



# Western Consumer Brands in China: History and Current Development

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## **Abstract**

In this thesis, the history of the rapid rise of Western consumer brands in China and especially the factors that influenced this rise are analyzed. It is shown that Western consumer brands' advantages over competitors developed against the background of a positive cultural perception of the West itself and are therefore historically rooted. This enabled Western companies to build an established brand and become the incumbent in most cases.

Western brands influenced Chinese consumer's buying preferences through attributes like "high-quality premium product", "Western lifestyle" and "modern and innovative". The market leaders additionally profited from a first-mover advantage. Later, more factors were added that accelerated their growth, for example, increasing Westernization and the growth of the Chinese middle class.

The currently increasingly more critical perception of the West has significantly reduced these advantages. Even in the premium market segment, Chinese brands are competing more and more successfully, supported by a return to traditional Chinese values and rising nationalism. The pandemic accelerated some of these trends. Western brands are therefore in danger of entering a period of decreasing market share.

These long-term developments and the disruptive influence of the pandemic are analyzed in general and for the market-leading Western brands. A special focus is on the luxury goods industry and the fast-food and coffeehouse chain industry.

## **Kurzfassung**

In dieser Arbeit werden die Geschichte des raschen Aufstiegs westlicher Verbrauchermarken in China und insbesondere die Faktoren analysiert, die diesen Aufstieg beeinflusst haben. Es zeigt sich, dass sich die Vorteile westlicher Verbrauchermarken gegenüber Wettbewerbern vor dem Hintergrund einer positiven kulturellen Wahrnehmung des Westens selbst entwickelt haben und daher historisch verwurzelt sind. Dies ermöglichte es westlichen Unternehmen, eine etablierte Marke aufzubauen und in den meisten Fällen zum Marktführer zu werden.

Westliche Marken beeinflussten die Kaufpräferenzen chinesischer Verbraucher durch Attribute wie „hochwertiges Premiumprodukt“, „westlicher Lebensstil“ und „modern und innovativ“. Die Marktführer profitierten zusätzlich von einem First-Mover-Vorteil. Später kamen weitere Faktoren hinzu, die ihr Wachstum beschleunigten, beispielsweise die zunehmende Verwestlichung und das Wachstum der chinesischen Mittelschicht.

Die derzeit zunehmend kritischere Wahrnehmung des Westens hat diese Vorteile erheblich reduziert. Selbst im Premium-Marktsegment konkurrieren chinesische Marken immer erfolgreicher, unterstützt durch die Rückkehr zu traditionellen chinesischen Werten und den zunehmenden Nationalismus. Die Pandemie beschleunigte einige dieser Trends. Westliche Marken laufen daher Gefahr, in eine Phase sinkender Marktanteile einzutreten.

Diese langfristigen Entwicklungen und der Einfluss der Pandemie werden allgemein und für die marktführenden westlichen Marken analysiert. Ein besonderer Schwerpunkt liegt auf der Luxusgüterindustrie und der Fast-Food- und Kaffeehauskettenindustrie.

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# Western Consumer Brands in China: History and Current Development

## 1. Introduction

Until 2019 the Chinese consumer market was growing at double-digit percentages and riding on this wave foreign brands had their growth successes in China. Especially with the growing Westernized middle-class Western brands appealed to the new values and buying preferences of this class.

It was therefore quite common to project the past growth of Western brands' sales into the future and to forecast further exponential growth and an indefinitely growing market (Barton, et al., 2013). But the Covid-19 pandemic changed all this. Sales crashed caused by lockdowns, travel restrictions, and the reduced consumption of a recession.

The most important questions Western brands are currently facing in China are: "Will sales recover after the pandemic? Will exponential growth start again? Which factors will influence this?"

To answer these questions, it is important to understand the factors which were driving the exponential growth in the past. Only after this is understood it may be hypothesized how these factors changed in the last year and how this will influence future sales.

In this work, the history of the rapid rise of Western consumer brands in China and especially the factors influencing this rise will be analyzed. It will be shown that Western brands have encountered some quite unique conditions in the Chinese market that has enabled them to build a well-known brand and become the incumbent in most cases. Later, more factors added on top of this helping to accelerate their growth, for example, the Westernization of the Chinese middle class (Shan, et al., 2016). These factors influencing the sales of Western brands in China since the opening of the Chinese market to Western products will be described, their development during the fast boom-like growth of the Chinese economy is analyzed and the sudden changes during the pandemic discussed.

The main hypothesis analyzed in this thesis is: Western consumer brands' advantages developed in line with a positive cultural perception of the West itself and is therefore historically rooted. The increasingly more critical current perception of the West reduced these advantages considerably. Western brands are therefore in danger to enter a period of decreasing market share, accelerated by the pandemic.

After the introduction, chapter 2 analyses the development of the general cultural perception of the Western world in China and by Chinese consumers. The different phases in this development are described and the inflection points separating these phases are identified.

Chapter 3 describes the situation Western brands were confronted with after the opening of the Chinese economy to Western products. The market for consumer products in China grew much later and slower than the rest of the economy, therefore Western brands had enough time to build a brand, make use of first-mover

advantages, and surf on a wave of positive tailwinds for Western products.

In chapter 4, the focus is on the next phase in the development of the Chinese market: the rapid growth of personal income and consumption. The Chinese economy was growing, the consumer market was growing on top of this, and on this background, Western brands managed to grow even faster and increase market share. The factors influencing this extraordinary success and growth are analyzed in detail.

In 2020 all of this changed suddenly. The pandemic struck and sales collapsed. But some Western brands lost market share already in the years before the pandemic. In chapter 5, the changes that were already on the way before the pandemic are analyzed and compared with the change of consumer behavior during the pandemic.

Chapter 6 analyzes two industries in more detail which are still dominated by Western brands. One is the luxury industry as it is the classical example for a Westernized lifestyle, conspicuous consumption, and premium products. Furthermore, the Fast Food/Coffeehouse industry is of interest because it represents the mass market, McDonald's and Starbucks being the well-established symbols of Western consumer culture themselves.

## **2. Cultural perception of the Western world**

The history of Western consumer brands in China is closely connected with the cultural perception of the Western world by the Chinese consumers themselves. If we use the word "Western brands" we differentiate between them, Chinese brands, and other foreign brands, for example, Japanese ones. The common attribute of Western brands is their identification with the West, the West's economic ability, and its cultural values. Brands like Coca-Cola and McDonald's are a symbol representing the American way of life (Yan, 2000), not only in China. This identification of Western brands with more than their functional value was even started by the communist party themselves who in 1983 outlawed Coca-Cola as Western and "not a single bottle of Coke should be sold to Chinese".

To analyze the influence of this cultural perception on Western brands' success in China, we use the phases and inflection points shown in Figure 1 and identified in (Ford, 2015). Critical developments in the political and economic landscape have changed the perception and appreciation of the West by China and the Chinese. This cultural perception is the transmission belt that translates political and economic developments into changed buying behavior. As described in (Trommsdorff & Teichert, 2011, p. 190) the influence of culture on consumer behavior is undeniable but difficult to quantify because there are too many variables involved. The connection between the cultural perception and changed buying behavior is explored further in chapters 3 to 5 for the different phases and here only given as an overview.

The first relevant inflection point of course was the reforms of Deng Xiaoping. China adopted Western "capitalist" methods and invited the help of Western investors and industry. It was an obvious bow to the West and its institutions. With the help of Western countries and Japan, China developed fast, especially in the 90s. The West and all that seemed to be represented by it was seen in the most positive light by the Chinese

people despite the communist party using its propaganda machine to suppress this development (Ford, 2015, p. 219ff). Westerners visiting China those days were mostly managers and engineers, very educated and hard-working people, working in leading positions. This helped to shape the positive image of the Westerner who is a profes-

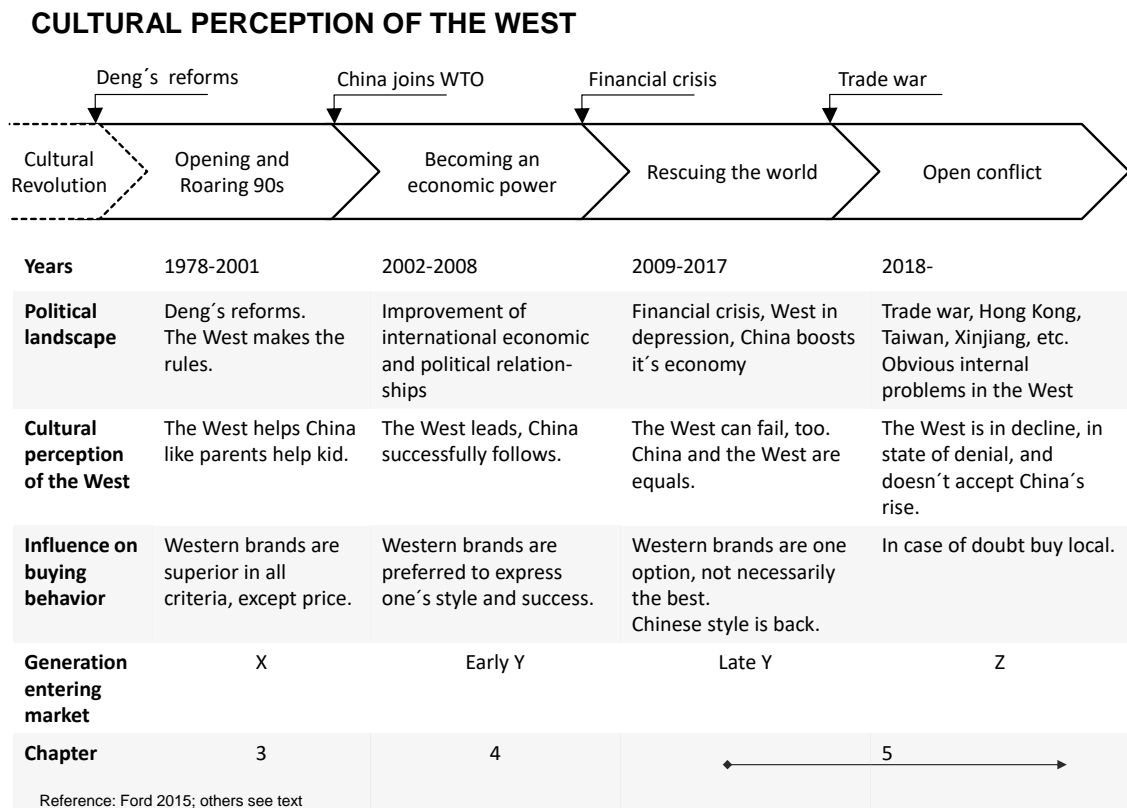


Figure 1: Cultural perception of the West

sional with superior knowledge, taking charge.

This adoration of the West was connected with Western brands from the start, “wearing a Mao suit, for instance, was a sign of conservative orientation, and liberals took pains to sport Western wear” (Ford, 2015, p. 223). Westernized and cosmopolitan lifestyles developed as an attribute of products and brands that turned central to the marketing and especially the advertisement of all consumer brands, Western and Chinese alike (Li, 2016, pp. 119-126).

The next inflection point was China's admittance to the WTO in the first year of the new Bush administration. While the Clinton administration was very critical of China and asked for a lot of internal improvements, especially humanitarian ones, the new Bush administration focused on the war on terror and needed China as an ally. Joining the WTO, China's international relations improved, and the economy boomed. The growing success was still identified with the advantages of Western institutions and Western technology but China's own contribution could not be denied anymore. The Westerners, Chinese now came into contact with, included new groups like English teachers and students, they were well educated and well-behaving but not “the boss” anymore.

At least in China itself the “Made in China” finally lost its low-level image. But Western lifestyle was still asked for, representing success (Tian & Dong, 2011, p. 22ff). Chinese



brands had to appeal to this lifestyle even if they just competed in the lower-priced segments of the market. Their product positioning and advertisement campaigns imitated the ones of the Western brands (Li, 2016, p. 107).

Then came the financial crisis. The Western world sunk into a spiral of bank collapses, emergency rescues, government intervention, and even currency crisis, seemingly delegitimizing the Western institutions involved. The falling dominos showed no sign of stopping. After the United States seemed to be stabilizing, the next domino, the Euro, fell. The Chinese government reacted early on, the Chinese economy was boosted by a combination of reduced interest rates, drastically expanded credit, and investments of state-owned companies. This not only prevented China from being the next domino, but it stabilized the world economy allowing the West to recover.

