demographic factors, and technological factors. The new information can be, for example, the recent COVID-19 period which might have also changed the future of the luxury market in China. It can be questioned if declining sales during the lockdowns have permanent influence or not. Just like the *Guochao* movement and the development of luxury purchases online might have. There is not much concrete literature yet on these topics, especially focusing on China, so the intention of this thesis is also to analyze how these trends are changing the luxury fashion industry.

3. Theoretical framework and methodology

Most research on the success of the Chinese luxury industry is done through the use of just one environmental factor. However, there are actually several factors that influence the success and growth of an industry. These range from political factors to the threat of substitutes in the industry. A type of research that is often used in the business literature to research the success and profitability of a specific industry, is an analysis of the meso-, and macro-environment (IBISWorld 2020). IBISWorld (2020) suggests that it is most helpful to use a framework like the Porter's five forces model or DESTEP-model. These will, consequently, be used in this thesis to research the meso-, and macro-environment. The model by Porter aligns with the meso-environment, and the DESTEP-model with the macro-environment. Further explanation will be given later in this chapter. This thesis will employ such analysis as it delves beyond individual factors to provide an overarching examination of all influential factors affecting a particular industry.

Normally this kind of external analysis also consists of the micro-environment, however, this will not be used in this thesis. This is because the micro-environment focuses on the actions and relations within a company, and not on industrial or economic policies. This environment would normally be researched through the use of the 7S-model by McKinsey (Bos 2023). This model is used to identify what the strengths and weaknesses are within a company itself, looking at strategy, structure, staff and more (Knoot n.d.). This analysis is outside of the scope of this thesis, as the focus lies on multiple companies and the larger industry as whole, instead of the internal factors of individual companies. The factors that will be focused on in this thesis are on the transactional and contextual level, which means a company would have less or no influence on it. The information about the Chinese luxury fashion market itself is more useful to answer the research question, than the information about a specific Chinese company itself.

The meso-environment analysis can also be called an industry analysis. It is used to understand the nature of the relationship within its industry (Drummond, Ensor, and Ashford 2007, 26). The analysis is on forces that an organization is not able to have an influence on, but which do have to do with the supply chain of an organization (Kotler et al. 2003, 51). During a meso-analysis there is a focus on just one industry. This makes the research more reliable as every industry is different, with different threats and opportunities (Bos 2023). The five forces model by Porter can be used to research the meso-environment. This is a widely used strategy of doing research on the meso-environment, which makes it a reliable model to use (Bos 2023). This model aims to determine the competitive intensity and attractiveness of an industry in terms of its profitability. By determining this, this thesis wants to research what factors in the current luxury market in China are favorable for local Chinese brands to be successful. The five forces model consists of five factors: threat of new entrants, buying power of customers, supplier power, threat of substitutes, and the competition in the industry.

The threat of new entrants analyzes how easy it is for new companies to enter an existing industry. It will, for example, look at the switching costs for consumers and the legislation in an industry. Companies in an industry that is difficult to enter are generally better at keeping

their profitability, as they have less competition. The power of consumers is about how much the consumers can influence a company. This depends on the importance of the products, the information available, and the interest to the consumer. To show the power of suppliers, this group can influence the prices and quality of materials needed for producing. Suppliers can raise the prices if they need to, and the other party is not able to disagree as they need the materials. This influence depends on similar factors as the consumer power. Analyzing the threat of substitutes is of importance as well. The presence of substitutes within an industry diminishes a company's monopolistic power, thereby influencing its business operations and strategies. Lastly, industries with relatively high competition have less enticing margins and profits than industries where brands can create a niche. This competition within an industry mostly depends on high fixed costs, similarity in niches, and potential barriers (Bos 2023). By using these forces, the Chinese luxury brands can assess various opportunities and threats to better understand their competitive advantage, mitigate risks and reduce costs during operation (IBISWorld 2020).

There are also other, less known, ways to do an analysis on the meso-environment. An example is the ABCD-model. It analyzes the customers, industry, competitors, and the distribution in an industry. The model itself is very efficient, as it is an easy and quick to use model. It also seems similar to the model by Porter, however there is a critical part missing in the ABCD-model. A disadvantage is that you will leave out external partners and the general public in this model, while they could be of influence on the results of the meso-analysis and the strategy that a luxury brand must take (Van der Linde n.d.). Therefore, the five forces model by Porter has been chosen to analyze the Chinese luxury fashion industry.

The macro-environment examines a broad range of independent issues that may affect an organization. Examples are political or cultural issues and technological developments in a specific location. There are quite a lot of factors that influence this environment, ranging from the government to the public itself. However, it has to be noted that not every factor of the macro-environment would have influence on a specific brand. This has to be kept in mind during this research (Bos 2023). A new policy on grain would not affect a luxury brand as much as a new government policy on linen. However, as most factors are of influence, analyzing the macro-environment is essential. The model used most often to analyze the macro-environment is the DESTEP-model. This model consists of six different factors that help brands to grasp the external environment and strengthen their strategies by finding areas of opportunity (IBISWorld 2020). The factors are demography, economy, social-cultural, technological, ecological, and political. These will likely create changes in the environment outside of a brand, and can therefore be understood as factors that will affect industries and organizations (Drummond, Ensor, and Ashford 2007, 24-26).

The demographic factor is about analyzing the size, growth and composition of the population. As, for example, the younger generation wants a different product than the older generation, it can influence what kind of products companies offer. Economical factors can determine the potential success of a company, especially the growth of the national economy and income is important to predict this. A higher income would have a positive effect on the purchasing power, and a potential positive effect on the sales as well. The social-cultural factors are about the social norms and values of a country. This factor analyzes what social norms are most important to the natives and determines how a company can, for example, set up their marketing to conform to these norms. Technology

has become a more important factor in recent years as well. It is quite essential for the competitive position of companies. Thanks to the improvement of technology, there is a continuous improvement of goods and services. More consumers use technology to purchase products as well, which changes the way people do shopping. The ecological factor has also recently become more important. Consumers are starting to care more about the effects on the environment when they purchase goods. They are expecting that more and more companies will produce sustainable products, and companies have to adapt to this to be able to prevail. Lastly, political factors can influence an industry quite a lot. For example, the implementation of regulations can have an effect on prices, economic growth, and more. A company has to be aware of these rules as they must follow them (Van der Stek n.d.).

There is also a shorter version of the DESTEP-model called the PEST-model. This model only consists of political, economic, social, and technological factors (Drummond, Ensor, and Ashford 2007, 24). This thesis will use the DESTEP-model instead of the PEST-model, as it is a more elaborate model. It will provide more information about the non-influenceable factors in an industry that can affect a luxury brand as it has two more factors that it will analyze.

Researching the macro-, and meso-environment of the Chinese luxury industry will be done through the use of primary and secondary data. An example of primary data that will be used in this thesis are official reports, such as reports from the Chinese government. The secondary data will come from literature in which other research has already been done, or overviews of statistics needed to answer the research question. Other ways of collecting data, such as individual interviews, might not be as efficient for this study. Interviews would be more efficient if the micro-environment of an industry would be researched as well, as these would most likely identify the strategy within a brand. However, this thesis has a focus on the whole industry of luxury fashion in China. Information regarding the full industry is necessary, which comes from broader literature. Next to this, due to geographical limitations it would be difficult to be able to set up interviews with people who work for Chinese domestic brands as these would most likely be located in China itself.

This thesis is based on two academic disciplines of literature. As this research will focus on the luxury fashion industry in China, it has multiple disciplines of literature to consider. These two would be business studies and sociology. Business has been chosen due to the way this research is set up. The external analyses of the luxury fashion market will be done through the meso- and macro-environment of the market, and thus fits into the business discipline. Sociology has been chosen as an academic discipline as well, the biggest reason for this is that this thesis is about the study of Chinese society. It studies the actions of Chinese luxury consumers in the Chinese luxury fashion industry. Next to this, to match the study of sociology, this research also goes in depth on topics such as social status, social movements, and social change in China. The way information is gathered for this research also fits into these two disciplines. Data is mostly gathered from a variety of reports or from official government records. Examples are Hurun Report or the National Bureau of Statistics of China, who provide yearly or monthly statistics on China.

