Thoughts of Localization of Foreign Luxuries in China

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Keywords: Luxury; Localization; Knowledge Alliance.

Abstract. Foreign luxury enterprises must adapt to the Chinese market if they wish to enter the Chinese market and seek great development; they must capture the demand motives and consumer psychology of customers and implement corresponding localization strategies. Foreign luxury enterprises shall focus on localization of brand extension, localization of marketing mode and localization of human resource management.

Introduction

In recent years, people's demands are getting stronger as China's economy develops rapidly; the growth of China's inland luxury market will continue to be strong. How to improve Chinese customers' brand loyalty, expand the market share of Chinese luxury goods and lead backflow of luxury goods trading? The luxury brands under localization strategy can create value to the consumers easier and satisfy the personalized demand of consumers in the market. The localization strategy of the foreign luxury brands is helpful in establishing their marketing channels and can help enterprises to measure and manage the consumers' service expectations of the luxury brands and assist the enterprises the better adapt to the host country's social environment.

While implementing Chinese localization, foreign luxury enterprises also face several issues: The brand characteristics in product extension are not clear enough, they are unable to get the recognition of the Chinese customers; They lack proper marketing means and channels and are unable to expand the share of Chinese luxury market; They are unfamiliar with China's local conditions and customs, social environment and so on. Therefore, choosing an appropriate localization strategy has a really important significance and value for the sustainable development of the foreign luxury enterprise.

Brand Extension Localization

Misunderstanding of Brand Extension

The highest level of the localization is the localization of the enterprise culture. Brand is the most important mark of a luxury enterprise. When they enter the Chinese market, there retailers also bring along their enterprise cultures. But such enterprise cultures are not simply copying and transferring. It must obtain the recognition and acceptance of local consumers. Thus, the enterprises must choose the brand extension, yet they can be easily trapped in the following mistakes:

Firstly, the new brand after the extension may have a different core value from the original brand. As people's inner comprehensive feelings of the products, enterprises and services, brands stand for the consumers' recognition of the core values. When extending the original brand, the enterprises shall not overlook the original core value, otherwise, not only the extension would fail, they would suffer unnecessary loss too. Secondly, the brand extension is too broad. When the enterprises' brand core lies in professional strength, reckless development of non-related products may cause inconsistency of the brand images; it is also hard to improve the accuracy of the extension. Thirdly, blind extension beyond the enterprise and brand. In brand extension, the cultural concepts shall be considered, so as the actual situations of the enterprise, such as technology, product cost performance and publicity means etc.; judge if there's any kind of advantage before the extension of a new industry or new product.
Requirements of brand extension localization

**Satisfy the consumer aesthetics and demands.** One of the important reasons for the big difference between domestic sales and abroad sales of the luxury goods is that consumers believe the luxury goods in the European and American regions are of a quick update speed, while China's is slow. For this very reason, many foreign luxury enterprises introduced a series of products with Chinese characteristics. Such as the golden monkey series jewelry introduced by LV and Dior in the early Spring of 2016; though they had Chinese characteristics, they failed to satisfy the consumers' aesthetic appetite and failed to reach the expected results.

**A clear understanding of the market competition pattern.** Before the brand extension of the products, the enterprises shall have a clear understanding of this market's pattern. When the major competitors also engage in brand extension, the extension risks would decrease; and the interests would get sliced up.

**Satisfy the core values of the enterprise and the brand.** The brand's core value of the luxury enterprises lies in its culture, thereby it can include products with very different product types. However, if an enterprise pays no attention to its core value when engaging in brand extension and developing product market, it will make wrong extension very easily.

**New and old products shall be somehow related.** The luxury brands are very concentrated, they can never be used recklessly for any extension. The so called specificity of brands refer to the fact that a brand only serves one product or one type of products. We rarely see any luxury brand getting success crossing two industries. In the 1950s, Pierre Cardin extended its brand into all fields possible, from clothing to furniture to foods and hotels which caused the brand images to be inconsistent and the brand personality was lost ever since; it never enters the list of high-end brand later on.

Knowledge alliance

The knowledge alliance is originated from research of becker and murphy on knowledge division model; it is a new strategic alliance mode, it refers to the network organization between the enterprises and other enterprises, universities and research institutes via various covenants or equity in order to share their knowledge resources, promote knowledge flow, create new knowledge, complement each other's shortcomings and share risks. The keys are learning and creating knowledge; it emphasizes on creating new knowledge and cultivating new skills on the basis of learning.

When realizing their brand extension localization, the luxury enterprises can use the knowledge alliance to form covenants with the domestic enterprises, universities and research institutes. Firstly, they can share knowledge and technologies, further understand the Chinese culture and design products more suitable for Chinese consumers' aesthetic demands; Secondly, they can share the risks, reduce the error rate of the brand extension and reduce the scenario of which the one party satisfy the market or brand core value; Thirdly, the enterprises' design and research team engaging in continuous R&D and innovation may lead to a possibility of innovation resource depletion; while the knowledge alliance can compensate for the shortage of innovation resources of any single organization. Entering the knowledge alliance not only helps the enterprise personnel of the technology exporting countries to better understand the technology and product importing countries, and can cultivate a series of talents in the technology and product importing country for their own use.