This was the first time since Marco Polo's times that China had undeniable reason to feel superior to the West. And this fact was noticed by Chinese politicians and ordinary citizens alike, exaggerated of course by Chinese government propaganda (Ford, 2015, p. 465ff). The financial crisis coincided with the 2008 Olympics giving the Chinese government another chance to push the new narrative.

From the consumer's point of view, the identification of "Western-style" with "success" had got a forceful strike. As an additional influence, the Westerners now visiting China were more and more tourists or low-level staff from all parts of Western society. The notion that "all" Westerners are successful, highly educated, and always well-behaved got an additional strike (Kaiser, 2018). These trends led to a revival of "Chinese style" and Chinese culture in consumer decisions<sup>1</sup>. Furthermore, the notion that "the West cannot fail" ended, too. Had health-aware Chinese consumers preferred Western brands for food, just to be on the safe side, this changed now. Western fast-food brands experienced this in 2014 where temporary quality problems turned into a big loss of reputation for their brands. Even Chinese brands failed against other Chinese ones if their advertisements appeared to be too "globalist" (Li, 2016, p. 151ff).

The erosion of the belief in Western superiority is an ongoing process ever since the financial crisis (Puranen, 2020). Any new problem in Western countries, especially in the US, is used by the Chinese media to feed this new narrative. The pictures of wide-scale looting in the inner cities of the United States and the storm on the Capitol are giving this storyline new credibility because even very pro-West Chinese cannot explain this with Chinese party propaganda alone. The handling of the pandemic seemed to be further proof of the failure of Western institutions (Yuan, 2020). While China and most other Asian countries got the pandemic under control early on, the outbreaks in Western countries are showing no signs of stopping. Pictures of Westerners refusing to wear easy breathing masks in public symbolize the narrative of the Chinese government that "the West is decadent".

On top of this ongoing development came open conflict. The trade war starting in 2018 brought the rivalry between the US and China suddenly into the daily headlines. Tariffs

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<sup>1</sup> The trend even reflected back onto politics. Michelle Obama wore at the state visit in 2015 a Vera Wang dress. Chinese designer but Western style. The next first lady, Melania Trump, already wore a Chinese-styled dress at the state visit in 2017.

and direct sanctions against Chinese companies showed that the West was not China's unconditional friend anymore but a threat<sup>2</sup>. As more and more conflicts added onto this, the natural counterreaction was a strengthening of Chinese nationalist ideas. The new narrative "the West is in decline" (The Economist, 2021) that started from 2008 on was supplemented by "the West doesn't accept China's rise". This further change of perception of the West leads to consumer behavior like "buy local" or even open boycotts, as described in more detail in chapter 5.3. While the motivation to "buy local" was in decline since China entered the WTO (Tian & Dong, 2011, pp. 25-26), it now has a revival.

### **3. Market entry of Western brands in China**

After the opening of China's economy to world trade, Western brands had growing success in the Chinese market, most of them growing their sales much faster than the Chinese market grew in total. The reason for this was the perceived higher quality and functionality of Western products, based on at this time undeniable facts. But some brands had an additional unique advantage: their product was largely new to the Chinese at all. The first Western brand entering the market, therefore, had a great advantage.

#### **3.1. Advantages for early movers**

The Chinese economy under Mao was a planned economy like it was usual for communist countries. The needs and wishes of customers which are central to a market economy did not play a role in these plans. As a result, a lot of products well-known in the West the Chinese knew only from hearsay or the black market. Since 1978 the Chinese market was step by step opened for Western companies and early movers started to sell their products or open stores. At first, they did this together with local partners, forced by the regulatory environment (Dony, 1999).

Western brands entering the Chinese market early enjoyed quite strong first-mover advantages. In Figure 2 the main markets now dominated by Western products are listed with their market leaders<sup>3</sup>. It can be seen that most market leaders entered relatively early and have built the dominant position of their brands on unique advantages. For example, the product of Starbucks, coffee, is not a traditional Chinese drink. From the very beginning, it was identified with Western culture and Western values (Maguire & Hu, 2013) and there was no serious competition for Starbucks. Another example is chocolate which is not traditionally Chinese either. Because in the communist past it was only available on the high-priced black market there was a high demand for this "luxury" product. Western companies fought for this market between each other with a variety of products but there was no competition from Chinese companies at all. Mars and Nestle emerged as leaders in this market (Allen, 2010). Their failed competitors, Western brands too, failed cause of management mistakes, the market itself

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<sup>2</sup> The latent potential for this is discussed in (Zhang, 2012, p. 101ff)

<sup>3</sup> Here we focus on Western brands. Markets where other foreign companies, such as Japanese Brands, have a sizable market share are mostly neglected. For markets like consumer electronics or cars see (Helbig, 2020a).

was wide open to them.

IKEA is another company profiting from an early entry (Croll, 2006, pp. 87-91). Home ownership was new to the Chinese after 1978. But with rising income since the year 2000 more and more people could effort to buy an own home or flat. This opened the new market of home decoration which was new to the Chinese for the same reason. And IKEA catered to this market at the right time, starting in 1998, in this way establishing its brand as a synonym for home-decoration (Giunta, 2016).

### WESTERN BRANDS – EARLY MOVERS

Product	Early Market Leader (Mainland Entry)	Early Mover Advantage	Main Competitor
Sportswear	Nike (1981)	Sneakers=Nike	Adidas (1997)
Fashion	Gucci (1997)	Gucci=Western luxury	Louis Vuitton (1992)
Luxury Watches	Omega (1979)	Showing off = Omega	Rolex (1995)
Chocolate/Sweets	Mars (1990)	Western Snack=Snickers	Nestle (1984)
Soft Drinks	Coca Cola (1978)	Western Drink = Coca Cola	PepsiCo (1982)
Home decoration	IKEA (1998)	Home decoration = IKEA	Hola (2004)
Coffeehouse	Starbucks (1999)	Coffee=Starbucks	-
Fast Food	KFC (1987)	Locations	McDonalds (1990)
Smartphones	Apple (2009)	Innovation	Huawei (2004)
Computer (-chips)	Intel	Western technology=Intel	AMD
	<b>Failure</b>	<b>Disadvantage</b>	
Toys	Mattel/Barbie (2009)	Western and Chinese values clashed	
Baby diapers	P&G (1997)	Chinese product existed	
Online Sales	Amazon (2004)	Incumbent inertia	Alibaba Tmall (2008)

Figure 2: Early movers

IKEA’s major competitor Home Depot mostly failed. Although it offered more or less the same product portfolio as IKEA, like furniture and household items, it additionally sold tools and building material. In the Western world, these sorts of Do-It-Yourself stores are highly successful. But the reason for this is high taxes on work and therefore craftsmen are expensive. People prefer to build and repair things themselves or ask illegal workers<sup>4</sup> instead of paying a skilled worker and his taxes. In China work was cheap and taxes low. A do-it-yourself culture never existed and there was no incentive for people to develop it. Home Depot could have easily adapted its portfolio just by focusing more on furniture, but it didn’t. IKEA was already an established brand and developing a new portfolio for a new market was a risky effort. Home Depot closed its stores.

Luxury goods are a further industry where early mover advantages played out (Bonetti, 2014). As in other former socialist countries, the Chinese developed a culture of “showing off” their new riches. Western brands were the natural choice for this because the West appeared as, and in fact was, much richer than China. Gucci dominated this market early on by just selling its Western-style collection. Others tried to build a specific Chinese style for their product but failed. “Western-style” in itself was regarded as a luxury one and the early movers like Gucci and Omega used this to build a

<sup>4</sup> In Germany, illegal workers are important customers of hardware stores.

brand.

KFC has built its success in China on two early-mover advantages: Brand building and locations. Although KFC adapted its products to the Chinese taste the customers' experience is typical for US fast food: Ordering at counters, immediate takeaway, relatively restricted menu, standardized familiar order-process. In this way, KFC could establish

### FIRST-MOVER (DIS-)ADVANTAGES

	(Dis-)Advantage	China 1978-ca. 2010	Examples
Advantage	Product/Process leadership	Western quality, high functionality and Western values	Nike sneakers = quality Gucci = Western luxury Apple=Innovation
	Preemption of assets	Store locations	KFC outsmarted McDonalds and secured dominating market share
	Buyer switching costs	Brand building. Identification of whole product class with just one brand	Coffee=Starbucks Cola=Coca Cola
Disadvantage	Free-Rider	Convincing the Chinese about Western product	Nike had some cultural-based trouble opening the sportswear market, Adidas got a free ride
	Resolution of uncertainty	Will there be a sizable consumer market in China?	Strong growth punished latecomers like Home Depot
	Shift in customer needs	Growing income and shifting values changed needs	Louis Vuitton got a second chance against Gucci and used it
	Incumbent inertia	Underestimation of Chinese companies	Inert Amazon lost to Alibaba's Tmall

Reference: Liebermann 1988; examples cited in text

Figure 3: The first-mover advantages framework

the new category “fast food” in the diverse Chinese restaurant market, use the attribute “Western-style” and establish its brand as a synonym for fast food (Yan, 2000). By aggressively opening new restaurants at attractive locations, it cemented its market leadership (Bell & Shelman, 2012). The latecomer McDonald’s had to use all its financial muscle to secure a position. In 2011 KFC had a 40% market share while McDonald’s had only 16%.

Most Western market leaders were early or first-movers. Market shares did not change so much later, with the notable exception of Apple. In Figure 3 the first-mover advantage framework is used (Lieberman & Montgomery, 1988) to analyze this. The first point is the technological advantage with the product or process a firm acquires by moving first, similar to the economics of scale. In our case, all Western brands already were leaders in some markets, so they had a superior advantage over Chinese brands but none between each other. The advantage, therefore, was to enter the market with an already superb product and securing the other advantages faster than it's usually possible. The two advantages secured in this way were brand lock-in and locations. KFC is a good example for the securing of locations further discussed in chapter 6.2.

Buyer switching costs are the last of the three categories. For most consumer brands the switching costs are represented by its brand. The brand name “Coca Cola” is an example of switching costs in the form of a brand lock-in. The difference between Coca-Cola and Pepsi Cola is striking: If one orders just „a Cola” and the restaurant has only

Pepsi Cola the waitress will ask „Is Pepsi Cola ok?“. If they have Coca-Cola, she will not ask for further clarification.

Due to the complete absence of competition, most of the early movers in Figure 2 secured such an early lockin of a whole product category to their brand. Starbucks is identified with coffee houses in general, Nike with sportswear, Gucci with Western luxury, and Coca-Cola with soft drinks.

### 3.2. Building brands around high-priced superior products

Most Western brands in Figure 2 entered the Chinese market in the 90s of the last century building their leading position in the early years of this century. A typical consumer, for example of age 40 in the year 2000, was born and raised in Mao's time. He had lived through the cultural revolution and had experienced extreme poverty most of his life, his parents even had experienced famine. Until 1994 the GDP per Capita was below 400\$ a year. Because of the highly unequal income distribution, most Chinese had a personal income much below this average number.

It is no wonder that this generation of consumers, having lived through challenging times, developed a more security-searching approach to life and therefore conservative traditional values like thrift, family values, distrust of government and law, and long-term planning (Dou, et al., 2006) (Lu & Alon, 2004)<sup>5</sup>. To deduct how these values influenced the consumption habits of this generation we have to analyze the connection between values and consumption preferences (Sheth, et al., 1991). Buying preferences can be clustered into four groups of motivations (Figure 4) with different impacts on Western brand preferences (Xiao & Kim, 2009).

The functional ones like quality, price, and features can be most easily understood. Any person will prefer a product with a lower price, everything else being equal. If the price is equal any person will prefer a brand well-known for its quality to an unknown one. The cultural values enter only in an indirect relative way, for example, a very thrifty person will focus on the price and react to small differences, forgetting about other values. While a long-term-minded person will prefer higher quality. In this way, cultural values can influence a functionality-based decision, but they are not the dominant ones, the functions themselves are.