4. Meso-environment

4.1 Competition in the industry

Generally, China is the most competitive market in the world, especially for the luxury industry. Entering the Chinese market means a company has to face seven times more competition than anywhere else in the world (GMA 2022 A). There is a lot of competition in the Chinese luxury industry as this market is dominated by big Western luxury brands. The Western brands can already benefit from their global awareness, while newly entering companies do not have this advantage (GMA 2022 A). The top luxury brands possess a majority of the market, for example, LVMH is valued at roughly 300\$ billion (Bowman 2023). Chinese domestic brands have not yet had the chance to achieve this. Especially as, according to Daxue Consulting (2022, 13), the brand identity among domestic Chinese brands still lacks in luxury segments that are dominated by foreign companies. Therefore, in this aspect, the Western brands have a better position in the Chinese luxury market than the domestic brands do.

Next to this, these Western luxury brands offer similar products and services as the Chinese luxury brands. They target and attract the same kind of consumers. For example, they both design and manufacture fashion and accessories for luxury consumers (Daxue Consulting 2022 A, 12). They are the high-end competition for the Chinese luxury fashion brands, but there is also the group of mid-range brands which are relatively lower priced (GMA 2022 B). These businesses offer different products and services, for example the quality of it differs, but do target a relatively big portion of the same customers as the higher-end luxury brands. As these Western brands, high-end and mid-range, offer similar products as Chinese brands they can be considered as direct competitors, and thus hinder business for Chinese luxury brands.

Another kind of competition for the luxury Chinese brands can be luxury retailers, like malls or websites such as Farfetch. These places sell a combination of luxury brands in one place, making it easier for a customer to buy from multiple brands at once. They have the possibility of taking away consumers from the luxury brand itself. This would not be beneficial for the revenue of a brand, as selling directly to the consumer is usually more profitable than selling through retailers and distributors. If there are more parties involved in the selling of a product, more parties need a share of the revenue (Muis 2023). So far, Chinese brands are more reliant on these retailers as they have less physical stores than the Western brands have. Therefore they are giving a larger portion of revenue away to retailers. In combination with the fact that around 50% of luxury consumers, who shopped between June 2020 and June 2021, purchased luxury items online this would not be a beneficial strategy to the growth of Chinese brands (Ma 2021).

However, it has to be considered that online shopping is gaining more popularity in China as digitalization is increasing. In combination with the effects of the Covid-19 pandemic, much of the consumer's activities has moved online. Xing (2022) estimated that online personal luxury sales grew almost 56% in 2021, while offline sales only grew about 30%. This is a

phenomenon that domestic luxury brands could take advantage of if they are able to exploit it efficiently. It would be an efficient way for Chinese brands to bypass their problem of not having many physical shops, as people are more easily able to find them online. One of the Chinese luxury brands that does this efficiently is *Bosideng*. This brand is from Chinese origin and has become a global favorite with their efficient and high-class jackets. Their Chinese heritage is shown in the modern use of Chinese characters on the clothing they offer. In their annual report of 2022/2023 they state that online sales channels have been a key focus of the brand. During 2022, the revenue from the total online sales of *Bosideng's* brands was approximately RMB 915.8 million, representing a year-on-year increase of 29.6% (Bosideng 2023, 34-35). This example shows that focusing on online shopping by Chinese brands is indeed successful. Combining this year-on-year increase of online sales with the fact that the online presence of the Chinese, especially that of the youth, is becoming bigger as well, Chinese brands could gain an advantage by setting up an efficient online store.

According to Aydin and Dimitrova (2019), luxury buyers are attracted to the long history of Western luxury brands. Western luxury brands often have a long brand history. This makes it easier for Western brands to have the ability to sell a dream or a story to a consumer (Roberta 2021). This effect would give Western luxury brands an advantage over Chinese luxury brands as they do not have such a long history. However, instead of using their own history as a brand, Chinese brands draw from Chinese millennium-old history and culture. They employ traditional craftsmanship techniques in order to interpret modern design through a Chinese lens (Daxue Consulting 2022 A, 9). For example, *Shanghai Tang* offers collections that are steeped in Chinese culture, aesthetics, and craftsmanship (Shanghai Tang n.d.). According to Daxue Consulting (2022), this strategy is effective as most Chinese luxury buyers think these features represent Chinese luxury, and would therefore be more enticed to purchase from a Chinese luxury brand. This characteristic could then diversify Chinese brands from Western brands, which would simultaneously improve their position in the luxury industry as they have created their own niche market.

Lastly, the price of Western luxury brands is very high in the Chinese luxury industry. The prices of Western brands are often 30% higher than they are in the brands' country of origin located in Europe. Therefore quite a lot of rich Chinese travel to Europe to buy their luxury goods there instead (CPP-Luxury 2023). That is why two-thirds of Chinese consumers' personal spending on luxury goods took place outside of China (Morgan Stanley 2023). This does not work in favor for Chinese brands as it means that money of the Chinese is spent outside China, on non-Chinese brands. However, as the main reason for Chinese luxury consumers to buy Western luxury goods outside of China is thanks to the sharp price difference the Chinese brands have potential to gain a better position on the market. The Chinese brands may be able to offer lower prices than their Western competition. The Chinese brands can do this due to local production and traditional craftsmanship of their products (Daxue Consulting 2022 A, 9). By keeping production local, brands can keep their costs lower than brands who produce outside of their country of origin. This would benefit the position of Chinese brands in the industry.

4.2 Potential of new entrants into an industry

The luxury fashion market in China has grown immensely in the past few years and is still expected to grow in the upcoming years. This makes it a profitable market to join as a new brand. For example, due to the growth of middle income groups in China. This means that brands have a logical reason for entering this industry. Due to the prospects of this market, new entrants therefore have the potential to realize huge rewards for themselves. This reward makes taking the risk of entering this market worth it for companies.

This potential of a high reward is important for new entrants into the industry as there are barriers to entering. To start off as a brand in the luxury fashion industry a high amount of capital is needed. Setting up a well-functioning brand takes a lot of time and money, which are also in short supply when a brand is first starting out (Jing Daily 2011). However, investments in the Chinese luxury industry, by Chinese and Western investors, have been on the rise. It is expected that Chinese companies will take more active roles and exert a greater influence in deal making in the luxury industry (Wei 2021; Atwal 2023). Due to this rise of investments in the Chinese luxury industry, upcoming Chinese luxury brands have a higher chance of receiving investment. This would make their entry into the market easier, as they have larger funds to start with. For example, they are able to use higher quality materials or a bigger marketing campaign.

Generally the startup costs of a business depend on the size of the brand. For example, small to medium size clothing businesses would need between 500\$ and 5.000\$. However a large fashion brand will need much more. These costs can add up to 50.000\$ (Rittenberg and Main 2022). It has to be kept in mind that this might be even higher for luxury brands, as their production costs can be higher due to more expensive materials. Production and materials have always been a big percentage of the costs, but in recent times these costs have risen due to economical and political situations. For example, inflation and the Russian-Ukrainian war (BoF Team and McKinsey & Company 2022). This is something that has to be considered for a brand just starting out, as it will need a bigger starting capital than it would have needed before.

Besides needing a minimum starting capital to afford selling a product, it is also required by the Chinese government. The Chinese law also asks starting companies to have a minimum registered capital requirement. However, this amount may vary based on certain activities and location of the starting company (CMS n.d., 11).

Generally, the Chinese government is not very involved in the legal framework of the luxury fashion industry. The framework is hardly different from other kinds of consumer products, and is therefore only a lightly regulated industry (Jingtian and Gongcheng 2021). This means that there would be less barriers for new entrants, and therefore would be easier to enter the industry. While the other factors might have a negative impact on the starting funds, considering that investing in the Chinese luxury fashion industry is becoming a bigger trend these restrictions would not be very much of a problem. Brands, with a good marketing plan to start off with, should be able to receive, at least partly, enough starting funds to be able to enter the luxury industry in China.

Companies are only able to succeed if they attain customers. Compared to other countries, this will be easier in China. According to a survey by TMI and BCG (2021, 15) less than 40% of consumers claim to be loyal to specific brands. Another reason why it is easier to attract Chinese consumers is due to their presence on the internet. As 50% of Chinese luxury consumers purchase their luxury goods online, and spend increasingly more time on the internet it is an easy and relatively low-cost way of attracting new consumers (Ma 2021; Slotta 2022). Due to their low loyalty and online presence, changing the brand they purchase from is less of a hassle. Therefore their switching costs between brands is relatively low. This means that gaining consumers for a new entrant is less difficult in China than in other places. Thus, settling into the Chinese luxury industry as a new entrant is definitely achievable.

