

## Chinese Apparel Branding: A Case of Melody

Ostapenko, Nikolai<sup>1</sup>

### Abstract

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During the last decade branded consumption has impressively increased in emerging markets. That is very much characteristic of modern retail in China. While many international retailers are successfully invading Chinese consumer markets, China's own brands are struggling to achieve local recognition and sometimes perform better overseas. This paper focuses on the challenges of the development of branded products originated from China and catered towards Chinese customers in fashion industry.

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**Keywords:** China, branding, apparel, competition, consumer behavior, province

### 1. Introduction

The brand Melody originated from the Chinese province of Jiangsu and emerged as a result of the adoption of the reforms and opening up foreign trade gates to the outside world in the late 1970s. Representing men's dress shirts, Melody was originally sold exclusively in Australia and New Zealand where it was positioned as quality and moderately priced. Faced with higher trade barriers, growing costs and continuous appreciation of the national currency Chinese yuan (Ren Min Bi, or RMB), Melody recently began to enter the rapidly growing Chinese domestic market by opening two first flagship stores in southern part of Jiangsu in 2012.

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<sup>1</sup> PhD, Associate Professor, University of the District of Columbia, Washington, D.C., 4200 Connecticut Avenue, N.W., Washington, D.C. 20008, USA. E-mail: nostapenko@udc.edu

However, as it lacked proper domestic brand reputation and competitive pricing, Melody did not perform well with the Chinese consumers in the beginning. Therefore, the owner decided to cautiously limit the original national market expansion strategy primarily to the Jiangsu province in order to better establish brand locally and test the consumer demand first before future country-wide growth.

## **2. Literature Review**

Consumer markets and branded retail distribution channels in Chinese provinces were not yet closely reviewed outside some local publications. The most recent Western one (Halepete, Jaya, Ed., 2011) provides an outlook in regards to retail landscape and consumer market development in China as well as outlines some regional retail trends. The Chinese apparel retail market is the third largest in the world. It is represented by traditional and modern store formats. Modern stores (department stores, supermarkets, convenience stores, and warehouses) are mimicking Western forms of business organization present there (Carrefour, Metro, Makro, Ikea, Walmart, Sam's Club, Pricemart, etc.) and exercise deep discounts to fight the numerous competition. Growing online retail is also looking for a hefty piece of the market. Our idea is to steadily build brand image of local origin and introduce branded items via mass-oriented retail outlets to provide a variety of choices and conveniences for Chinese consumers in accordance with their wishes in the rapidly globalizing economy.

## **3. Research Methodology**

In order to accomplish the task, we applied Porter's Five forces continuum for apparel industry analysis as well as conducted a series of observational studies and surveys in China asking fashion manufacturers and retail outfit owners as well as customers what branded merchandise is more important to them and how they prefer to be better served. The case of Melody is somewhat typical in terms of brand identity development and marketing mix adjustments to learn some lessons in Chinese apparel branding.

## **4. The Findings**

Jiangsu province is a coastal province located to the north of Shanghai. Due to massive investments in high-tech industrial parks, the availability of bank loans, and advanced transportation infrastructure, it is considered a wealthy province.

In 2012, the total local output of Jiangsu exceeded an impressive 5 trillion RMB (820 mIn USD) and was ranked second in China<sup>(2)</sup>. However, the market in Jiangsu area is rather fragmented due to considerable differences between its northern and southern regions that require development of proactive marketing strategies and smart segmentation.

We will analyze the competitive environment and a possible marketing strategy for Melody dress shirt manufacturer to build brand reputation among Chinese consumers and successfully gain domestic market share in men's apparel industry.

### Market Competition in Jiangsu Province

Melody is involved in men's dress shirts design, manufacturing and sales. It is a valuable market segment in men's fashion furnishings in China. However, the competition within this segment is fierce due to low entry barriers, considerable number of domestic manufacturers and brands, the similarity of styles and slow growing demand among male consumers.

Youngor is a remarkable competitor in this industry with the average price of its shirts over 600 RMB (about a 100 USD). As one of China's biggest shirt and suit makers, Youngor commands 10 per cent share of the domestic market, receives gross profit margin of 45 per cent, and possesses a strong reputation among customers of the prime and even lower tier cities. Youngor puts emphasis on expanding distribution channels, opening more retail shops in the malls, and also expanding specialist stores. By 2012, it had established 2,719 retail outlets country-wide, 92 per cent of which were manufacturer-owned stores. The company also started to try online distribution channels by opening stores on two famous B2C websites named Taobao and Jingdong in 2013. Also, Youngor owns the biggest manufacturing base in China and effectively controls the entire supply chain from cotton planting to garment manufacturing. Moreover, when segmenting market by demographics, Youngor employs multiple brand strategy by creating new brands like Mayor, GY and HANP to more effectively target segments. Located near Shanghai, Youngor enjoys a great reputation in Jiangsu province.

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<sup>2</sup>List of Chinese Administrative Divisions by GDP in China, Wikipedia, [https://en.wikipedia.org/wiki/List\\_of\\_Chinese\\_administrative\\_divisions\\_by\\_GDP](https://en.wikipedia.org/wiki/List_of_Chinese_administrative_divisions_by_GDP)

According to our survey, 95 percent of respondents in Jiangsu heard about the brand and purchased its products before.