Regarding our conservative age cohort, we notice that their typical values made them focus mostly on functional buying preferences, i.e., price, quality, and features. From their early life experience, they knew that Western products had superior quality and a variety of modern and innovative features. But Western brands were first mostly imported or even sold only on the black market, so they were identified with “high price”, too.

In the 80s and early 90s, most Western companies entered China only to produce products for export. Chinese companies copied these products but first did not reach the same quality. After Western brands decided to sell their products on the Chinese market, too, they, therefore, met a competitive environment that can be summarized as “Chinese – cheap, low quality” and “Western – expensive, high quality”. This was

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<sup>5</sup> For an overview of the Chinese value system, see Appendix A.1. For the different age cohorts, see A.2.

mostly a fact but more important was that the customers knew it and valued it (Wong & Zhou, 2005).

Western brands would probably have achieved sweeping success in the Chinese market if it were not for the one functional preference that they could not meet: low price. To have early successes Western brands needed to adapt their marketing mix accordingly. One key factor was “location”: Starbucks opened its first store in the China World

### CONSUMER BUYING PREFERENCES

Preference	Influence of cultural values - example	Western brand preference	Examples
Functional	Thrift (Price) Long-term (quality)	Medium	Price Quality Technical features
Social	Professionalism Group orientation	Medium	Being part of a group/globalists Environmental responsibility
Emotional	Face/competence Etiquette/consumption Individualism/ self-expression	High	Identification with heroes Sportiveness (BMW, Nike) Creative lifestyle
Epistemic/ Entertainment	Tradition/modern	none	Tourism Movies Dancing in clubs

Reference: Sheth 1991; Xiao, Kim 2009; others

Figure 4: Consumer buying preferences

Trade Center Building in Beijing, in this way ensuring that the Walk-in customers were high-income-earners and did not worry about prices. KFC opened its first restaurant next to Tiananmen Square catering to high-income walk-in customers and wealthy tourists. The crowds and long waiting lines surrounded this building for months, a phenomenon the Western world only knows from the early days of Apple stores. But KFC did not sell fancy phones just chicken nuggets.

Nike sneakers' price in the late 90s averaged twice a monthly income. And no sports culture was existing in a country where since the days of the Confucius exams success was based on exam notes and exam notes alone. Nike centered its marketing around the Olympics and Chinese athletes, in this way establishing not only “Sneakers=Nike” but “Success=Nike” (Wang, 2008, p. 293).

A good example of the products that succeeded in those early days gives the chocolate market (Allen, 2010). Ferrero positioned its product “Ferrero Rocher” as a high-priced gift for special occasions. Ferrero made sure the quality of its pralines was maintained under all circumstances and centered its advertisement around national festivals. In the Chinese culture giving a gift is combined with the cultural value of “saving face” (Li & Su, 2007). A gift should not be cheap otherwise the giver loses face. Ferrero’s advertisement ensured its product was well known and Western chocolate automatically was identified with high price and quality. In this way Ferrero secured the premium market, only much later Nestle and Mars succeeded in the mass market.

### 3.3. Selling Western values

In the Nike example, we have already seen that functional preferences alone were not enough to ensure success. Superior quality and new features are not convincing if the customer has no need for the product in the first place. In the United States' educational system, a student has to be sportive and have good exam notes<sup>6</sup>, none such requirement existed in China, neither in its educational system nor in the culture itself. Nike had not only to advertise and sell its sneakers but Western values themselves.

This "Selling" of Western values had to be done through the other three categories of buying preferences in Figure 4. Nike chose emotional preferences. Early on in 1995 started to outfit and sponsor top Chinese athletes. It advertised them as sort of national heroes and made sure sportive events were shown more often on TV.

Together with promoting "sportiveness" and "sportive heroes" Nike promoted American values. Its commercials focused on single individualistic heroes winning against groups of opposing players in this way symbolizing how Western individualism wins against Chinese groupthink. In other advertisements, Nike promoted the urban hip-hop culture of American rappers just reducing the offensiveness of the language a bit. In this way, Nike connected itself with a "creative lifestyle" and "cool Western culture".

Gucci chose a similar method. Luxury products of course were not existing in the communist past. There was no Chinese luxury culture, luxury was identified with the West. Frida Giannini, Gucci's creative director, explained it like this: "When you propose something that is specific to that market it is not always 100 percent well received. They want Gucci because it is an international brand, so if I designed something with a more Chinese attitude, I'm not sure they would appreciate it." (Blanchard, 2012).

Coca-Cola got unintended help from the Chinese government. In 1983 they issued that "not a single bottle of Coke should be sold to Chinese", in this way making Coca-Cola a symbol for capitalism and Western values. As a drink Coca Cola did not appeal to the Chinese, early interviews revealed that customers thought it "tastes like traditional Chinese medicine" which was not a compliment (Sterba, 1981). Furthermore, the Chinese preferred warm drinks like tea to cold ones. Early advertisement campaigns, therefore, promoted Cola as "tasty happiness", targeting emotional buying preferences and changing tastes (Schnitger, 2016).

### 4. Growing market share in the boom years

In the years between 2000 and 2019, the Chinese consumer market grew by an average of 13% annually, a factor of 10 in total. Just by keeping its market position, any brand could have grown sales by the same factor. However, the special positioning of Western brands in the early years led to an additional tailwind in the boom years. The identification of Western brands with Western values made those brands more successful because the Western lifestyle became more popular. Rising income made the price of Western brands more and more affordable for consumers, turning their focus

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<sup>6</sup> This culture is not even typical for all Western countries. For example, at German Universities sportive activities are regarded as everyone's private business.

not only to quality but to innovative and modern products, too.

#### 4.1. New Westernized lifestyle

China changed fast and in the first decade of this century, a new cohort of consumers entered the market in increasing numbers: Chinese raised before and around the opening years of 1978. This Chinese never experienced famine but knew about being poor (Li, 1998, p. 51ff). All their life the economic situation had turned better and better with a high speed of growth. They grew their income considerably through hard work. Identifying their successes with the opening-up to the West, this cohort is expected to be most open-minded to conservative Western values like professionalism and competence. But even materialism was planted into this generation, rooted in communist values (Sun, et al., 2014).

#### WESTERN BRANDS – POSITIVE LEVERS

Lever	Value	Influence on preferences
Global mindset	Modern	Accustomed to Western brands
Raised wealthy	Hedonistic	Accepts higher price of Western brands
Shift of values	Western	Identifies with Western brands values
“Modern” groupthink	Belonging to a group	Belonging to globalists

Reference: Atsmon et.al. 2012; others  
 Figure 5: Influence of Westernized lifestyle

This generation identified with brands that combined materialistic values like “showing off” with symbols of professionalism (Degen, 2009). Rolex is a brand that builds on this, as it did in many ex-communist countries (Vasilyev, et al., 2017). Its golden crown logo symbolizes success, status, and power and so does its international brand name. Rolex chose professional musicians as its advertisement partners, in this way directly appealing to the values of professionalism and competence, combined with success. Being late in the Chinese market Rolex could anyway secure a leading market share with well-targeted marketing.

Around 2010 the next age cohort entered the consumer market, again being very different from the just slightly older cohort due to the rapid development of China and its society. Born in an already more or less wealthy country this cohort experienced the least insecurities about the future and is therefore expected to be more materialistic and hedonistic (Shan, et al., 2016). Cause of their global-minded bring-up they still value Western values but more the modern hedonistic ones (Wang & Lin, 2009).

This generation is most comparable with Western consumers. They were born in wealth like every Western generation since the student revolt generation of 1968 was. They experienced globalization and accepted the West as an integral part of their life, not least because of their knowledge of the English language. Western brands had no problems selling their products with only minimal modifications of brand message and



product.

A symbol of this completely Westernized lifestyle is the Louis Vuitton bag. These bags have a well-known design and pattern, there is nothing Chinese with them. No luxury with Chinese characteristics. But while in France only 2% of women have a Louis Vuitton bag, in China it is a must-have. In 2012 Louis Vuitton in China was titled “a brand for secretaries”, a problematic title for the brand but not for its sales. While Western societies already moved away from conspicuous consumption to inconspicuous ones, the Chinese consumer turned more Westernized than the West itself (Rovai, 2016, pp. 26-37).

The evolving influence of the Westernized lifestyle on Chinese buying preferences is summarized in Figure 5. (Atsmon, et al., 2012). The new values of “being modern”, Hedonism, “being part of the globalized elite” and Western orientation all were in favor of Western brands. The more a brand represented assumed Western values, like Rolex, Nike, or Louis Vuitton did, the more successful the brand was.

#### 4.2. Focus on premium products

As described in chapter 3.2, Western brands were positioned with premium prices, making some of them unaffordable for large parts of the population. From 2000 to 2019 the average Chinese household income increased by 360% from 21,646 ¥ to 77,578 ¥, so more and more Chinese could afford higher-priced products.

These average numbers blur the large and increasing income inequality typical for China. In Figure 6 the consumer market is segmented into income groups (WID, 2020). If a product in the year 2000 targeted consumers with a yearly above 20,000 ¥ it reached 36% of Chinese. In 2019 it would have reached 78%, so just a bit more than twice. But a luxury item targeting the income group above 150,000 ¥ p.a. (ca. 19,200 € p.a.<sup>7</sup>) would have gone from 0.5% to 11.6% of the adult population, an increase by a factor of 19. Western brands targeting the premium segment of the market have seen their addressable market increasing much faster than China’s economy grew itself. What is in the West a lower-middle-class income group has seen an average yearly growth rate of 17%. Being close to non-existent in 2000, it's now an important market segment. This compares with the whole group earning above 20,000 ¥ only growing an average of 4.2% p.a.

From this effect alone a Western brand with a premium product targeting the middle-class market could grow by a factor of about 19 since the year 2000, while a Chinese brand targeting the mass market only doubled. It is no wonder that Chinese brands had a problem catching up. The higher the income of the targeted group, the faster the growth of the market segment was. Western luxury brands like Gucci were completely justified in judging China as their most important market.

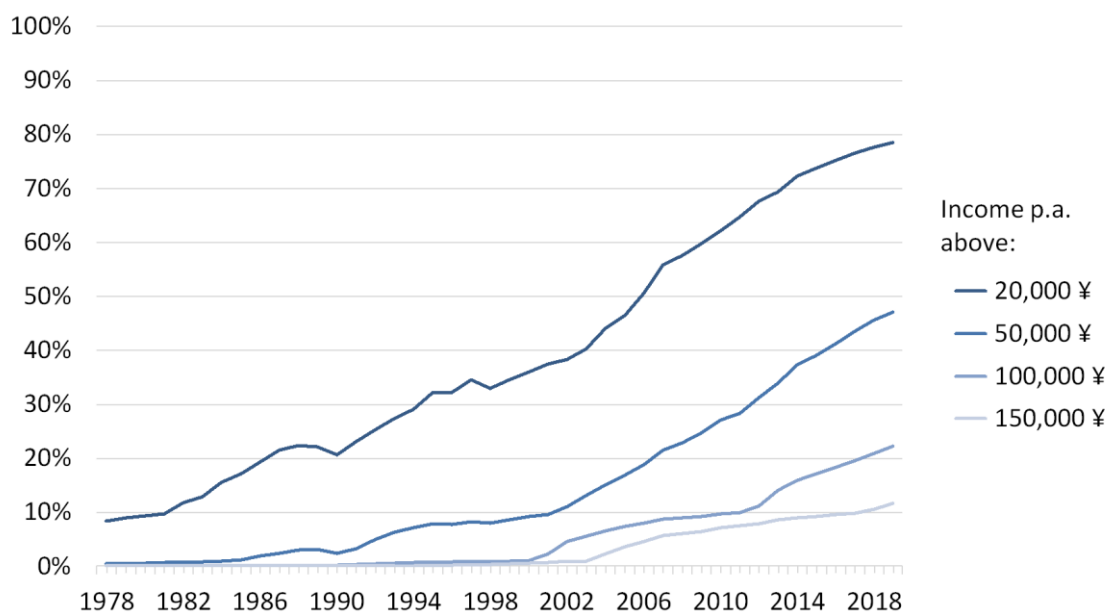
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<sup>7</sup> The current purchase power parity between Germany and China is 5.6. So, German readers should translate this number into 26,800€ before taxes. Because taxes and other levies in China are much lower than in Germany the real buying power of this group after taxes is even much higher in comparison. A comparable group in Germany would be roughly 35,000€ of gross income p.a., the income of a qualified young engineer.