To conclude, there are some barriers for new entrants entering into the luxury fashion industry, such as the capital that is required to start. However, generally, there are favorable circumstances to enter. This factor in the meso-environment would therefore work positively on the growth of Chinese luxury fashion brands.

4.3 Power of suppliers

The supply chain is very important for a luxury brand, especially for those who base their identity on the promise of high quality products. Without a supply chain a brand cannot sell their products in a quality that they promise to their customers (Shen et al. 2020, 1).

Generally, Western luxury brands are slowly diminishing the power of suppliers by investing in nearshoring and vertical integration. This development was mostly caused by the Covid-19 lockdowns, rising inflation and the strong competitiveness in the industry (Bindi et al. 2021, 2). Brands investing in their supply chains have a better understanding of how suppliers operate and manage their own businesses, which leads to greater knowledge in terms of the process and how to improve their own supply chains. This will ultimately lead to luxury brands being able to more easily scale up their production capacity (Seares 2023). While Western brands are not completely separated from external suppliers, the suppliers do have a lot less power.

In the case of Chinese brands, they are in close proximity with their suppliers which gives them an advantage during negotiations. An example is the enormous use of silk by luxury brands. Silk shows quite a lot of Chinese characteristics as it is mostly produced by China and has been quite an important trade product in Chinese history, therefore chosen as an example. However, other luxury brands are a big user of the material as well (Wee 2017). The fabric is hard to produce, and due to worldwide shipping costs moving silk from its point of origin to the end consumer is expensive (Sewport Support Team 2023). Thus, the production of silk is located most often in China, which is an advantage for Chinese brands. It creates a short link between the supplier and the brand. This means that the suppliers of silk have less power when dealing with Chinese domestic brands than with Western brands. Next to this, as there is a short link between supplier and brand negotiations might also be easier between the two parties. For example, Chinese brands can negotiate a lower price as there would be less transport costs than to locations outside of China. As silk is a very

expensive material this would be very beneficial for Chinese brands (Sewport Support Team 2023). So due to local brands' close proximity to its suppliers, the brands gain power over their suppliers.

However, comparing the Chinese strategy to the one from the Western luxury brands, the Western brands will probably still have more power over the suppliers and production line. The Western brands have been in a process of eliminating various links in their production line, this would mean that there would be less suppliers they have to negotiate with. The Chinese supply chain is still influenced by suppliers, while they might not have a lot of power. Every link in a supply chain demands a percentage of the revenue for their contribution to the product, costing the Chinese brand eventual profits. This means that the Western strategy is probably more beneficial for the final outcome and revenue of the product, but it does not mean that the Chinese supply chain is inefficient. They are still better off than other brands, who do not have such close proximity to their suppliers or integration of their supply chain as an advantage.

A reason suppliers could obtain power over the luxury brands is because the products they supply are often scarce. Not a lot of companies are able to supply fashion brands with the high quality, and often rare materials such as exotic leathers. However, in combination with the fact that Western brands are bringing their supply chain more in-house, and Chinese brands are often in close proximity with the suppliers, the power that suppliers would have is lowered. Thus generally, the power of suppliers in the luxury fashion industry is not very high.

4.4 Power of customers

The power of customers in the luxury fashion industry is high. This industry is much smaller compared to similar industries, such as the fast-fashion industry. For example, the revenue in the luxury fashion industry amounts to \$111.50 billion, while the revenue of the global apparel market is around \$1.53 trillion (Statista n.d., B; Statista n.d., C). Thus the luxury fashion industry does not even contribute 7.3% to the global fashion industry. As this is such a small percentage, the number of consumers is also much lower than the number of consumers for the global apparel market. However, this means that every individual luxury consumer has more influence on a brand than a consumer from a non-luxury brand. Each individual consumer has more power, as luxury brands who already have a smaller sales market wish to keep these valuable consumers. This is influential for Chinese brands, as they need to adapt to the wishes of these valued consumers. Losing one consumer in the luxury industry has a bigger negative impact than losing one consumer in the fast-fashion market where the market is bigger, as individual consumers in the luxury industry are worth more revenue.

Generally, Chinese consumers are less loyal to brands than people from other countries are. According to TMI and BCG (2021, 15), Chinese consumers tend to switch between brands and often have no preference for a specific brand. Less than 40% of Chinese consumers have brand loyalty. This means that the Chinese are quick to change brands which they purchase from, consequently this would not have a positive effect on brands as they lose consumers. For brands to keep their customers, they have to adapt to the needs and wants

of the Chinese luxury consumers. If not, they would lose these customers. This means that consumers have the power over these luxury brands, as they are adapting to the wishes of the consumer.

Luxury brands that are able to obtain more loyal customers consider them as their 'Very Important Customers' (VICs). They accounted for around 40% of the luxury market value in 2022, 5% higher than the year before. This group of customers want unique products and experiences (D'Arpizio et al. 2022, 3). The power of these VICs is higher than just one-time customers, as this group represents huge potential profits. Looking at the customer lifetime value, which measures the average customer's revenue generated over their entire relationship with a company, the VICs represent the 20% of consumers who are very profitable for a brand (Caldwell 2022). This group of customers are often very loyal customers who not just buy one product from one collection, but buy from all product categories that a brand offers. It is very important to manage these key relationships, luxury brands often hire entire teams to maintain these relations (CPP-Luxury 2022).

As a Chinese luxury brand who only just started, there is often not enough money or staff to set up such a team who maintain these relationships. Combining this with the fact that brand loyalty among Chinese consumers is already low, this would be hard for a Chinese brand to organize. Therefore, as other brands are able to keep these relationships it can be considered as a setback for the success of Chinese brands.

Another reason why the power of customers is relatively high in the luxury fashion industry, compared to other fashion industries, is that brands are eager to understand what their consumers want and needs are and adapt to those. They are investing huge amounts of money to research what their consumers would like to see from a brand (Pollfish n.d.). For example, it has been shown that customers have had an influence on the importance of sustainability. Consumers demand more sustainable products in the production of goods, during their use, and also their end of life. For brands it will have a positive influence on their consumers if they make the change to sustainable production, and if the products are made under fair conditions (Deloitte 2022, 6). Another example is the recent development of favoritism towards the revival of traditional customs among Chinese consumers. They want to urge brands to adopt and represent Chinese culture with Chinese eyes. This trend is especially gaining popularity in the younger generation of Chinese consumers, which is a consumer group that has growing importance in the industry. Therefore, to gain their approval brands have to adapt to this trend (Daxue Consulting 2022 A, 15-16). As Chinese brands focus on sustainability initiatives and their Chinese heritage, they have an advantage in attracting Chinese consumers. It seems like a favorable position for Chinese brands as they are adapting to what the needs are of Chinese consumers. Their willingness to adapt will attract more customers for their brand.

Concluding from this, the power of consumers in the Chinese luxury fashion industry is quite high. They are able to influence brands to conform to their wants as brands want to keep their customers. For example, brands take sustainability trends seriously as the consumers want it. In combination with the fact that the market of the luxury fashion industry is not very big, individual consumers also have more power over the brands they purchase from.

4.5 Threat of substitutes

The prices of luxury goods are constantly rising. Every year almost every luxury brand implements price rises on their products. For example, in 2021 Louis Vuitton had an average price increase between 6% and 7%. So far, the consumers have been accepting these continuously increasing prices (Loeb 2022). However, not every consumer is willing or able to pay for such expensive products. That is why these people would choose a substitute for the luxury brand product.

One of the substitutes consumers can choose from are products from non-luxury fashion brands. These brands can offer similar design as designer brands, but for a much lower price. Sometimes these substitutes could be almost identical to the real version, especially stores like Zara and Forever 21. They are frequently accused of crossing the line between being inspired by a designer and copying the item entirely. They have faced multiple lawsuits already from designers such as Diane von Furstenberg (Hanbury 2018). A Chinese example of such a brand is MJ style. This is one of the mid-range Chinese brands which can compete with brands like H&M and Zara in China itself. This is because the brand has relatively high quality, while still being reasonably priced (GMA 2020). Even mid-range fashion brands have the potential of gaining more and more success. The trend of emerging nationalism among the Chinese, especially among the youth, is also visible in non-luxury Chinese fashion brands (Lee and He 2021). This shows that Western brands, and notably the non-luxury brands, might have a challenge in China due to this recent trend. Consequently improving the success rate of Chinese brands in China.