When forming a knowledge alliance, the luxury enterprises shall find the common points of the alliance and advantages and shortcomings of both parties, so that they can complement their shortcomings and reach a strategic congruence. The design and research team of the luxury enterprises shall try to absorb the local culture and customs of China, they shall try to make more contacts with the Chinese culture and understand the demands and aesthetics of the Chinese consumers. They shall consider engaging in independent product design using the migrated knowledge, making the products satisfying both the local consumer market and also their own core values. Redesign the existing products to make them more suitable to Chinese consumers' demands,
thus increasing the Chinese consumer brand loyalty and thereby boosting the popularity of the brand in China.

Localization of the Marketing Modes

Problems of the current marketing modes

Currently, there are mainly three types of marketing modes of the luxury goods in China: Firstly, direct-selling stores. Most of the foreign luxury enterprises open direct-selling stores for sales of their products; the addresses of such stores are usually in the central areas of tier one and tier two cities and the decorations are way too luxury. This not only reflect the dignity and preciousness of the luxury goods, but also their brand strengths, catering right to the consumer psychology of China's rich people. Secondly, network marketing. At present, the electronic commerce retailers of the foreign luxury goods usually adopt a "network purchasing agency" mode; the E-commerce retailers commissioned the professional buyers to purchase the luxury goods from abroad and then sell them online; the prices are quite competitive compared to the exclusive shop or the franchised counter of the luxury goods, however, their costs may increase occasionally due to the lack of logistics development. Thirdly, sales agent. Under normal circumstances, the luxury brands will grant its operational rights to a third party, normally high-end luxury goods malls; the agency shop will pay the start-up cost, engage in personnel recruitment, training and advertisement while the luxury brands shall offer full support to the shops.

Currently, the main issues of the luxury goods' marketing channels are:

Irrational resource allocation and utilization. The agents normally serve for more than one luxury brands; most of the time, an agent would serve multiple luxury brands at the same time. The Metro Holdings is the agent for brands such as Gucci, Coach and Prada etc; for cost-saving and profit maximization considerations, its team needs to manage the stores, customers and employees of multiple brands at the same time. It is unable to focus on the operation of one brand, therefore leading to the irrational resource allocation and utilization.

The brand value of the luxury goods is weakened. The agents would sacrifice the brand values of luxury goods in order to get short-term interests. The agents and the luxury enterprises have different objectives with one focus on profits while the other one focus on its own brand value and cultural connotation; they couldn't reach a consensus and the agents usually hold the initiatives; therefore the brand values of luxury enterprises are weakened.

Increase of inventory and management costs. In direct-selling operation, the management and inventory of the luxury enterprises are controlled by their personnel, therefore, the personnel management and inventory control costs cannot be lowered; this will certainly cause the luxury enterprises operating and management costs to increase and their profits to drop.

Measures for the localization of marketing strategy

The said problems make the luxury enterprises less competitive during the channel negotiations and hard to get shops, in addition, the negotiation cost is high. The enterprises shall not be restricted by the above three marketing modes, they shall their marketing means and employ diversified marketing means to stimulate the consumers' buying inclination and impel them to buy, this can also lower the risks of a single marketing method.

Intensify advisement and publicity. Luxury goods advertisements are the bridge connecting the enterprises with the consumers and are powerful tools to attract consumers. For example, Dior's advertising videos prevail in various video websites, and its product concept is deeply rooted in our hearts. It forced many other luxury brands such as LV and Channel etc. to copy its action to take up the market share. Various luxury enterprises all have their official websites, yet they need to perfect the Chinese version to expand the scale of the website.

Creating a good shopping environment. The sensory awareness of the consumers is the key factor determining their purchase behavior in the entire shopping process, even more so in the marketing process of luxury goods; making consumers feel at home is extremely important. In order
to ensure that consumers can receive the same standard of premium services all over the world, thus improving the consumer’s brand loyalty, we recommend the luxury enterprises to perfect their consumer management systems worldwide and share the consumer information.

**Clear product positioning and segmented product categories.** The luxury enterprises normally have many types of products and are targeted at different groups; therefore, accurate segmentation of the product categories and establishment of the products’ positions are very important. Segment the market further and segment the consumer groups; attract the attentions of consumers of difference levels.

**Reasonable pricing to stimulate consumption.** Since the luxury goods are generally expensive, plus the increase of the tariff, experience cost and management cost when they enter China, their prices are generally higher than the origin country. Arbitrarily lowering the pricing or promotion would weaken the brand values and make them less precious. Therefore, the enterprises shall adopt the portfolio pricing for their products. I.e. For promoting the sales of the products, price the products in a portfolio; according to the market investigation, introduce a series of hot products and less popular products to form a portfolio for the bundle sales at a relatively lower price. This can use the popular products to raise the sales of less popular ones, and can use the pricing technique to stimulate the consumers and enhance the market competitiveness. In addition, the enterprises can make use of the membership system to set different levels of member treatments. Perfect their after-sales service facilities in China through talent investment and cultivation, improve their own service capabilities to satisfy the expectations of the consumers on luxury brands. Impel the consumers to make other consumptions in order to reach a certain membership level, so that to stimulate the economic growth and increase of enterprises' profits.