But this fast change of market segments forced Western brands to reconsider their portfolio. What a few years ago was luxury or premium, now is a household item and household brand. The brand-defining Louis Vuitton bag turned from a luxury item of the super-rich to the infamous “secretaries’ bag”. Louis Vuitton was forced to introduce a new premium line of its bags, especially for the Chinese market, carefully avoiding the classic design. Starbucks introduced new coffee variants, increasing prices considerably in this way. Losing the “premium”-label would endanger a brand to compete directly with Chinese competitors, a destiny every brand manager of course tries to avoid.

### CHINESE ADULTS WITH INCOME ABOVE THRESHOLD

(Number of adults in %; 2019 Yuan, inflation corrected)



Source: World Inequality Database, authors analysis

Figure 6: Household income group segments

KFC is one of the brands that was most endangered by this trend. In the United States, it is not quite the “fine dining” class of restaurants, more the opposite. The early successes of KFC in China are probably attributable to the “new and Western” effect already discussed above. As the Chinese middle class was growing KFC had to decide to drift into the lower segment of the market or grow with its customers. It decided to drastically increase the number of items on its menu, raise the quality, improve the taste, and innovate technologically (Bell & Shelman, 2012). Today a KFC in China is very different from one in the United States, even American tourists noticed this. KFC implemented these changes early and left its competitor McDonald's further behind in market share.

### 4.3. Innovation Leadership

Chinese companies in the 80s and 90s mostly produced for Western brands and therefore for export. An essential part of Deng Xiaoping’s opening strategy was to trade (labor-) market access for foreign companies with the transfer of knowledge and intellectual property (IP). This strategy was enforced through laws and treaties making it impossible for Western companies to produce in China without a local partner.

The advantage of China was its large workforce, highly motivated, and neglectable

wages. Foreign producers entered China to access this workforce, not their knowledge. Consequentially most sites with partly foreign ownership or involvement were production units, not research laboratories. These investments triggered a speedy transfer of foreign knowledge and IP to Chinese companies and later to Chinese brands. Besides direct knowledge transfer in the partnerships, there was the additional transfer through employees switching jobs and taking the acquired knowledge with them (Vogelsang, 2020, pp. 403-405).

Due to the nature of these investments, the knowledge transferred was mostly about production technology, processes, and management methods. Chinese companies successfully copied the production technology of foreign companies but not their technology. Up to the present day, technologically evolved components of Chinese products have to be imported. The screens for the TVs of Hisense are made in Korea, the microchips for Huawei's phones were made in Taiwan with US-technology<sup>8</sup>.

Because of this development, Western brands faced competition from Chinese brands first through price alone. Chinese brands had copied foreign production and combined this with cheap labor. Naturally, the replication of foreign production methodology was mostly imperfect, giving Chinese brands the famous "cheap, but low quality"-image. To get rid of these early imperfections just time was needed. Western brands soon faced "cheap, high quality" competition from Chinese brands.

The main competitor of Nike in China is now Anta Sports. Anta started as a production unit and reseller for Adidas and Rebook, opening stores in second or third-tier cities where these brands did not want to build their own presence. As late as 2007, its own branded shoes, manufactured in China, focused on the low- and mid-end market, leaving the premium segment to its contract-brands Adidas and Rebook. In the last ten years, Anta increased the number of its stores by a factor of three, positioned its own brands in its stores, pushed new premium brands, and entered the international market for sportswear. Adidas in the 90s had transferred knowledge to Anta on how to produce and sell, now Anta is a serious competitor to the Western brands (Li, 2016, pp. 157-160).

But Nike managed to grow its market share relative to Anta, growing even faster than its competitor. From the levers described in Figure 4 and Figure 5, one can understand how they out-innovated the competition. Nike is not only a Western high-quality brand; it appeals strongly to emotional and social values. Nike's advertisement identifies its shoes with famous athletes and other well-known local celebrities, creating a strong attraction to people identifying with these athletes, implying the sportive success of these athletes is caused by a brand-new generation of innovative Nike sneakers (Perebu, 2016). Furthermore, Nike builds attributes like "modern/innovative", "cool", "young", "successful", "responsible" and "individualist" around its products. There is always the next "new innovative shoe" even better than the last generation. In this way, it appeals to young Chinese who wish to belong to the modern and innovative subgroup of the Chinese middle class. Nike as a company positions itself as social and environmentally responsible, connecting this positive impression with its brand and

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<sup>8</sup> This is the main reason why US sanctions against Huawei were so successful.

products. In this way, it appeals strongly to the Chinese value of social group orientation.

Where Nike's "innovation" is mostly in advertising, other Western brands had more real innovations. The poster child of Western innovativeness is Apple. Apple entered the Chinese market in 2009 with its iPhone 3 growing market share in a fast-growing market until 2015. With a price of 7,000 ¥ it cost a month of after-tax income even for the two high-income groups in Figure 6. In 2009 Apple targeted with this pricing the upper 5-10% income groups of consumers, positioning its iPhone at the highest price segment of the market. Like in the West, Apple's phones were a luxury item in China, and like other luxury products had fast-growing sales. If you had success, you needed a Rolex and an iPhone. Apple's stores were opened in the most business-like parts of the major cities, commanding day-long queues with every newly launched iPhone model. While in the West these waiting lines were mostly fairytales of Apple's brand-building, in China they were real<sup>9</sup>. Apple represented "Western innovativeness", not only with its phones but even more with the advertisement message. Although Samsung technologically was always about two years ahead of Apple, the marketing of Apple managed to promote every new feature as an "Apple innovation", although in most cases it was a Samsung patent and Samsung's components. While in the West Samsung with its superior technology was always a threat to Apple, it has a neglectable market share in China. Apple's advertisement appealed to the aspired Western lifestyle, especially combining "Western modernity" with innovations.

Another well-respected Western brand is Intel, representing Western high technology and innovation in its purest form. To discuss Intel as a consumer brand seems a bit odd, Intel's main customers are Computer-manufactures, targeting themselves primarily businesses. That Intel is well-known to consumers all over the world roots in its famous "Intel Inside" campaign launched first in 1991. Until the present day, every laptop has a sticker "Intel Inside" next to the keyboard, in this way proving the buyer did an informed technological decision<sup>10</sup>. This undeniable connection between "Western technological superiority" and Intel made Intel one of China's most respected brands (RepTrak, 2018), followed by Huawei and Rolex. Even today China's largest PC manufacturer Lenovo, formerly IBM, uses mostly Intel technology and the branded sticker. Western technology brands like Nvidia, Intel, and AMD are not in danger to lose their brand position anytime soon, there is no Chinese company that in the next decade will be able to compete in any way<sup>11</sup>.

## 5. Current headwinds and market share losses

Already well before the pandemic struck, the writing on the wall was not entirely positive for Western brands. Many trends were already on their way before the pandemic

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<sup>9</sup> The author witnessed both.

<sup>10</sup> Other Western companies followed this example and now there are Nvidia- and AMD-Stickers, too. All of them being US-brands.

<sup>11</sup> Other foreign high-tech companies could not protect their intellectual property as successfully as US ones. The whole Japanese electronics industry got out-smarted by the Chinese producers they had raised themselves. Sony lost its market to Chinese brands. See (Helbig, 2020a).

hit, for example, a shift from Western brands to local ones. A rising nationalism added to these headwinds for Western brands (Latif, et al., 2019). Some Western brands already started to lose market share, camouflaged in the annual reports by still growing sales in a fast-growing market (Helbig, 2020b).

### 5.1. Competition from Chinese brands

If we now discuss the competition from Chinese brands, we have to differentiate between the rising competition the leading Western brands are facing and competition in industries where Western brands already lost long ago.

In the preceding chapters, we focused on industries still dominated by Western brands. We picked the leaders in these industries to get a more or less representative overview. This method of course neglects an important part of Western brands: the unsuccessful ones. By its very definition, this later group is much larger and cannot be analyzed completely, most failed brands the Chinese never heard about.

One of those failed brands is Amazon. Amazon entered the Chinese market in 2004. This cannot be judged as late because even in most Western countries the market for online ordering was still small, mostly used by IT specialists. In fact, Amazon's main competitor Alibaba's TMall has started in 2010 only and Taobao in 2003 (Chan & Zakkour, 2014, p. 130ff). But Amazon did not make good use of its head start. The webpage was not localized in any way. Even worse, until 2019 it still had the international design. Amazon's concept to be a warehouse, instead of a marketplace, did not fit the fast-evolving Chinese market. Alibaba's concept was more like eBay; the micro-management of price and products was outsourced to its affiliates. In 2019 after 15 years of resisting any changes, Amazon closed its operations in China.

#### WESTERN BRANDS – EARLY FACTORS OF SUCCESS

Brand	Identifying with Western Lifestyle (conspicuous)	Modern/innovative Image advertised	Premium positioning	Early established brand
Nike	X	X	X	X
Gucci	X	(X)	X	X
Omega	X	X	X	X
Mars	X	X	-	X
Coca Cola	X	X	(X)	X
IKEA	X	X	-	X
Starbucks	X	X	X	X
KFC	X	(X)	(X)	X
Apple	X	X	X	X
Intel	-	X	X	X
Mattel/Barbie	X	-	X	-
Pampers	-	-	-	X
Amazon	-	-	-	(X)

Figure 7: Factors of success

Amazon is a good example of the incumbent's inertia disadvantage in Figure 3. Being an international slow-moving powerhouse, it was outmaneuvered by a startup like Alibaba. But most Western brands were incumbents in their home market and internationally. Amazon's further disadvantage was that none of the tailwinds which blew for

other Western brands were favorable to its business model. Figure 7 lists the factors of success discussed in the preceding chapters. All of the market leaders have at least three of these factors, most all four. Amazon could not use one of those factors to its advantage. The brand Amazon does not stand for “Western lifestyle”. People wear a Nike sticker on their shoes and shirts, Louis Vuitton conspicuously on their bags, even Intel on their laptops. But the brand “Amazon” is only seen on its webpage and its packets, even in the West. Amazon was not identified as innovative, too. While Alibaba improved its web pages every week and introduced new services, Amazon just stayed the same. The higher price of goods from Amazon did not position the service as a premium one. People do not buy “Nike from Amazon”, they just buy Nike. If Alibaba has a better price, Alibaba gets the customer.

A very similar problem Procter & Gamble faced with Pampers. Being unknown in the market it had no brand advantage. Diapers do not represent a lifestyle or modernity. The product itself was sold relatively cheaply and seen by the Chinese as inferior to the Chinese traditional solution, manufactured by Chinese brands. This way, it took P&G some years of failures to finally position its Pampers in the premium market.

A more astonishing example is the little success of Mattel’s Barbie (Kühne, 2016). Of course, the late market entry in 2009 may be one of the reasons. But other factors were advantageous. Representing the Western lifestyle, Mattel positioned Barbie as a premium high-price toy. But while in the US children decide which toys to get, this is different in a more traditional culture like the Chinese. In 2009 the parents of an eight-year-old girl had an average age of 35 years, born in the Cultural Revolution. This conservative cohort did not like the sexy style of Barbie, neither did they like the low educational value of this sort of toy.

From the factor of success in Figure 7, it is no wonder that Chinese brands competed successfully with Western brands in segments like food, milk, beer, laundry detergent, hygiene, personal care, low-end electronics, and apparel. These are the categories of everyday usage; the focus is on low price vs. quality. While in 2009 foreign brands still ruled 60% of the consumer products market (Chang, 2013, p. 95ff), with increasing quality and still low prices Chinese brands dominated the above categories in 2016 (Baan, et al., 2017). The conspicuous identification with a Western Lifestyle is not an issue in these categories, neither is innovation.

Categories like smartphones, face moisturizers, baby skincare, infant milk powder, fashion accessories, makeup, cosmetics, and wine in 2016 were still largely ruled by foreign brands. These are lifestyle & health segments, where consumers are willing to pay higher prices for premium products. But only three years later, in 2019, Chinese brands had successfully taken some premium and innovation segments (Figure 8). Western brands lost the smartphone and skincare categories, staying dominant only in wine, cosmetics, and luxury (Ho, et al., 2019).