Another kind of substitutes for luxury products are counterfeit products. These have even lower prices than the non-luxury brands, however their quality is inferior as well. The low prices are one of the reasons why people buy counterfeit goods, however Chinese shoppers purchase fake goods to appear more high class and enhance their social status as well. Fake goods allow these individuals to consume prestigious brands without actually buying the high-quality goods (Daxue Consulting 2023 B). However, selling counterfeit products is illegal in China. It is specifically a crime to produce or sell counterfeits and trademark logos. Those who commit counterfeiting crimes face up to 10 years imprisonment and a fine (Wang and Zhang 2021). This fine can amount to 2 million RMB, which is equivalent to 290,000 US dollars (Daxue Consulting 2023 B). The Chinese government has a tough grip on the counterfeit market, and wishes to diminish it completely. In combination, the quality of the real luxury brands are way better, making counterfeit products a relatively low danger substitute for luxury brands.

The threat of substitutes is therefore relatively low in the Chinese luxury fashion institute. The people that purchase a lower-priced substitute are often not the group of people that luxury brands focus on, as they cater to consumers that can afford and are willing to pay the high prices. The quality of counterfeit products is also inferior to luxury products and is therefore no match to the luxury brands.

4.6 Discussion

Before turning to the discussion of the meso-environment of the Chinese luxury industry, table 1 will give a comprehensive overview of the different factors that have been discussed in this chapter.

<i>Meso-environment</i>	Positive effects	Negative effects
Competition in the industry	<ul style="list-style-type: none"> • Growing importance of online stores. • Chinese brands have created a niche market with their focus on Chinese heritage. • Prices of Western luxury goods are high. 	<ul style="list-style-type: none"> • Western luxury brands are already dominating a large part of the luxury industry market. • Western and Chinese luxury brands often sell the same kind of products. • The presence of luxury retailers.
Potential of new entrants into an industry	<ul style="list-style-type: none"> • The luxury industry in China and the Chinese middle-income group are growing. • Growing trend in investments in the industry. • High chance of receiving customers. 	<ul style="list-style-type: none"> • Minimum starting capital needed.
Power of suppliers	<ul style="list-style-type: none"> • Chinese luxury brands have close proximity to their suppliers. 	<ul style="list-style-type: none"> • The Chinese supply chain has more steps and parties involved than the Western supply chain does.
Power of customers	<ul style="list-style-type: none"> • Chinese brands are able to adapt to what Chinese customers want. 	<ul style="list-style-type: none"> • Individual consumers in the luxury fashion industry have more power than consumers from the non-luxury industry. • Low loyalty among Chinese consumers. • Challenge for Chinese brands to obtain VICs.

Threat of substitutes	<ul style="list-style-type: none"> • Low threat of non-luxury brands and counterfeit products. 	
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Concluding from the analysis of Porter's five forces model of the Chinese luxury fashion industry, the upcoming Chinese luxury brands have a considerable possibility of being able to succeed in this industry. As shown on table 1, the factor which has the most positive effects on the success of Chinese brands is the potential of new entrants into the luxury industry. Besides a growing luxury economy and middle-income group, Chinese brands have a higher chance of receiving investments and consumers as well. Especially the growing number of investments is important to overcome the problem of a minimum starting capital, which can be considered as a challenge to collect otherwise.

Other factors which have mostly, or only, positive effects on upcoming Chinese brands are the power of suppliers and the threat of substitutes. Products that can be considered as substitutes to luxury products are counterfeit products, and products from non-luxury brands. However, their threat is low as this is not a group of consumers that luxury brands focus on. Also the power of suppliers is relatively low, and therefore not much of a threat. While compared to Western luxury brands, the supply chain by Chinese brands is not the most beneficial, as it includes more steps and parties, it still keeps the power of suppliers low. The close proximity to the suppliers is still very beneficial to Chinese brands.

However, upcoming Chinese luxury brands also have challenges to overcome to achieve success in the luxury fashion industry. Power of customers and the competition in the industry have the most negative effects on the Chinese luxury brands. Especially customers have a big effect on the luxury brands. This is mostly because individual consumers have much more power than in non-luxury industries. Combining this with the fact that Chinese luxury consumers are not very loyal to one brand, and the consumers that are loyal are very hard to obtain by Chinese brands makes it difficult for brands to not adapt to the wants and needs of the Chinese consumers. As there is a lot of competition in the market, consumers can easily change to a different brand, mainly because the competition sells similar products. The switching costs of consumers is therefore fairly low, which makes direct competition in the industry a threat to the success of Chinese brands. However, Chinese brands have developed a tactic to overcome this problem by focusing on Chinese heritage to create their own niche.

Most often, Western brands do not realize, or only after quite some time that their approach is different from a Chinese approach. As the Chinese prefer different standards compared to the Western luxury consumer, Western brands can struggle to be fully productive in this market. This does, indeed, show that the Chinese consumers have quite some power over the luxury industry in China. However, academic literature often fails to acknowledge this and therefore misses an important obstacle for brands in the Chinese luxury industry. This thesis is therefore emphasizing that the Chinese themselves are an important part of the industry and cannot be ignored.

5. Macro-environment

5.1 Demographic factors

China is one of the most populous countries in the world with 1,425.7 million citizens in 2023 (WorldData.info n.d.). However, not everyone in China does or is capable of buying luxury products. The group of people who buy these goods is much smaller than the current population of China, nonetheless, this group is growing. The millennials, born between 1980-1995, represent the largest Chinese consumer group with over 350 million people. They are predicted to account for 40% of global luxury sales by 2024. Generation Z, born between 1996-2010, is gaining more influence in the market as well. They are the most open to new trends and influences, such as sustainable production. They will account for about 20% of the total spending growth in China by 2030 (GMA 2022 A).

This growing influence of the younger generation in China in the luxury industry is very important for domestic brands. The reason for this is that the young generation has a bigger preference for Chinese elements in their products, and perceive Chinese products as higher quality than the older generation (Daxue Consulting 2022 A, 18). Chinese brands focus on Chinese heritage in their collection and production, as these elements are becoming more important to the Chinese youth, so more youth are also inclined to purchase from the upcoming Chinese brands. This means that Chinese brands have a growing consumer group interested in their products. However, the younger generation of Chinese consumers are also less loyal to one brand. Compared to 30% of the post-'80s generation, 52% of post-'90s generation buy luxury goods outside of their most preferred brands (Kim, Luan, and Zipser 2019, 5). Nonetheless, this can have a positive impact on upcoming Chinese brands. As the youth is less loyal to one brand, there is a higher possibility that they will experiment with a new upcoming brand if it aligns with their preferences. Thus, there is a higher chance for upcoming Chinese luxury brands to attract consumers.

Women represent a significant segment of the luxury consumption in China. It was expected that their annual spending would rise from RMB 3.3 trillion in 2017 to RMB 8.6 trillion in 2022. This is caused by the structural change that women are able to receive higher education and that they have a greater participation rate in the workforce. For example, 56% of women completed secondary school while for men this is only 46% (GMA 2022 A). Compared to men, women are also more likely to focus on investments that generate positive social and environmental impact to help create a better future for the next generation. 98% of women in mainland China believe the most important factors to consider when investing relate to a company's environmental practices and positive impact on communities, and 93% want to adopt a responsible approach to investing in the future (Wan 2023). Their favoritism towards sustainable luxury brands can be a benefit for Chinese luxury brands. As will be discussed later in this chapter, there is a trend of sustainability among Chinese luxury brands. Because Chinese brands have adapted to this sustainability trend, they can attract a bigger consumer group as Chinese women will be more inclined to purchase from these sustainable Chinese brands.