**Localization of Human Resource Management**

People from different cultural backgrounds would show great cultural differences while cultures normally have very important influences on the enterprises’ development. When the foreign luxury enterprises enter other markets, they would bring their enterprise cultures as well. If the enterprise culture conflicts with the market culture, or even unable to obtain the acceptance and recognition from the local consumers, the enterprises” development would suffer greatly. China is a country with a complicated humanistic environment. The relations between enterprises with the government, partners, suppliers and the public are all important social resources. If unfamiliar with China's market, policies, laws, cultures, language, behavior and customs, a foreign "monk" may engage in ineffective communication and improper decision-making despite of rich experiences, this would add burdens to the foreign investor's investment cost and risks.

The cultural conflicts in luxury enterprises include the cross-cultural and human resource management value system conflict, cross-cultural human resource management credibility conflict; there are also differences of labor cost standards. Find the balance point between "insisting the self" and "adapting to others"; implement localization operation. The human resource management of the international operation of the luxury enterprises shall focus on both adapting to others and insisting on the self, they need to find the sweet spot between the two.

**Incorporate fresh blood, innovate the management mode**

When the luxury enterprises engaging in human resource localization, it shall recruit talents with a purpose in order to solve the credibility conflict of cross-cultural human resource management and difference in labor cost:

**Hire local employees.** Hiring China's local employees with high salaries is the most common approach of the transnational enterprises in talent localization. Chinese employees and the management are more familiar with the demands of the Chinese market; they can help the enterprises to root their first-class brand culture and the successful experience into the Chinese culture and lay the foundation of their development in China. Especially, hiring the local talents with Chinese and foreign management experience to be the senior managers will gain more recognition from the employees and make better result out of the same investment. A local senior
manager can understand the thoughts of both Chinese and foreign employees and rise above them both. Their familiarity with China's laws and regulations can facilitate them when they deal with the government agencies.

**Actively cultivate undergraduates.** At present, the college development usually values the combination of theoretical education and practical training. The enterprises can cooperate with the colleges and offer internship opportunities for outstanding undergraduates. This can help solve the problem of "hard to get an internship" of the undergraduates, and can allow the undergraduates to familiarize with the enterprise operations and cultures in advance; at the same time, it is beneficial for the enterprises to find students with great potentials so that the enterprises can invite them with good treatments after their graduation, thus, attract outstanding undergraduates in advance.

**Emphasize the reshaping of the team culture, cultivate diversified personality**

In order to better solve the value conflict of the cross-cultural human resource management, the luxury enterprises shall put the focus of its human resource localization on the training and management of local employees. Emphasize the reshaping of the team culture, seek common points while reserving differences, and cultivate diversified personality.

**Conduct overseas training of the employees.** Comparing to parent country's employees, Chinese employees are more sensitive to China's market and they possess cultural communication advantages; but most of them lack the latest scientific and technological knowledge and advanced management experiences. More importantly, an outstanding manager needs working experiences in different countries. Conducting overseas training of the local employees can help the local employees better understand the parent country's culture and brand factors for better communication; In addition, it can stimulate the enthusiasm of the local employees, thus, they can work hard for the development of the enterprise and raise the employees' loyalty and credibility.

**Conducting localization training of the transferred employees.** I.e. Conduct localization training of the parent country's personnel; though they have certain understandings of the enterprise culture and are quite loyal to the enterprises, they still need a thorough understanding and training of China's micro and macro market before they start work to prevent occurrence of any enterprise-level decision unsuitable to China's market needs. And such localization trainings are beneficial for the correct formulation of their luxury enterprises' development strategy, better and more rational management of the Chinese company and effective cultural communication and exchange.

**Perfect the performance evaluation mechanism to narrow the salary difference between Chinese and foreign employees**

In order to reduce the labor cost difference, the luxury enterprises need to perfect their performance evaluation mechanism. When conducting transnational operations, the transferred employees (from the parent company) and the local employees of the subsidiaries have great differences in salaries; the direct result is poor enthusiasm of the local employees and thus, low efficiency and weak sense of ownership. Enterprise managers shall pay attention to the performance evaluation system and shall make certain localization reforms to it. The salary, bonus, addition and reduction of posts and promotion and demotion standards shall be determined based on the working capabilities, as well as the employees' routine and year-end performance evaluations. Treat each employee equally and make them feel the just enterprise culture, which would in turn better stimulate the enthusiasm of the employees and prevent the slack of the parent company employees at the same time; effective cultural collision and communication can happen this way too.

The enterprises shall establish an open recruitment mechanism, uphold the correct outlook of talent and nurture an atmosphere of advocating the talented; Establish loose human-using environment; at the same time, establish the common value of the enterprise and the employees; pay attention to the development news of employees' life and work and provide a ladder for progressive development for them. Perfect the internal promotion system to alleviate the local employees' morale.
References