This development is most dramatic in the case of Apple. Apple’s market share in the Chinese smartphone market went from 14.3% in 2015 down to 8.9% in 2019 (share of shipped phones). On top of losing share of the shipped phones, Apple had to reduce prices, effectively even halved them, depending on the model. If a vendor sells much

less even with a drastically lower price, there is some fundamental problem. But the models themselves were the same Apple sold all over the world with unchanged success. Its winning competitor Huawei sells in China the same models as in Western markets. Apple lost its innovative edge; Huawei phones now have new features and new technology much earlier than the next iPhone. To the Chinese consumer, the label “innovativeness” is important as already discussed above, to Western consumers, this seems not to be the case. Being forced to reduce prices, Apple lost the label “premium”, too.

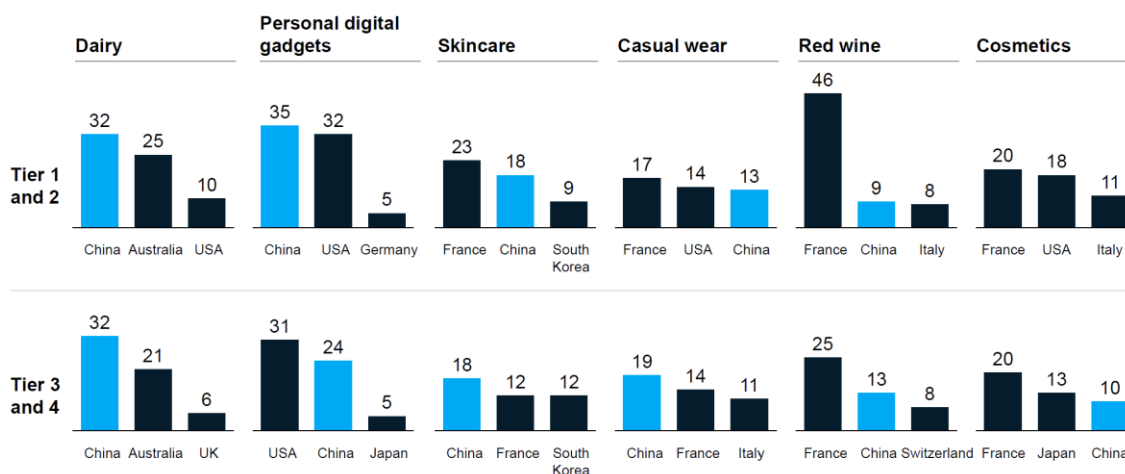
Only one of the early success factors still seems to be unaffected: the appeal of the Western lifestyle and the identification of some Western brands with it. But even this factor loses its influence more and more as discussed in the next two subchapters.

## 5.2. Consumption with Chinese characteristics

The trend to a Western lifestyle started in the first-tier cities. As we have seen Western Brands had their early successes there, leaving smaller cities and more remote areas to Chinese brands or resellers. It is therefore a warning sign for Western brands that the

### Top 3 countries of origin that consumers most likely buy when purchasing premium<sup>1</sup> products

% of respondents in tier 1 and 2; tier 3 and 4 cities, N = 745/580



<sup>1</sup> Premium definition varies by price tier across categories. For a 1 liter bottle of dairy beverage, RMB 60-100; for personal digital gadgets, RMB 5,000-12,000 for a smartphone; for skincare, RMB 1,500-5,000 for 50ml; for casual wear, RMB 8,000-20,000 for a jacket; for a bottle of red wine, RMB 2,000-5,000; for cosmetics, RMB 300-500 for lipstick.

Source: McKinsey China Consumer Survey

Figure 8: Preferred countries of origin

new inroads of Chinese Brands into the premium product categories are happening first in the first- and second-tier cities (see Figure 8 for 2019). For example, Apple still is the preferred brand in third- and fourth-tier cities, in the larger and more wealthy cities it lost this position.

This development happens at the same time that income levels in first-tier cities came close to Western levels (National Bureau of Statistics, 2019), see Figure 9. If growing at the same speed as in the last years these cities will surpass Western cities soon<sup>12</sup>.

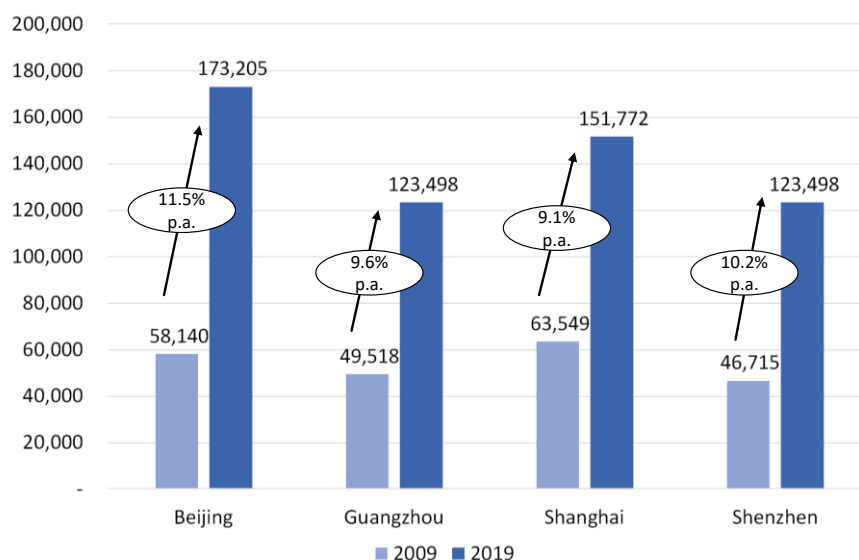
<sup>12</sup> The average wage in Beijing equals 27,000 \$ or 22,200 €. This is still below the average wage in Hamburg of 47,600 € and Los Angeles of 77,000 \$. In Germany taxes and other levies are higher, so Beijing

While the group with income above 150,000 yuan in Figure 6 is still a minority in China as a whole, in the first-tier cities it is the average, and in Beijing even a majority. Western Brands are losing market share the fastest in the cities with the largest high-income group (Chan, et al., 2009).

One possible explanation for this effect is the waning influence of “Western lifestyle”-branding in these cities. In the 90s the West, its values, and its lifestyle were a symbol for “rich, modern and successful” while Chinese values stood for “poor, failure and communist”, both undeniable facts at those times. But with the income levels seen nowadays in the first-tier cities this advantage of the West vanished (Sinha, 2014). With the original reason gone, it can be argued that the value attached to a Western lifestyle is fading, too (Zhang, 2017). Now even Western luxury brands have to adhere to Chinese cultural heritage (Mo & Roux, 2014) and iconic Western brands like Coca-Cola transform into a symbol of classic Chinese culture (Shi & Hearn, 2019).

### AVERAGE WAGE – FIRST-TIER CITIES

in Yuan p.a.



Reference: China Statistical Yearbook

Figure 9: Wage growth in first-tier cities

Furthermore, a new age cohort is entering the consumer market. While already the cohort before did not experience the horrors of China’s past, the cohort born in the 90s has no reason to attach anything negative to China and Chinese values. They were born into a growing economy, all their youth their parents turned richer year after year. All remaining problems being solved fast<sup>13</sup>. It is only natural for them to identify their good life not with the influence of the West but with China itself. They have never experienced the complete failure of government, like people born in Mao’s times did. To them, China is capably ruled, growing steadily faster than every other country in the world. Of course, this experience of the new generation was even

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will catch up in net income with Hamburg in a few years. Surpassing Los Angeles may take another 10 years.

<sup>13</sup> In West Germany, a similar development can be observed. The generations born in a destroyed country after the lost war have a much more positive image of the United States and its values than the younger generations born in wealth.



stronger in the first-tier cities.

Indeed, there is growing evidence for the change of Chinese values. A growing trend back to the more classical Chinese values is already ongoing for some time (Zhou & Belk, 2004). More recently this slow shift seems to have accelerated leading to a noticeable loss of market share for some Western brands (Moon, 2019). Cause Western brands are not identified with these classic values the emotional and social preferences shift in favor of Chinese brands, too. On top of this comes the shift to the classical values “group orientation” and “traditional creeds” which directly translate into preferences to “buy local products”. Western entertainment brands are hit by these developments, too, Ironman is no Chinese. The epistemic preference, therefore, is turning negative<sup>14</sup>.

An example of a company that had to react to these changes is Gucci. While until 2012 Gucci had success with the motto of its creative director „If I designed something with a more Chinese attitude, I’m not sure they would appreciate it.“, this didn’t work any longer. Sales declined in 2014 and a year later Gucci named a new creative director. Gucci started to incorporate Chinese-inspired elements in its collection and sales recovered fast. At a state visit in 2017, the first lady wore Gucci’s interpretation of a traditional Chinese qipao, showing the Chinese that Western luxury had bowed to Chinese style.

Something similar happened in the sportswear market. Li-Ning is a competitor to Nike focusing on the premium market. It is advertising as a quintessential Chinese brand of national pride, drawing upon traditional and contemporary Chinese culture and legends (Li, 2016, p. 148ff). The founder of Li-Ning was a well-known and respected Olympic medalist, underlining the credibility of the claim to adhere to Chinese values. To defend the premium segment Nike had to disconnect its marketing strategy for China from the global one and take Chinese values into account.

### 5.3. Growing nationalism

Deng Xiaoping used the famous phrase “keep a low profile and bide your time”<sup>15</sup> to describe China’s foreign policy under his rule, a stratagem that served Deng himself well to survive the Cultural Revolution. Deng’s China concentrated on prosperous internal development and left international politics to other countries. For example, China very seldom used its veto powers in the UN and followed all rules necessary to be admitted to the WTO.

With China’s economy growing it was more and more difficult to “keep a low profile”. Finally, with Donald Trump’s trade war the tensions between the United States and China were openly rising. But some observers in the West hoped this to be a temporary phenomenon caused just by “Twitter-diplomacy” and would fade away as soon as

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<sup>14</sup> This development is not specific to China, although the values involved are typical Chinese ones. In most former communist countries, a similar development back to national values could be observed after the first euphoria for the West vanished, especially in the countries of eastern Europe (Atwal & Bryson, 2014, p. 75).

<sup>15</sup> 韬光养晦

the new US administration had taken office. These hopes collapsed on March 18, 2021, in Alaska.

On this day high-ranking officials of the Biden administration met first time with their Chinese counterparts. The US delegation started the session with allegations and demands which even surpassed the ones of the preceding administration. The chosen tone neither seemed appropriate to the Chinese officials. But instead of smiling politely and following Deng's stratagem, the Chinese delegation "felt compelled to make this speech because of the tone of the U.S. side". In his speech foreign affairs chief Yang Jiechi accused the US of deep-seated human-rights issues (i.e., racism) and legitimacy problems with its democracy (i.e., election fraud) (U.S. State Department, 2021). Five days later the foreign ministers of China and Russia met to decide measures against Western accusations. The days of "keeping a low profile" had ended.

Under Deng Xiaoping and his successors, Western Brands were allowed to enter China and acquire and hold a dominating market share. Chinese people were allowed to admire and live a Western lifestyle. Developments like the admittance to the WTO showed the Chinese public that the West was friendly-minded and had a positive influence on China's development. But since the conflicts with the Western world are growing, part of the Chinese public got skeptical, and this skepticism was additionally nurtured by state propaganda. The conflicts with the West, especially with Canada, UK, the US, but since 2021 with the EU, too, force the Chinese to choose sides. The trade-war, the global measures against Huawei, the discussion about Hongkong, Taiwan, the Uighurs, a never-ending exchange of sanctions, the more and more escalating military situation in the South China Sea, and the accusations against China to have started the pandemic have raised a strong anti-Western sentiment in China with consequences for buying preferences (Latif, et al., 2019).

Western values were identified with Western institutions like rule of law, democracy, freedom of speech, and so on (Tian & Dong, 2011, p. 70ff). But many developments in the Western world seem to show that these institutions either do not work or are useless themselves. An example is mob rule in some inner cities of the United States. Or the doubts parts of the US population have about the election system, as mentioned in Mr. Yang's speech. Doubts, which culminated in the internationally noticed storm on the Capitol. To non-Western observers, this might have looked as if the West has serious institutional problems. Governments around the world including China already used all this to convince their citizens that "this will not happen in this country. We have a better government" (Hernández, 2020). The Chinese government itself seems to be convinced that "the West is in decline" (Buckley, 2021) and of course Chinese newspapers are full of arguments to prove this to the public every time there is something like a power outage or other failure in the US. Through the direct or indirect control of news- and social media the Chinese government can influence public opinion with effectiveness not known to most other countries.