The location of Chinese luxury buyers also influences their purchases. China has experienced large-scale urbanization, which was 65,22% in 2022 but has increased more than 40% since 1982 (National Bureau of Statistics of China 2023 A). The retail sales of consumer goods in three urban clusters, which are the Yangtze River Delta, the Pearl River Delta, and the Beijing-Tianjin-Hebei Rim, accounted for more than 43% of the country's total consumption in 2021 (Sun et al. 2023, 80). Cities besides the Tier 1 cities will also gain more importance in the luxury market. This is because these consumers have higher disposable income due to lower living expenses, and are thus likely to spend more on luxury goods (Sun et al. 2023, 3). Again, this can potentially increase the group of consumers that would be interested in purchasing from a Chinese luxury brand.

Consumers living in China's megacities focus on the experience they have during luxury shopping. It is essential to be offered good quality and high service levels, but unique experiences are also important for a luxury buyer. Such an experience can be an exclusive afternoon tea set in a brand's in-store cafe. Next to this, luxury brands should elevate the everyday experiences of buyers, as they are undergoing a shift in their attitudes towards everyday life. They are more likely to be in pursuit of a 'good life', ultimately buying products that will make doing certain things in their life more comfortable (Sun et al. 2023, 80). Such experiences can make a normal customer, a royal customer. However, as discussed before, upcoming Chinese brands often do not have the materials to professionally maintain such relationships. Therefore, these demands of luxury consumers can become a challenge for Chinese luxury brands.

There is a variation in the definition of luxury goods among the three city-tiers, domestic brands can diversify themselves from others and can focus on one tier-specific city. For example, tier-three cities focus on the uniqueness of a brand more than the tier-one and tier-two cities do (Daxue Consulting 2022 A, 7). This can prove to be beneficial for Chinese luxury brands. They can attract new customers in the lower-tiered cities by accentuating their differences compared to Western luxury brands. As Chinese brands focus on Chinese heritage they can diversify themselves from other brands, and present themselves as unique. This can attract the tier-three cities' customers, as they prefer to have unique luxury products.

5.2 Economic factors

Since the reform and opening up four decades ago, China has experienced unprecedented rates of economic growth. The country's GDP between 1978 and 2017 grew, on average, annually by 9.5% (Unicef 2018, 28). According to the National Bureau of Statistics of China (2023 B), China's GDP in 2022 was 121,020.7 billion yuan, which was an increase of 3% compared to 2021. After China's reopening after the pandemic, its GDP growth is expected to rebound to 5.1% in 2023 (Worldbank 2023). However, the domestic consumption of the economy in China is only 34% of the GDP. Compared to other countries, such as the USA with a rate of 71%, this is very low. This is because most of China's GDP goes to exports and investments. The Chinese government has been implementing strategies to improve domestic consumption, however, this has not been very efficient as recent data shows that the consumption has fallen again after a slight increase in the first months of 2023 (TLDR News Global 2023, 4:56-6:14). This decrease in consumption has a negative effect on

Chinese luxury brands. As Chinese citizens seem more hesitant to make purchases, the market for the Chinese brands will decrease as well.

After the Covid-19 pandemic, prices remained relatively stable in China (National Bureau of Statistics of China 2023 C). However, the general price of luxury goods in China is high. These prices can be up to 30% higher than in Europe, this is due to the higher margins in China (CPP-Luxury 2023). This would mean that the purchasing power of luxury buyers in China would be lower than if they bought the same luxury products in Europe. This would have a negative effect on the luxury market as the Chinese are less able to buy from luxury brands in China, which will consequently lower the profits in China.

It is expected that the middle class will expand. Speculations are that the middle class will be 75% of China's population in 2030, compared to the 57% in 2015 (GMA 2022 A). The Chinese in the middle-income groups are also slowly moving towards the ranks of the upper-middle and high-income class. Over the next three years, China is expected to add another 71 million upper-middle and high-income households (Zipser, Hui, Zhou, and Zhang 2022, 5). Between urban and rural areas there is also a big difference in disposable income. While in urban areas the average is 49,283 yuan, the rural areas only have 20,133 yuan. However, compared to 2022, the amount of disposable income of rural areas grew more than urban areas. Rural areas had a growth of 4.2%, while urban areas had a growth of 1.9% (National Bureau of Statistics of China 2023 B). The fact that the middle-income group, in rural and urban areas, is growing is beneficial for the Chinese luxury brands. The group of consumers is growing because of these trends, creating more potential customers for Chinese brands in the luxury industry.

According to the Hurun Report (2023), the high-net worth individuals in China have higher economic confidence than expected. The overall economic confidence index is 7 points. Especially under the age of 30 the rich are quite optimistic. Their index is worth 7.2. In 2023, the scale of China's total high-end consumer market reached 1.65 trillion yuan and the market size of luxury goods was 450 billion yuan. It is expected that the luxury industry will grow even more after the Covid-19 pandemic. For example, luxury apparel will increase by 5% and accessories will increase by 4% (Hurun Report 2023). This is an interesting perspective for luxury brands to know as they can take advantage of it. However, this surge in purchasing after Covid-19 can be caused by the effect that shops have opened up again after a long time. For example, people would have saved money and wished to spend this. Therefore, it can occur that this surge in demand could be short-term. This phenomenon would be called 'revenge-spending' (Morgan Stanley 2023). This does align with the fact that domestic consumption has already decreased again, after the short growth spurt at the beginning of 2023. Therefore, for the long-term this 'revenge-spending' is not beneficial for Chinese brands.

Concluding from information from the several reports mentioned above, the Chinese economy seems generally favorable. The positive prospects of the growth of the luxury fashion industry, combined with the growing middle-income group in China are setting up a favorable industry for the Chinese luxury brands. However, there are also some potential economic challenges for the luxury brands. The low percentage of domestic consumption and the government's struggles to boost this can be alarming for the industry. Next to this, the purchasing power of the Chinese luxury buyers is relatively low in China itself. In Europe,

they would be able to purchase more with the same amount of money. While China has opened up again and the perspectives of the industry seem positive, brands would have to be careful if this surge is not just short-term.

5.3 Sociocultural factors

China is recognized as a Marxist-Leninist society. For example, the Chinese government has played a proactive role in the central planning of the economy since 1949. Quite a lot of companies are still state-owned enterprises. The impact of such political influence is also noticeable among the Chinese citizens as well. There has been a growing sense of pride and nationalism among Chinese consumers, who are increasingly willing to support domestic brands. Recent trends indicate that the collectivist mindset had expanded to the recognition and identity of being Chinese (Sun et al. 2023, 71). According to Bram (2023), a reason for this trend is a real sense of pride among the Chinese public. An example is the *Guochao* trend. *Guochao* reflects the appreciation of Chinese consumers for the products that are rich in Chinese culture (Wu and Kim 2022, 408). The trend sparked the sentiment of nationalism and confidence in consumption among Chinese brands (Daxue Consulting 2022 A, 16). As Chinese consumers are valuing Chinese elements more and luxury is slowly becoming more about the culture and values of a brand, rather than just the product itself (Sun et al. 2023, 64), makes the Chinese luxury consumers more enticed to purchase from local Chinese brands. Therefore, the *Guochao* trend will ultimately lead to purchase intentions among Chinese consumers for local brands (Wu and Kim 2022, 414).

Next to this, consumer boycotts of foreign companies have become an increasingly common phenomenon in China, especially companies that are from Europe or the United States. Since 2016 there has been a steady increase, mainly due to political events. The rise of boycotts can also be connected to a rise in online nationalism (Bohman and Pårup 2022, 2-9). Western brands often try to include Chinese elements in their collections. For example, a Lunar New Year capsule using color and designs that represent Chinese culture. However, the Chinese public believes that foreign brands have not been able to express the identity of the Chinese. Instead, they think that local brands would have a deeper understanding of their taste (Daxue Consulting 2022 A, 6). So foreign companies that do not adapt to Chinese cultural conceptions could increasingly fall out of favor with segments of the Chinese consumer base (Bohman and Pårup 2022, 21). This can work in favor for Chinese luxury brands, as it would mean they would have less competition to compete with in the luxury industry.

The younger generation of Chinese, mostly between 18 and 34 years old, play a big role in this trend (Sun et al. 2022, 35). They are often referred to as the 'most nationalistic' generation (Bram 2023). More than 35% of this group is willing to spend between 16% and 25% of their yearly income on luxury products (Sun et al. 2022, 35). It is also expected that they will increase their luxury expenditure, thus increasing their influence in the luxury market even more (Daxue Consulting 2022 A, 18). An example of the effect of the youth is the above-mentioned *Guochao* trend. They have been the trendsetters of this nationalistic movement. As it is expected that this consumer group will be growing, they can be beneficial for Chinese luxury brands. As Chinese brands are centered around Chinese heritage, they

align with the interests of the Chinese youth. This makes Chinese youth more inclined to purchase from local Chinese brands.

However, interestingly, according to Sun et al. (2023, 71) Chinese luxury consumers are trending towards a more individualistic mindset as well. The decision-making power has transitioned from the family to the individual in China, mostly due to the rise of e-commerce platforms. For example, the purchase of luxury goods showcases an individual's unique style and personality. This would be a positive trend for the growth of Chinese luxury brands. They try to diversify themselves from Western brands through their unique focus on Chinese heritage. As Chinese consumers are looking for something new and unique, there is potential that these consumers will choose to purchase from Chinese brands more and more.

There is also a growing preference for online shopping among the Chinese. For example, the growing youth of China is the first generation of digitally-native consumers. They live their entire life connected to digital devices, which makes them able to access more information than any generation preceding them (Sun et al. 2023, 71). Combining this with the effect of the Covid-19 pandemic, many companies have also started to realize the added value of technology. 95% of all luxury purchases are being inspired digitally (Langer 2023). That is a reason why the strategy of brands is changing, and many have acted upon this digitalization shift already (Sun et al. 2023, 65). Western and Chinese brands are, for example, using influencers and celebrities for their marketing in China. Using Chinese influencers can be of great importance for brands to persuade the Chinese public to buy their product (Sun et al 2023, 51). However, the growing sense of nationalism can be noticed among Chinese bloggers as well. Posts by nationalist bloggers are more often being shared by the state media (Bram 2023). This rise in nationalist bloggers can also explain the rise of nationalism among Chinese consumers. They can be influenced by information shared online by these bloggers who, for example, only promote Chinese brands. These online bloggers are effective for the upcoming local luxury brands as they can potentially increase the interest of Chinese consumers for Chinese brands.

Besides being a Marxist-Leninist society, Chinese culture is also based on its historic Confucianism values. Such a society has traditionally intensified the level of social behavior over the personal, which has strengthened the social behavior on individual behavior. Relating this to the consumption of luxury products in China, consumers are very sensitive to attention and the reaction of others. The Chinese believe that luxury products are something they need in order to reinforce their social status (Jiang and Cova 2012, 1-4). Chinese consumers put so much emphasis on socially visible possessions, as these help them gain face (Shan, Jiang, and Cue 2021, 60). Face represent their social status, which they do not want to lose. That is why the Chinese are more interested in the social necessity of luxury, instead of its other uses (Jiang and Cova 2012, 4). This interest in luxury gains luxury brands a competitive advantage over non-luxury brands. However, it does not signify that Chinese luxury brands are favored more than Western brands.

5.4 Technological factors

China has the largest e-commerce market in the world, with revenues of almost 1.5 million US dollars in 2023. Fashion plays a prominent part in this market with 22.6% of the revenue (Chatlabs n.d.). Especially since the Covid-19 pandemic, many companies slowly shifted to more agile business models and recognized the added value of technology. Now most major luxury brands have an e-commerce platform (Sun et al. 2023, 54;65).

This is an important trend as consumers of luxury products are increasingly embracing luxury products with digital elements. According to a survey by McKinsey (Sun et al. 2023, 54), 18% of the Chinese respondents might change their purchase habits if brands engage consumers more through digital channels. As stated in the same survey, almost 80% of Chinese consumers in Tier 1 and 2 cities rely heavily on e-commerce channels for their luxury purchases (Sun et al. 2023, 54). However, bigger sized cities in China often have access to physical luxury shops already, thus online shops have provided lower tier cities accessibility to brands that lack footprints in their area as well. This is especially the case for premium and luxury brands that have not yet entered the lower tier cities. In some product categories, when access to physical stores is limited, the online purchasing rate of small town youth can be even higher than consumers in higher tier cities (Bu et al. 2019, 11). The presence of online stores makes it easier for Chinese luxury consumers to reach a bigger group of potential customers.

Social media and influencer marketing play a big role in the use of technology by Chinese luxury brands. Social platforms are emerging as drivers of impulse shopping and creating incremental demand. Social interactions, including interactions with Key Opinion Leaders (KOLs), posting of user-generated content (UGC), and reading recommendations from contacts, motivated 40% of respondents to buy a product they had not originally intended to purchase (Bu et al. 2019, 9). This shows that the Chinese online shoppers can be influenced by online marketing. KOLs play an important role in this process. Influencers and celebrities have long been a part of a brand's overall marketing mix, however, only until top Chinese live-streamer Austin Li took China's e-commerce scene by storm in 2019 that international luxury brands around the world started to see how star power in China directly translated into sales. He played a key role in the rise of shopping festivals like Singles' Day and 618. So, KOLs are able to tap into the fan economy and generate huge returns for a brand (Sun et al. 2023, 51). It may seem like a great tactic to gain brand awareness for a company, however there are negative sides as well. Celebrity influencers have fallen out of favor with many Chinese, as their authenticity is questioned. Next to this, the cost of using KOLs is often unattainable (Smith 2019). As mentioned before, upcoming Chinese brands frequently do not have enough funds to implement such marketing strategies. Therefore the use of KOLs is only available for bigger and richer, often Western, brands. This makes the position of Chinese brands in the industry less powerful compared to brands who are able to use KOLs for their marketing.

Therefore, Chinese luxury brands have made the switch to user-generated content (Smith 2019). On platforms used for this, a new class of influencers has emerged: Key Opinion Consumers (KOCs) (Sun et al. 2023, 51). They are everyday consumers who give genuine

reviews on products they have bought themselves. Often they just have a small group of followers, however their value is based on their relatability and trustworthy nature. They have a personal, friend-like appeal which can have a powerful impact on purchasing decisions (Smith 2019). As researching products on media platforms, such as 小红书 (Xiaohongshu), before a purchase is a common practice in China KOCs have quite a lot of influence on consumers (Sun et al. 2023, 51). However, while KOCs cannot completely replace KOLs it does not mean that KOCs are not here to stay. They are for many smaller brands the ideal first step into the market (Smith 2019). So for upcoming Chinese brands it would be an efficient way to gain acknowledgement among luxury consumers.

Chinese brands are also focusing more and more on Virtual Reality (VR) and Augmented Reality (AR). Again, the popularity of VR and AR took a sharp rise during the pandemic. It provided value as consumers were unable to have face-to-face contact (Sun et al. 2023, 71). Especially for the Chinese Generation Z, online environments have become much more important. 39% of Gen Z stated that these environments were one of the top three ways to spend their time. In combination with Gen Z becoming the largest consumer base for luxury brands, VR and AR could have a considerable effect on sales (Sun et al. 2023, 45;57-59). VR and AR are great tools for luxury brands. It will help to show a product to a consumer, without them visiting a showroom. It will help to engage customers on a deeper level, blur the lines between brand and customer, and shopping and living (Sun et al, 2023, 54-56). As this technology is very interesting to Chinese consumers and Chinese brands are using more VR and AR in their marketing, it makes the possibility for Chinese luxury brands to profit from this achievable. However, mostly the young Chinese generation is a user of this online environment. According to research by KPMG (Sun et al. 2023, 71), most Chinese do not understand how the advancement of technology has elevated their shopping experiences. This means that by focusing on VR and AR only, only the young Chinese consumers will be reached by a brand. So while the use of technology is very important, not all potential customers will be reached, and other ways have to be found to reach them as well.

5.5 Ecological factors

China has a lot of waste production in the fashion industry. As much as 26 million tons of clothing is thrown away every year, with less than 1% being reused or recycled. It does not seem like this trend will slow down in a short period of time, as the ever-growing economic development and middle-income class will continue purchasing clothing (Daxue Consulting 2022 B, 28).