Of course, this vanishing admiration for the West leads to a vanishing identification with the West and its brands. People cannot live in a cultural vacuum. The more Western values lose appeal the more Chinese will turn back to their traditional ones. The influence of these factors on buying preferences is quite powerful, as has been seen

already before the pandemic (Ong & McCool, 2019). No Western brand can afford to ignore them (Pál, 2009). While in the past outbreaks of animosity against the West had only a short-term effect on brands (Heinberg, 2017), the outbreaks now seem to become a continuous phenomenon centering on the brands themselves.

In the aftermath of the Alaska Meeting and EU sanctions, some Western brands like H&M and Nike felt obliged to ensure their Western customers again that they do not buy Xinjiang cotton. This led to an uproar in the Chinese social media and a large-scale boycott of H&M, Nike, IKEA, Adidas, and other Western brands. H&M-Shops had to close, cab drivers refused to drive customers to any of these stores, and customers visiting still open stores were harassed to “buy local”. The Chinese government jumped in and supported the boycotts officially (Xiao, 2021). There is evidence that the whole boycott campaign was set up by the government in the first place (Wall Street Journal Video, 2021).

Competing Chinese brands sized the opportunity and started patriotic campaigns to increase their market share. Celebrities cut their ties to Western brands and joined Chinese ones (Yuan, 2021). A development that is not unwelcome to the Chinese authorities: One of the declared targets of economic improvement is reaching self-sufficiency. For the Chinese government, the conflict about the Uighurs may be even a welcome method to unofficially promote Chinese brands.

If the Chinese government was behind this campaign or not, it anyway supported it immediately. For Western brands, the message, therefore, is clear: There will be probably more of these government-sponsored campaigns in the future (Taplin & Bird, 2021). The choice is between avoiding anti-Chinese publicity or losing market share. But staying quiet about sourcing cotton from Xinjiang is not an easy option either: Western activist groups will demand an answer. And they are as powerful as Chinese ones. Even the US Congress openly intervened and hit back against competing Chinese brands (Brunnstrom & Martina, 2021), escalating the trade war into a brand war. China retaliated with a new anti-sanctions law (Zheng & Wang, 2021). Western brands seem to be between a rock and a hard place<sup>16</sup>.

#### 5.4. Changes in consumer behavior during the pandemic

In 2020 the pandemic struck. Sales suddenly collapsed. Consumers shifted to online buying and in some cases switched brands. As the incumbents, Western consumer brands were hit the most by these changes. The pandemic influenced consumer behavior in a large variety of ways (Zwanka & Buff, 2021) and accelerated some of these trends. It is reasonable to hypothesize that not all this will be reversed after the pandemic subsides (Sheth, 2020). Furthermore, consumers were forced to learn new things during the crisis, for example, some older people had to learn to order online. Younger people learned how to do much more things online. These learnings will not be unlearned after the crisis and the changed behavior will thus not be completely reversed.

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<sup>16</sup> At the time of writing details about this law were still unclear. But official comments explicitly mention Huawei and Xinjiang cotton. Therefore, observers expect the law to have consequences for companies like Nike, H&M, or even Apple.

This complex question is structured in the framework in Figure 10. The different effects of the pandemic on consumer behavior mentioned in the literature are evaluated by their potential to lead to a switch of the brand. As our special focus is on Western brands in China it must be noticed that most successful Western brands in most cases are the market leaders in their premium segment. They are the incumbents in this segment, Chinese brands the attackers. Any changes in the market are to their disadvantage, all other things staying equal, like advertising effort. Why this is so, can be

### PANDEMIC CONSUMPTION – EFFECTS ON BRAND SWITCHING

Effect	Example	Potential for brand switching	Reversibility
Hoarding	Food hoarding	Focus on less expensive brands	High
Improvisation	Home Fitness	Brands with digital gadgets	High
Digitalization	Online-Meetings	New Laptop, new tablet – no special reason to switch brand	Medium, new learned behavior
Online Shopping	Buying a luxury watch online	Brands with less outlets got relative advantage	Medium, learned behavior
Reduced tourism	No touristic shopping	Italian luxury brands lost sales	High
Work at home	Buying a PC for home	Less iPads, more Intel-PCs	High in China
Globalization of social contact	More Weibo-friends, less meetings in person	Social influencers got empowered	Medium, learned behavior
Focus on (new) Hobbies	Artistic Drawing, Gaming	Shift of budget	Medium, learned behavior
Reduced conspicuous consumption	Skincare instead of makeup; Home-decoration instead of bags	Less glamorous brands got advantage	High
Do-it-yourself	Cooking instead of restaurants	From Starbucks to Nescafe	High
Pent-up demand	Restaurants	Restaurants with more lifestyle-flair have advantage	-

Reference: Sheth 2020; Zwanka & Buff 2021

Figure 10: Effects of the pandemic on brand switching

easily understood by imagining a fictive brand that has 100% market share. Any change that leads customers to rethink their buying decision will lead to a potential loss, other brands will win. The fictive incumbent cannot win, only lose. This mathematics turns against any incumbent with a dominant market share. Therefore, incumbents had to react especially fast to any change, faster than competitors. Some brands were actively managing this process (Dotiwala, et al., 2021).

The pandemic brought more changes in a shorter timeframe than any other event since Deng’s opening of the economy. The risk for the incumbent Western brands of losing customers to competing brands, therefore, was high. The first thing happening was hoarding. Customers bought what was available and at the lowest price. Established premium brands were of course at a disadvantage. Next customers had to improvise. With outside sports impossible they shifted to home fitness. Not to lose customers Nike introduced a home-workout app, in this way binding its customers to its product independent from sales channels. Nike’s sales in China increased by 30% despite the pandemic (Zipser & Poh, 2020), thanks to active management of the changes.

Digitalization evolved with high-speed during the pandemic, especially the need for videoconferences enforced this. Sales of Webcams, Laptops, and Tablets skyrocketed. But the danger of brand-switching wasn’t different from the usual product cycle this industry is used to. More dangerous to incumbent brands was the increased usage of online shopping instead of the mall. In a mall, there is a Starbucks, at home there is

Nescafe. Or just the food-delivery service brings the drinks. A large part of the luxury shopping experience is about the store, shopping as a leisure or touristic event, sales-clerks running around the customer. Ordering a Rolex online cannot compete with this, giving an advantage to brands with fewer outlets and fewer sales staff. In the store, the sales staff makes sure the customer does not even think about other brands, shopping online customers have to think and choose themselves. Again, a brand can actively manage this risk and for example, Louis Vuitton successfully switched part of its sales to the internet.

Reduced tourism mostly affected brands that are part of the touristic shopping experience, i.e., the luxury brands we will analyze in more detail in the next chapter.

Remote work from home cannot really be done on an iPad, people needed to buy a PC. But with a PC anyway available in the home and switched on, customers realized that PCs still surpass iPads in a lot of usage scenarios, like sorting the holiday pictures, watching 4K-videos, or playing games. Intel sold more chips for Desktops and Laptops than any time before, including in China. Lenovo's sales boomed. Prices for microprocessors used in PCs skyrocketed worldwide, graphic cards turned unavailable. Smartphones and tablets are superior for mobile usage, reduced mobility reduced the need for them. But China is not a country suited well for remote work (Lund, et al., 2020), therefore this will be a one-time effect.

The pandemic globalized social contacts. While in the pub or restaurant around the corner you can only meet a limited number of people, on Weibo there is no limit. This gave online influencers an increased edge. Combined with the anti-Western sentiment in social media, Chinese brands used this to their advantage especially with Western brands that did not ramp up their influencer base fast enough.

From artistic drawing to PC gaming the pandemic made people find new hobbies or re-discover old ones. This shift of budget reduced the money spent for other product categories, maybe irreversible. For example, the boom of PC gaming made Intel and Nvidia the winners, Huawei, and Apple the losers of this shift. Related to this effect is the increased trend to Do-it-yourself. For example, more people developed a habit of cooking at home. Starbucks got substituted by Nescafe and Nescafe used this opportunity to roll out new variants of fancy do-it-yourself drinks.

For luxury brands, one of the devastating effects of the pandemic was the reduced motivation for conspicuous consumption. With no visits to clubs, restaurants, or the office nobody will see your new Rolex. If people bought luxury, it was for their own enjoyment, the consumption was necessarily inconspicuous. In China, most of the luxury consumption is still the conspicuous kind. Brands with products that are more suitable for conspicuous wearing were at risk to be affected. Chinese brands focused more on skincare won against Western brands that are stronger in makeup products (see Figure 8). The leading skincare brand Perfect Diary, a local brand, increased its sales in the last quarter of 2020 by 72% compared with the same quarter of 2019.

With the end of the pandemic arrives a pend-up demand and Chinese consumers plan to frequent restaurants, malls, and entertainment with priority (Yamakawa, 2021). This is expected to be advantageous to brands that are consciously missed by consumers.

Nobody misses the coffee from the fast-food restaurant around the corner but with Starbucks, this may be different.

Now China is already on its way out of the crisis and sales are recovering. Western consumer brands are now facing a complicated mix of factors influencing their future sales: The pandemic accelerated some developments already underway before the pandemic. Other effects of the pandemic were reversible, for example, factors like “panic buying” or “fear of death” are one-time effects that probably will be reversed to a high degree as soon as the pandemic ebbs. Understanding these levers can be used by companies to positively impact the recovery of their sales. (Ho, et al., 2020).

But a switch to online shopping for convenience and maybe the aligned switch to a new brand or product will not be reversed completely (Lannes, et al., 2020) if the customer had a good experience with the new shopping process, brand, or product. New learnings will not be unlearned, new habits will not be reversed completely (Wen, et al., 2020). Differentiating between “fear of death”-induced behavior changes (Song, et al., 2020) and simple “convenience”-induced behavior is therefore important to understand the changes and to predict or even influence the future. This different degree of reversibility is summed up in Figure 10. As much as 86% of surveyed Chinese consumers said, they have tried new shopping behavior during the pandemic, one of the highest numbers in the world (Ortega, et al., 2020). Most of them said, they will not reverse their new behavior. Instead, they will continue to increase online shopping across all categories and especially continue to try out the at-home delivery of new restaurants and grocery services (Yamakawa, 2021). 26% of consumers tried new brands and 75% expect to stay with it (Yamakawa, 2020), which sums up to a potential 10% to maximal 20% loss of market share for any brand with a market share from 50% and up. The main reason for switching brands was value, i.e., getting high quality for a lower price. Sales of Western brands in China will be most hard hit by this irreversibly changed behavior because in most cases Western brands are the incumbents. In early 2021, Chinese consumers added “novelty” and “shares my values” to the reasons for trying out a new brand (Yamakawa, 2021). For the reasons discussed in the two preceding subchapters, this latter reason is quite dangerous for Western brands.

The effects of the pandemic add to the headwinds for Western brands described in the preceding subchapters. Market share losses cannot be explained by one factor alone. For example, was a consumer switching to a Chinese brand just because he could not buy the Western brand at his favorite store? Or did he give in to the “buy local”? The scientific literature on consumer behavior during the current pandemic is still scarce and general in nature. Especially for a single country like China, it is even rarer. Therefore, it is not possible in the context of this thesis to differentiate between these factors influencing consumer buying decisions during the pandemic. Here it was only possible to give a conceptual framework to sort the various effects observed during the pandemic.

## **6. Case Studies**

The rise and current struggle of Western consumer brands can be most easily studied

in two industries: the luxury/fashion goods industry and the Fast Food/Coffeehouse-Chains.