However, luxury brands are slowly starting to adopt more sustainable practices (Sun et al. 2023, 62). For example, electricity and water consumption in the industrial sector have both steadily decreased. Energy consumption has decreased from 72% in 2005 to 66% in 2019, and industrial water usage went down by 7.7% in 2022 compared to 2021 (UNDP 2022, 6; National Bureau of Statistics of China 2023 B). Another helpful factor is that some sustainable materials, such as recycled PET, are also widely available in China. This helps local brands to produce sustainable collections with larger volumes and lower costs (Kastner 2022). This could explain why there is a growing amount of sustainable fashion brands in China. An example is *ICICLE*. *ICICLE* uses natural fabrics from natural yarns such as

cashmere and linen. Their brand slogan is 'Made in Earth'. International brands often have an issue when connecting to Chinese consumers on this topic, but Chinese brands use artistic and emotional approaches to share their values which align better with the Chinese consumers. For example, they highlight the importance of family values and the dedication to the next generation (Kastner 2022). As it seems that Chinese brands can better communicate their sustainability values to Chinese consumers than Western brands can, they are able to achieve a better position in the industry as Chinese will prefer to purchase from them.

Chinese consumers seem to be inclined to purchase sustainable products, even more than the global average. In the survey by PwC (2021, 24), 72% of Chinese respondents would intentionally buy from companies that are conscious and supportive of protecting the environment. The global average is 54%. The Vogue Business Index shows that, after the pandemic, sustainability has become more important to Chinese luxury consumers of all ages. A reason behind this interest in sustainable products is that Chinese adults are more concerned about air pollution, water pollution and emissions than the global average. Therefore, they are more likely to do something about it as well. In 2019, 85% of adults in China said that they had made changes to their consumer behavior because of concerns about climate change, compared to a global average of 69%. Generally, Chinese consumers are very aware of the chances of harmful and low-quality materials being found in textiles used to produce clothing (Biondi 2021). Thus, with the increased awareness of sustainability, Chinese consumers are gradually going for 'green' brands. As a growing amount of Chinese brands produce sustainable products, they are creating a favorable position for themselves. Brands without sustainability initiatives are likely to miss out on potential customers (Sun et al. 2023, 10). If Chinese brands demonstrate their sustainable manufacturing and sourcing processes, more Chinese customers will be inclined to purchase from them instead of Western luxury brands (Kastner 2022). However, product price and quality are still critical to Chinese consumers. Sustainable Chinese brands therefore need to find a balance between sustainable productivity and fair prices, which should have direct benefits to the consumer (Kastner 2022; Daxue Consulting 2022 B, 3). Successful Chinese luxury brands need to go the extra mile to build a narrative around their sustainability initiatives (PwC 2021, 27).

The growing appreciation for sustainable actions is mostly among the younger generation of Chinese luxury consumers (Sun et al. 2023, 61). Generally, due to their education, younger consumers have a higher understanding of environmental sustainability than the older generation does. Adding their exposure to social media where this is a frequent topic, they are adopting a more environmentally friendly lifestyle than their parents are (Daxue Consulting 2022 B, 11). 88% of Millennials and 89% of Gen Z showed they were willing to spend extra money on environmentally friendly fashion products (Daxue Consulting 2022 B, 27). However, these consumers are only willing to purchase from luxury brands if they can show they are passionate about their sustainability initiatives (Langer 2021). Chinese brands do seem to meet the passion that Chinese consumers wish from brands. For example, the brand *ICICLE* has the slogan of 'Made in Earth' and travels around the world in search of outstanding textile producers with irreproachable ethical practices. They are committed to producing their products sustainably, which is favored by Chinese consumers (Kastner 2022). As Chinese luxury brands often position themselves as passionate about sustainability, they have a bigger group of consumers that are wanting to purchase their goods.

Sustainable initiatives are not only being pushed by the Chinese consumers of the luxury fashion industry, but also by the Chinese government. It has announced various policies and initiatives to achieve its carbon reduction goals and environmental regulations. The country pledges to reach peak carbon emissions in 2030, and achieve carbon neutrality by 2060 (Sun et al. 2023, 10). There is a correlation between the government propaganda for sustainability and consumers' understanding, as the propaganda is setting citizens up towards sustainable actions. With this top-down power, the perception of consumers is influenced and therefore affects their purchasing decisions as well (Daxue Consulting 2022 B, 3). Next to this, the initiatives by the government are also putting pressure on the local fashion brands to reduce their environmental impact (Biondi 2021). This pressure also pushes local brands to go more 'green' in their production as well. As Chinese brands are often already producing more sustainable products, they are in line with the wishes of the government and consumers. The propaganda from the government therefore works efficiently for the sustainable Chinese luxury brands, as it attracts potential customers to the already sustainable Chinese luxury fashion brands.

5.6 Political factors

The political factor of the macro-environment is quite important for the Chinese public, as the Chinese consumer culture is shaped by political ideology. This is because as an important human behavior, consumption is largely saturated with political ideologies that exert impact on consumption (Sun, D'Alessandro, and Johnson 2014, 578). Therefore, the unexpected launch of the anti-corruption campaign in November 2012 has had an enormous impact on Chinese society (Kuo, Huang, and Huang 2023, 243). The campaign aimed at significantly reducing government and corporate luxury spending and showing-off of wealth as it threatens the stability of the country by provoking the less fortunate population and adds fire to the confrontations between the very rich and the very poor. It had the most effect on the gift-giving practices by the Chinese government (Fashionbi n.d.). As this practice has hampered the sales of luxury goods, the domestic luxury consumption has been suppressed by the campaign (Kuo, Huang, and Huang 2023, 244). Especially luxury brands with a high exposure to China have had the biggest impact on their sales when the anti-corruption campaign intensified (Nitschka 2022, 176).

However, since 2012 China has also implemented projects and strategies that were more beneficial for the luxury industry. While the 'Made in China 2025' policy is not directly meant for the luxury industry, it is meant to put the position of domestic brands at an advantage in China compared to foreign brands. This policy has been released in 2015, and is a ten-year plan from the government (McBride and Chatzky 2019). Next to this, the Chinese have cut import duties and opened duty-free shopping centers to channel overseas consumption back to China. This has started as many Chinese luxury shoppers purchase their luxury goods outside of China, meaning China loses profits in the luxury industry. Especially after China had reopened after the Covid-19 pandemic and the Chinese were allowed to travel again this became an important policy (Sun et al. 2023, 8). So, the implementation of these policies have been favorable for the growth of Chinese luxury brands as more Chinese luxury consumers are inclined to purchase luxury within China.

Next to implementing policies, the government also promotes the importance of Chinese culture and heritage. Preserving cultural heritage is one of the key ideas of Xi's governance philosophy. He has even been called the advocate of Chinese culture, and mentions the importance of China's heritage in many speeches (CGTN 2021). As the Chinese consumer is shaped by political ideology, Xi's emphasis on heritage makes the public have more nationalistic empathy. These nationalistic feelings influence the Chinese to purchase from local brands, which consequently works positively on these brands.

5.7 Discussion

Table 2 shows a clear overview of all the factors that have been discussed in this analysis of the macro-environment of the Chinese luxury industry.

<i>Macro-environment</i>	Positive	Negative
Demographic factors	<ul style="list-style-type: none"> • Growing importance of youth in the luxury industry. • Less loyalty among young luxury consumers. • Women represent a significant part of the luxury consumption. • Large-scale urbanization and preference differences between cities. 	<ul style="list-style-type: none"> • Customers from megacities ask for privileges that Chinese brands cannot meet.
Economic factors	<ul style="list-style-type: none"> • Growing middle-income group. • Confidence in the Chinese luxury fashion industry is high. 	<ul style="list-style-type: none"> • The percentage of domestic consumption to the GDP is low. • Low purchasing power among Chinese consumers. • 'Revenge-spending' is only efficient for the short-term.
Sociocultural factors	<ul style="list-style-type: none"> • The growing sense of nationalism among Chinese consumers. • Consumer boycotts of foreign companies. • The Chinese youth is the most nationalistic generation. • The individualistic mindset of Chinese consumers want uniqueness from brands. • Growing online presence of the Chinese. • The presence of Confucianism values. 	

Technological factors	<ul style="list-style-type: none"> • Most Chinese luxury brands have an online presence. • Using user-generated content. 	<ul style="list-style-type: none"> • The usage of KOLs. • The usage of VR and AR.
Ecological factors	<ul style="list-style-type: none"> • Chinese brands know how to communicate their sustainable values to Chinese consumers. • Chinese consumers are generally more willing to purchase sustainable products. • Government is promoting sustainability among Chinese brands and consumers. 	
Political factors	<ul style="list-style-type: none"> • Policies such as the 'Made in China 2025' and the cut of import duties. • The government promotes the importance of Chinese culture and heritage. 	<ul style="list-style-type: none"> • The anti-corruption campaign of 2012.

To conclude the research of the macro-environment, it seems that this environment sketches a positive environment for upcoming Chinese luxury brands. Most of the effects from the factors have a more useful effect for Chinese brands than they have a negative effect. The factors that, looking at table 2, are most obviously positive are the sociocultural and ecological factors. The growing sense of nationalism among Chinese consumers has caused some of the other effects of the sociocultural factor, such as the boycotting of foreign companies. However, Chinese consumers also have more individual wishes which Chinese brands are able to meet. Chinese brands can offer the uniqueness luxury customers want by focusing on Chinese heritage. Noticeable is also the influence of the youth in this factor. They can be considered as the trendsetter of the nationalistic *Guochao* trend. Important for the ecological factor is that Chinese brands know how to communicate their sustainability values, as this attracts Chinese consumers who are generally more willing to purchase sustainable products than the global average. Besides, sustainability being an important factor for Chinese consumers, the Chinese government has also been promoting it among its citizens and companies. As the government has quite a lot of influence on Chinese

citizens, this propaganda for sustainability also makes the Chinese consumers even more likely to purchase sustainable products which Chinese brands can offer.

Other factors that have a relatively positive effect on the growth of Chinese luxury brands are the demographic, technological and political factors. The growing importance of youth is an important effect from the demographic factor. They are the trendsetters of online nationalism and a growing group of consumers, having their approval as a Chinese brand would be very beneficial to its growth. Also urbanization is important as more and more people will have access to luxury goods, thus broadening the group of consumers that Chinese brands can reach. However, luxury customers from the megacities do often ask for privileges that upcoming Chinese brands cannot meet yet due to a lack in funds. The technological factor shows that the Chinese have a growing online presence, which is great for Chinese brands trying to broaden their customer group. They can, for example, reach them through user-generated content as using KOLs is too expensive for upcoming brands. Next to this, while the usage of VR and AR seem very beneficial as it does reach a new customer group, it is only reaching the younger generation in China. Other ways of marketing need to be used to reach the older generation of Chinese consumers. Politically, the environment seems favorable for Chinese brands as well. Several policies and the promotion of Chinese culture has made the Chinese more likely to purchase from Chinese brands, however this factor has not always been positive for the luxury industry. The anti-corruption campaign from 2012 had undermined the industry when it was implemented.

However, the factor that can turn out to be a threat to the luxury industry in China is the economical factor. While the positive outcomes of this effect are important, such as the growing middle-income group and growing confidence in the industry. The negative effects cannot be ignored. Most threatening is the low percentage of domestic consumption in the GDP, meaning Chinese generally do not consume a lot of products. Next to this, Chinese have low purchasing power in the luxury industry due to the high prices of Western luxury.

This research on the macro-environment has found some gaps in literature that are filled with this analysis. This gap is the importance of the Chinese youth in certain trends in this environment. In almost every factor that has been discussed in this DESTEP-model, the Chinese youth have influenced a certain trend. For example, the use of technology and online shopping has been heavily influenced by the online presence of the youth. Also the rise of nationalism is supported by the *Guochao* trend, an online trend posted mostly by the Chinese youth. The same goes for sustainability, mostly pushed by the younger Chinese generation. Interestingly, these trends are often created through their online presence. This adds extra emphasis on the growing importance of technology in the luxury fashion industry in China, as the Chinese youth are going to be the next generation of luxury shoppers.

6. Conclusion

This thesis aimed to find an answer to the research question of “What factors in the meso-, and macro-environment have had, and still have the biggest influence on the quick rise and success of local Chinese brands in the Chinese fashion luxury industry?”. While the luxury industry in China has been extensively discussed in academic literature, the presence of Chinese luxury brands in this industry has not been discussed much. Therefore this research will give an answer to this gap in literature.

Based on research done through a meso-, and macro-environment, it can be concluded that multiple factors have contributed to this rise. The factors from the meso-environment suggest that the Chinese luxury fashion industry is relatively easy to enter, without too many barriers. When established into the market the only things that Chinese brands have to be aware of are the strong competition and powerful customers. The macro-environment concludes that the growing sense of nationalism and growing importance of sustainability has made the biggest positive effect of the rise of upcoming Chinese luxury brands. As Chinese consumers prefer Chinese elements and sustainable values more from a brand, Chinese brands have been able to use this to their advantage by meeting the wishes of consumers.

The factors of the meso-, and macro-environment also have an effect on each other. For example, the improvement of technology in the luxury industry can contribute to the tough competition for Chinese luxury brands. As there are more online retail shops who sell luxury fashion, thanks to the development of online stores, there is more competition for Chinese brands to overcome. Another example is that the Confucianist feelings among the Chinese creates the counterfeit market, which is a substitute for the luxury market. Due to Confucianism, many Chinese believe that they need to show off to reinforce their social status in society. This can be done wearing luxury brands, or other visible luxury possessions. However, not everyone is able to afford this and therefore buy counterfeit products instead. While it is not a luxury product, it does resemble the social status that the Chinese wish to achieve. These examples show that there is a connection between the factors and effects of the meso-, and macro-environment.

A remarkable finding is the influence of the Chinese youth throughout these different factors. They are often the trendsetters of these movements, which is mainly caused by their online presence. Most of these trends, such as the *Guochao* trend which promotes Chinese nationalism, started online. This can indicate that in the group of Chinese consumers, which already have substantial power in the industry, the Chinese youth might be most powerful. Their influence in the industry will only increase more and more, as this group of consumers is still growing.

Another important aspect coming from Chinese luxury fashion brands in the industry is the focus on Chinese elements and heritage. From most parties active in the industry, such as companies, consumers and the government, there is an emphasis on Chinese characteristics in fashion brands. This shows how the Chinese luxury fashion industry differentiates itself from other, such as Western, industries. That the Chinese market is

focused on Chinese elements is beneficial for local Chinese brands, as they produce their products with the historical Chinese craftsmanship in mind.

The results indicate that local Chinese luxury brands have a good position in the luxury fashion industry, and have the potential to grow even bigger. However, realistically, Chinese luxury brands are still not as well-known as Western luxury brands are in China. As the results suggest, competition in the Chinese industry is high which mainly comes from the luxury brands from the West. Since gaining face is associated with wearing well-known brands, it will be difficult to change this behavior by Chinese luxury consumers. It is important for Chinese consumers to be associated with famous and expensive brand names. Therefore, referring to the title of this thesis, the label 'Made in China' has not yet become the famous 'Made in Italy' label. This does not mean that over time this change will not happen, however, further research at a later point of time is needed to answer this question.

These developments in the Chinese luxury fashion industry should, however, also be looked at from a broader perspective. The changes could potentially have implications for the political and social situation in China. Politically, the rise of the Chinese luxury brands could be used as soft power by the Chinese government as the growing number of Chinese brands promotes Chinese culture. When, over time, Chinese brands gain popularity in other countries it would be an efficient way to project Chinese culture, and thus power, internationally. Besides this, the growing interest in luxury products among Chinese citizens could cause an increasing social hierarchy. The ownership and display of luxury products by luxury consumers can create these hierarchies, and contribute to the desire for luxury consumption. These hierarchies can also put a bigger emphasis on the wealth distribution between the rich and poor in China, showing the big income differences between these two groups.

This thesis has contributed to new perspectives on the topic of the Chinese luxury fashion industry. Most conclusions from this research are similar to what has been discovered in the academic literature, however some new information has been analyzed as well. For example, the importance of youth or sustainability can hardly be traced back in the literature. This thesis has also made the connection between all different factors that can have an influence on the luxury industry. This fills a gap in literature, as most literature focuses on one or two factors only. This thesis has been a first in showing the relations between several factors influencing the industry, especially as applying a meso-, and macro-environment on the Chinese luxury fashion industry has not been done before as well.

Based on the results from this research, further research can also be done on the effects of the influence of the Chinese youth. As this consumer group has the potential to grow bigger and more influential, it would be important for brands in the luxury fashion industry in China to understand what their wants and needs are. Especially what influence their online presence has, as most trends generated by the youth come from online posts by them. By understanding their way of thinking, brands can adapt and hopefully gain their appreciation. This would help Chinese brands in their success in the luxury fashion industry.

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