### 6.1. Luxury goods and fashion industries

China's luxury sales are still dominated by Western brands, mostly European ones. Most of the sales to the Chinese are not made in China but to Chinese people traveling outside of China as tourists. Even the in-country sales are mostly stationary retail sales (Figure 12). The change of consumer buying behavior to online shopping has hit those sales the hardest. Domestic sales are already recovering quickly, but travel sales are not, of course (Cheung, 2020). The luxury good industry is, therefore, suitable to show the different effects of behavioral changes historically and during the pandemic. Behaviors like "conspicuous consumption" are special and well-understood drivers for luxury goods sales (Zhou & Wong, 2008). The crisis has influenced these drivers in a va-

#### DEVELOPMENT OF CHINESE LUXURY MARKET

Around 2000		From 2010	Example	Pandemic Acceleration
Western style	→	Chinese style	Gucci changed complete collection in 2015	medium
„super-rich“	→	Segmented market	LV turns „secretaries' bag“	low
conspicuous	→	inconspicuous	LV positioning its brand much less conspicuous for premium bags	high
Stationary	→	Stationary+Online	Pandemic forced Online-purchases	high
Global	→	Local	Pandemic made shopping in Italy impossible	high

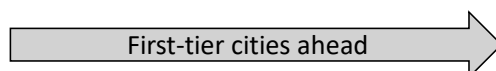


Figure 11: Main developments in the Chinese luxury market

riety of ways.

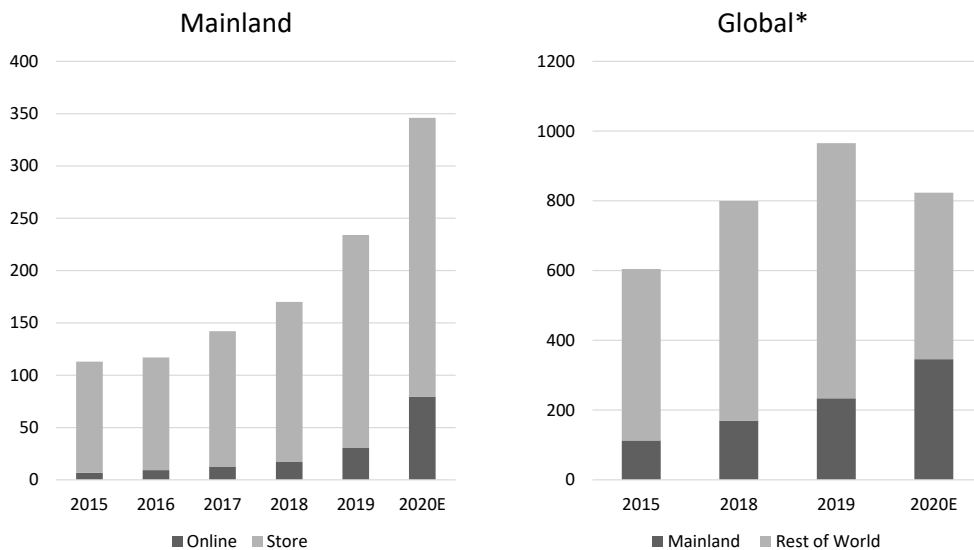
The Chinese luxury goods market is influenced by five long-term trends (Figure 11). While in the early years, luxury goods symbolized the Western world and therefore "success" just because they had no Chinese style elements, this connection faded out. All Western luxury brands had to develop specific products for the Chinese market-oriented at classic Chinese style or motifs. Brands like Gucci which waited too long with this renewal of their collection temporarily lost significant market share.

Naturally, luxury goods were bought at first only by the "super-rich", which in the case of China included income groups that would not quantify as super-rich in most Western countries. But with more and more Chinese entering the upper-income groups the luxury market decayed in different segments. The former "super-rich" segment grew so fast that their symbol of luxury, the Louis Vuitton bag, was called a "secretaries' bag". A new class of super super-rich consumers developed above this segment and Louis Vuitton had to introduce a new line of bags and luxury items above their traditional one. This new line was specially developed for China, in Europe, the classic line is

still the premium product line. Below these two lines even more luxury good segments developed, giving room for cheaper brands like Armani or Coach to position their products.

Connected with this fan out of the market is a slower trend from conspicuous consumption to a more inconspicuous one. A well-researched behavior of upper-income groups is to differentiate themselves from middle-income ones in a subtle inconspicuous but powerful way (Bourdieu, 1984, p. 257ff). In China, the middle-income group is growing so fast the urgency of this behavior is reinforced. If everybody owns all symbols of being rich, the upper-income groups can not differentiate by brand symbols anymore. They develop a habit of inconspicuous consumption, i.e., not showing obviously how expensive their clothes or bags are. The observer has to find this out by a look at the design or by small talk (Yu, 2014, p. 71ff). This trend is well developed in some Western countries but in China, it is still new and not dominant (Podoshen, et al., 2011), (Zhan & He, 2012). The new upper product line of Louis Vuitton is a good example of this trend, the brand name is shown only in a very inconspicuous way or not at all (Jing Daily, 2010). Other super-rich people will immediately recognize the brand's

**CHINESE LUXURY GOODS MARKET**  
in bil. Yuan



\*Luxury spending by Chinese citizens inside and outside of China  
Reference: Lannes & Zhang, 2020

Figure 12: Chinese luxury market – distribution channels

design from their own shopping experience, members of the middle-income group won't<sup>17</sup>.

Astonishingly this trend to inconspicuous consumption is in China not correlated with new age cohorts entering the market. All age cohorts express the wish to buy luxury items "just for myself" (Ruder Finn, 2019), younger Chinese are just more hedonistic in

<sup>17</sup> This seems to have not worked out as planned. Bags with completely hidden logo vanished from Louis Vuitton's Chinese stores, the "conspicuously inconspicuous" line was substituted by many new ways to show the logo, compromising between "inconspicuous" and "proof of price paid". A lesson for LV that what people tell in market research and what they really buy is not always correlated.



their spending (Jiang & Shan, 2018)<sup>18</sup>. A possible explanation may be the fact that older age cohorts have a higher income because they work longer in their jobs. Therefore, they try to avoid the “secretaries’ bag” to differentiate themselves.

Two more long-term trends in the Chinese luxury market are the trends to buy in local stores or even online instead of touristic shopping (Lannes & Zhang, 2020). But these trends developed quite slowly before the pandemic (Figure 12), part of the incentive to buy luxury goods is the experience in the store. The pandemic accelerated these two trends and all the others mentioned before. Before the pandemic, a large part of sales to Chinese consumers happened outside of China in touristic hotspots, mainly in Italy. But the international travel restrictions made this close to impossible, forcing mainland consumers to buy in the local store or even online. While the overall luxury consumption of the Chinese collapsed, in China itself, it rallied. Chinese consumers expect their new online buying habits to sustain, especially jewelry (Yamakawa, 2021). In China, the choice of a luxury brand is heavily influenced by celebrities and social media influencers (Weibo, 2018), (Ng, 2014), the trends to buy locally and online reinforces the need for luxury brands to be masters of this sort of advertising.

The trend to buy locally leads to reinforcement to buy luxury with Chinese style, in Italy, Chinese tourists just can’t buy this specific product. The pandemic, therefore, reinforced this trend, too. Furthermore, closed offices and closed restaurants reduced the occasions where people could conspicuously wear their new luxury items. This led to a shift to product groups that are inconspicuous by design, i.e., from makeup to skincare, from fashion to lounge, from glamour to well-being, from watches and bags to home decoration<sup>19</sup>. And from Starbucks to Nescafe as discussed in the next subchapter.

## 6.2. Fast-food and coffeehouse chains

The fast-food and coffeehouse chains are affected differently by the pandemic than the luxury industry: measures like quarantines reduced sales directly, home delivery could not compensate for this. The quarantines ended, but people continued to avoid contact with each other for fear of death. This effect is not to be expected to last forever. Hence, a quick recovery is a possibility and should be visible soon. This will depend on the durability of the brand loyalty build in the past. A history of these brands in China is therefore essential for the understanding of the current situation.

The Chinese market for fast-food restaurants has grown by an average annual 10%, faster than China itself (Figure 13)<sup>20</sup>. The submarket of Western cuisine is about 25% and stable around this percentage. Western brands like KFC, McDonald’s, and Pizza Hut experienced all the advantages discussed in this thesis and are still the market

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<sup>18</sup> There seem to be some contradictions between the two studies. A possible reason is that (Ruder Finn, 2019) focuses on actual customers while (Jiang & Shan, 2018) tries to be more representative. Here we are interested in actual sales and therefore the former study is more important.

<sup>19</sup> See (Yamakawa, 2021) for the effective changes in some of these consumption categories.

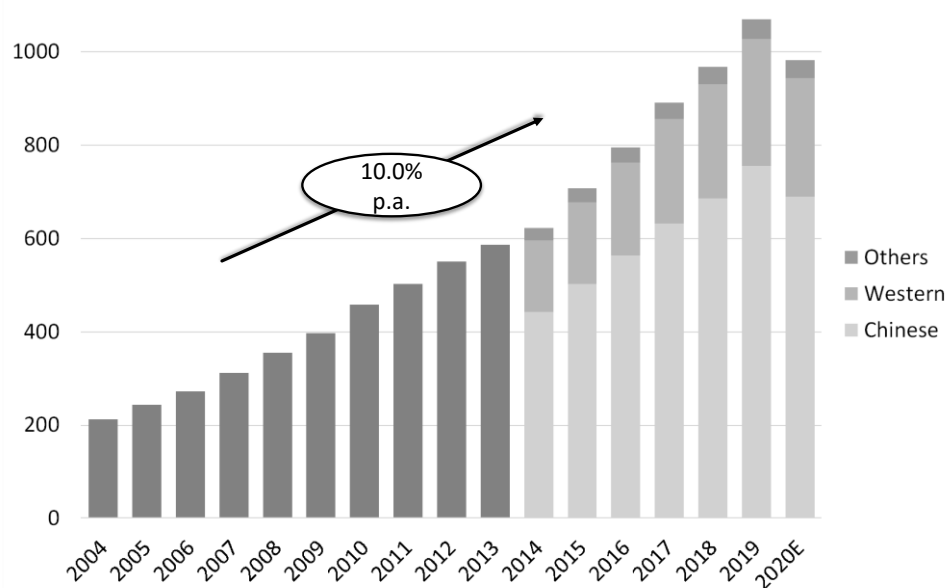
<sup>20</sup> The market for fast food as a submarket of the restaurant market is not well defined. The market sizes and market shares given in the literature, therefore, vary vastly. Here we use the definition Quick Service Restaurants (QSR) used by Yum China in (SEC, 2020) which is consistent with earlier estimates (Wang, et al., 2016).

leaders with KFC having about twice the size of the other two brands<sup>21</sup>. Western Brands started to open their restaurants in the fastest growing first- and second-tier cities. Symbolizing modernity (Yan, 2006, p. 57), Western values, and Western life-style<sup>22</sup> they easily and steadily grew faster than even the market itself (Figure 14). Starting as a premium brand they turned into a mainstream service with the fast-rising income of their customers in the largest cities. The market leader KFC out-smarted McDonald's by adapting its food to Chinese taste and Chinese cuisine, a lengthy menu, and continuous innovation, even varying the level of spiciness to regional differences (Bell & Shelman, 2012). This way KFC moved into smaller second and third-tier cities, giving it an advantage over McDonald's after those cities grew fast. It first focused on families and children, later growing with its customers as they got adults with rising income.

Despite this competition between the Western brands, they all grew successfully until about 2012. In this year, a food scandal reduced the sales of KFC noticeably, showing that Chinese customers had turned pickier with their choice of brands (Zhua, et al., 2017). Although the scandal was fast forgotten, the market share of Western brands has declined ever since<sup>23</sup>. Only KFC managed to stop the decline and even use the pandemic to its advantage.

### CHINESE FAST-FOOD MARKET

in bil. Yuan



Reference: Wang, et.al. 2016; SEC 2020; authors analysis

Figure 13: Chinese fast-food market

As shown in Figure 13 the Chinese fast-food market consists mostly of Chinese cuisine. With the flair of the Western lifestyle vanishing the Western brands had to compete

<sup>21</sup> From the number of restaurants, it is usually estimated that McDonald's has a market share similar to Pizza Hut and less than half that of KFC. This relative failure is probably one reason why McDonald's does not give any information about China in its annual reports (McDonald's, 2020), despite China being its second-largest market outside the US.

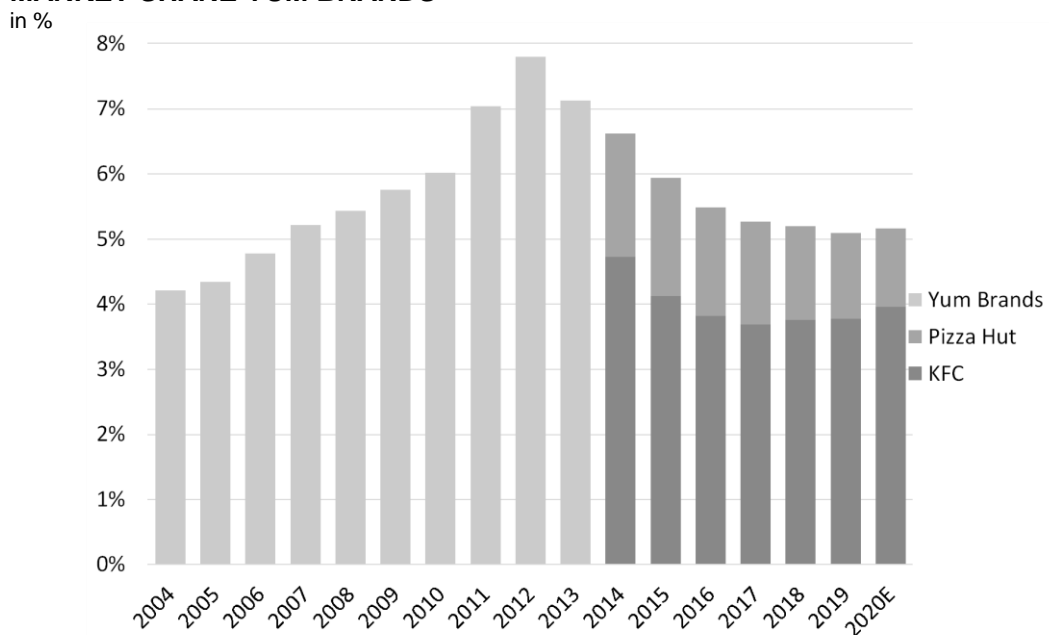
<sup>22</sup> This seems to be a general advantage of Western fast-food brands in non-Western markets (Teichert, et al., 2015).

<sup>23</sup> Author's analysis of annual reports 2004 to 2020. See (Yum Brands, 2013) and (Yum China, 2021).

with local Chinese restaurants and even Chinese chains like Lao Xiang Ji and Kungfu targeting this part of the market. KFC catered to this trend early on while McDonald's is still a Western taste brand. Pizza Hut is "Western cuisine" even in name, losing market share fast.

In the pandemic, KFC managed to increase its market share again. Already in the preceding years, KFC had expanded its home-delivery service. In 2020 online orders accounted for 80% of sales. Based on this online ordering process Yum won members for its loyalty program, turning 60% of its sales into sales to members. Combined with even more regionalization of the menu this increased the market share in a shrinking market. This success of KFC was based on the successful execution of its online- and loyalty strategy, its other brand Pizza Hut could not break the long-term trend of de-

#### MARKET SHARE YUM BRANDS



Reference: Yum Brands. 2004-2013: Yum China. 2014-2021.: authors analysis  
 Figure 14: Market share KFC, Pizza Hut

clining market share for Western brands.

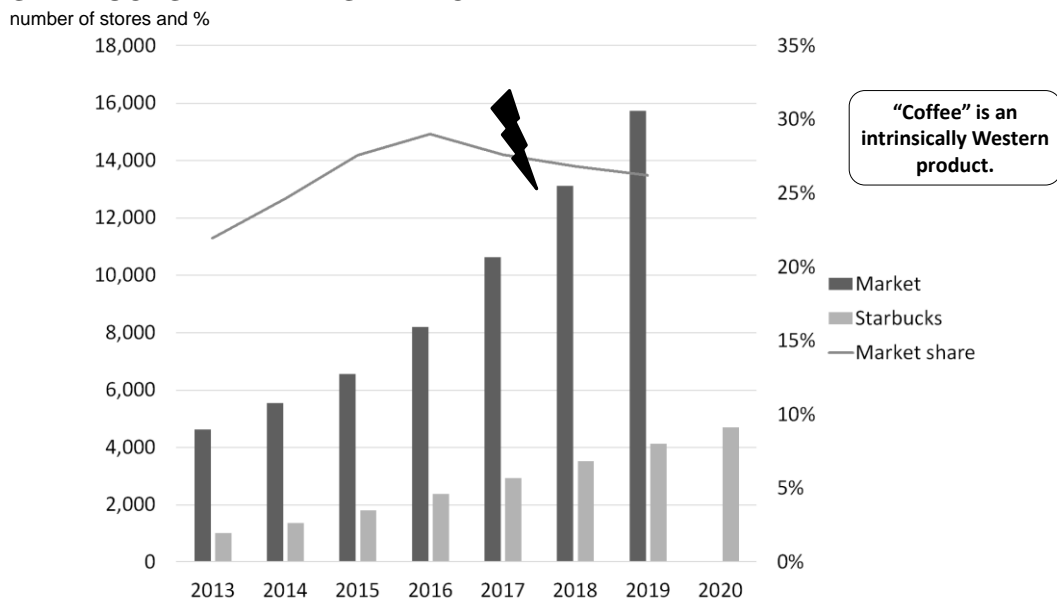
Entering a tea-drinking market with coffee shops is of course a recipe for success: There is no competition (Harrison, et al., 2005). Tea drinking is the old culture of China representing its old values, coffee drinking is therefore automatically associated with "Western", "modern", "young", "cool". Starbucks automatically rode the trends described in this thesis and could not avoid being successful, making it the textbook example of a Western brand's success in China.

Consequently, the growth of Starbucks in China is impressive, it not only grew its revenues there, but it was also even able to increase its market share in the fast-growing Chinese coffee and tea shops market (Figure 15). Starbucks appealed to the values of the new modern Chinese middle class so precisely that it was even able to increase its price in China above the one charged in Japan, Europe, or the US (Purkayastha, et al., 2019). This although the middle income of Chinese customers is still below the Western one. Chinese customers of Starbucks do not pay for coffee, they pay for a luxury lifestyle product.

The market share growth of Starbucks, therefore, does not only represent a growing success. It represents a dominating monopolistic position in the smaller coffee lifestyle market<sup>24</sup>. Starbucks grew with the growth of the Chinese middle-class. It does not sell to the “coffee-as-a-drink”-market at all.

Although the Chinese middle-class and its coffee consumption is still growing (Euromonitor, 2019), Starbucks’ market share since 2016 in China is not. It is even in decline. What happened? Chinese companies grew fast into Starbucks’ market, Hey-Tea, a milk tea start-up that has already 700 stores and aggressively replaces Starbucks in the premium segment of the market. As the name says, besides coffee it offers tea, too. In this way, it appeals to the new trend of consumers returning to classic Chinese values and products. Together with another competitor, Nayuki, the stores of these companies represent a new class of lifestyle tea and coffee stores. Even luxury brands have entered this segment, offering tea and coffee in their stores.

### STARBUCKS - MARKET SHARE CHINA\*



\*market defined as specialist coffee and tea shops  
Reference: Annual reports, Euromonitor

Figure 15: Starbucks market share

While Starbucks grew its sales in China by 21.9% in 2019, it collapsed by minus 10.1% in 2020 (Starbucks, 2021). Taking the continued growth of numbers of stores into account this is a loss of about 40%. Different from KFC there is not really a market for home-delivery of coffee, instead, there is Nescafe.

Neglecting the last year, Starbucks China grew from the first quarter of 2019 to the same quarter of 2021 by just 10.2% p.a. Compared to its middle-term store’s growth of 26.3% p.a. and the revenue growth of 21.9% in 2019 this is a noticeable reduction of growth. This may still be an effect of the pandemic, or it may be a long-term change. From a textbook example of fast-growing Western brands in China, Starbucks may turn into a future textbook case for the declining success of Western brands in China.

Comparing the development in the two analyzed industries it is noticeable that Western luxury brands still mostly compete which each other while the food chains have

<sup>24</sup> In this smaller market, a market share of 81% is reported for Starbucks. (Statista, 2020)

sizable competition from Chinese brands. While luxury consumption turned to more Chinese-style products it did not turn to Chinese brands. The trend to Chinese-style products is also obvious with the food chains. KFC has Chinese cuisine, too and Starbucks got competition from teahouses. But different from the luxury goods industry this development turned against the Western brands themselves, they lost market share. One explanation is the fact that richer parts of the society tend to favor Western products (Mueller, et al., 2016). They tend to be more educated and are therefore less easily influenced by calls for “buy local” while lower-income groups tend to prefer Chinese brands (Knörle, 2011, pp. 165-167). For newer developments, there is anecdotal evidence that younger people are more critical of the West because they do not remember their first encounters with Western brands (Kaiser, 2018). Young people are the main customers of fast food, for luxury goods they are only one market segment.

## **7. Summary and conclusions**

We have given a short history of Western consumer brands in China against the background of a changing perception of the West in Chinese culture. We have focused on industries where Western brands are successful. Some of the main factors leading to the stellar rise of Western brands are their appeal to Chinese buying preferences regarding attributes like “high-quality premium product”, “Western lifestyle” and “modern and innovative”. The market leaders additionally profited from a first-mover advantage.

Although the strong growth is still ongoing, there are early signs of a slowdown for Western brands' sales growth, going hand-in-hand with a more critical view by Chinese consumers of the West itself. Chinese brands first competed only in lower-priced market segments, now they more and more enter the premium market that Western brands monopolized for some time. Factors like a return of the Chinese lifestyle and a growing nationalism add to this trend. Successful Western brands reacted early on by giving their products and brand image a local appeal. The pandemic reduced sales of Western and Chinese brands alike, but it additionally weighted on Western brands by a changed buying behavior that led to increased brand switching.

By analyzing and comparing the two industries of luxury goods and food chains we could see how in the mass market of fast food the trend away from Western brands is in full swing while in the upper-income segment of luxury goods it is more about Western-style turning into Chinese-style.

It is too early to conclude in general that Western brands are in decline, the pandemic has led to a complex development making it close to impossible to separate the different factors. But we were able to give some examples that hint at ongoing problems for some Western brands. For products like smartphones, this is already obvious. The discussed changes in Chinese values and perception of the West are still ongoing and probably will have an even stronger influence on consumer buying preferences in the future.

## Appendix

### A.1 The shifting value system

The Chinese value system was influenced by many historic developments. The classic Confucian values in the 20<sup>th</sup> century in part got substituted by communist ideas, later more and more by Western values. The modern Chinese value system is therefore a complicated mix of all these influences.

Using the structure of (Faure & Fang, 2008) we can identify eight value categories and their opposing sides. In Figure 16 the values on the left represent more traditional Chinese values while the opposing values on the right are more typical for Western thinking.

But even in the Western world, there is a strong difference between conservative and liberal values. Focusing on the Western values, the upper values in Figure 16 are more conservative, the lower ones are more liberal.

#### CHINESE VALUES

Classic values	Westernized values	
Guanxi	Professionalism	Conservative Western
Aversion to law	Respect for legal practices	
Etiquette, age, hierarchy	Simplicity, creativity, competence	↑
Family and group	Individuation	
Face	Self-expression, directness	↓
Thrift	Materialism, consumption	
Long-term	Short-term	Modern, liberal Western
Traditional creeds	Modern creeds	


Reference: Faure, Fang 2008; others


Figure 16: Chinese value system

## A.2 Consumer age cohorts

The consumer age cohorts (see for example (Sun & Ryder, 2016)) are used in the main text and are here given as an overview:

### GENERATIONAL SHIFT

Formative influence	Age group	Corresponding Western cohort	Early life experience	Expected values	
Cultural Revolution	50+	X	Totalitarianism Starvation	Thrift Aversion to law Family	 <p>Rising preference for Western products</p>
Upswing and reform	~40	Early Y	Increasing freedom and wealth Contact with West	Professionalism Competence	
Prosperity	~30	Late Y	Born in wealth Secured future	Materialism Consumerism Self-Expression	
Future?	~20 and below	Z	Conflicts with West Propaganda No free speech	Nationalism back to old values	


 Focus on local products??

Reference: Sun, Ryder 2016; others

Figure 17: Consumer age groups

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