Some young consumers within the age range between 20 and 30 years old preferred Jack & Jones from Europe, American GAP and other available Western brands. Young people are more likely to be attracted by these fashion brands since they represent youth, an active desirable image, style, and good quality. Chinese consumers, facing a slowing economy, have become more cautious with money than before. Shirts by Jack & Jones and GAP are typically priced at approximately 400 RMB (about 65 USD) that is more competitive than those of Youngor. These international brands actively develop their own distribution channels, own a majority of retail stores in high tier Chinese cities and have their own shopping websites. They have also opened stores on popular B2C platforms like Taobao and Jingdong.

Melody usually does classical style and focuses a lot on the quality of fabric. Unlike other brands that use primarily cotton mixed with polyester, Melody uses more upscale pure cotton or cotton-silk blends. Nevertheless, now the consumers are unlikely to be attracted by just this, there is little chance for Melody to position the brand based upon the upgraded inputs alone. Although it priced shirts sold in Australia and New Zealand at around 150 Australian dollars per shirt (118 USD), Melody reduced their price to 600 RMB per shirt (98 USD) in order to more competitively position itself in the Chinese market. However, even this price is not quite appealing, and consumers could easily switch to other famous brands like Youngor and Jack & Jones. In terms of manufacturing, Melody has its own factories in northern Jiangsu but occasionally puts in order to engage other manufacturers. As for the distribution channels, Melody has opened only two specialty stores in southern Jiangsu, and two online stores on Alibaba and Taobao portals so far. Considering these circumstances, it seems hard for Melody to win the market share fast.

#### Threat of substitute products

As sports like tennis and golf are gaining popularity in China, consumers are starting to wear dressy sportswear to the office. Polo shirts represent the ideal balance between convenience and formality, classic style and trendy fashion. As a result, polo shirt brands like Lacoste and Ralph Lauren, are currently gaining huge popularity among youth in the Chinese market. That poses a new threat to Melody strategy.

Usually, dress shirts can seem pretty plain if worn every day and are obviously not the best option during the hot summer season. It is also not appropriate to wear T-shirts to work as they are informal and look unprofessionally in most business settings. This creates a boost for the expansion of the polo shirt brands. In 2006, French designer and Lacoste's creative director Christophe Lemaire stated, "It is a very pop kind of garment, and such sportswear has been the main style revolution after jeans."<sup>(3)</sup> Currently the polo shirt is the biggest icon in men's fashion with its bright colors and stripes in China. Meanwhile, polo shirts are so versatile that they can be paired with other sportswear items such as golf clothing or slightly dressed up khakis appropriate for a date or business event. Also, men prefer the convenience and comfort of polo shirts (no need to be repeatedly ironed like dress shirts).

Moreover, polo shirts managed to reach consumers of a much larger demographic than premium dress shirts, attracting consumers of ages from 16 to 55 years old. According to a report published in early 2004, Lacoste consumers are on average 45 years old. Two years later, this number decreased by a decade to 35. The overall age range of polo shirt fans also increased considerably. For Melody, it is important to rapidly gain market share in men's dress shirts and build brand loyalty since there are still many men buying this formal apparel category.

The 'polo shirt effect' reflects a recent demand shift on part by many consumers who prefer comfort and practicality. To better reach them, Melody might use fabrics that absorb moisture more easily. In fact, according to industry news<sup>(4)</sup> a new absorbing fabric called DX has been introduced to the market, and Melody could capitalize on this opportunity. Moreover, a few new casual elements of style could make a desirable attitude difference. For example, a removable collar or short sleeves or slim fit would spice up the traditional Melody's shirt design.

In general, it is critical for Melody to attract attention of polo fans and turn them into more regular dress shirt wearers, which could be done by using more comfortable fabrics or some style modifications that will help the Melody's entry process a lot.

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<sup>3</sup>Josh Sims, 2011. *Icons of Men's Style*. Laurence King Publishing, London.

<sup>4</sup>Fabric Patent: a new material called DX is developed. Alibaba, <http://info.1688.com/detail/1025297926.html>

## Threat of New Entrants

There are basically three groups of new entrants. One is the global luxury brand (such as Thomas Pink). These brands cost around 500 USD per shirt and target men with money. Another group is the global middle-class brands that include existing Chinese brands that actively develop new local sub-brands. The other group is small start-ups, which have appeared since the shirt manufacturing industry does not require advanced technology or big investment. Men's and women's fashion collections are usually most frequent target of new business startups in the country.

In this classification, Melody's main competitors are in the second group as they have similar target consumers and comparable earnings expectations. A typical example of this group is Moonbasa and its new brands available in China. Moonbasa was established in 2006 in China and operates as a B2C company; it distributes products mainly via the Internet. In 2010, it entered the men's apparel market and introduced a new brand called Monteamor. Thanks to its great reputation earned from its parent enterprise, Monteamor entered the market quite smoothly. The original average price of a Monteamor dress shirt is over 900 RMB (147 USD) but the occasional discounts and online coupons reduce the price to around 300 RMB (50 USD). Moreover, with the help of the developed delivery system provided by Moonbasa and 30-day return policy, Monteamor appeals to both heavy Internet users and new online shoppers. In terms of distribution other than online, Moonbasa opened a flagship store in its headquarters in May 2013 providing consumers with an extraordinary and tangible shopping experience. Even though Monteamor already enjoys recognition among consumers, it still actively employs a variety of methods such as advertising via social media and provides seasonal discounts to better promote its products.

Other than Monteamor, direct selling enterprises like Masa Maso and James King are rolling aggressively out. It's not hard to notice that e-commerce plays a vital role in many brands' success stories. E-commerce is cost-effective, and as a new entrant can reach a wider range of consumers in a relatively short period of time. Thus, as more and more similar brands entering the market via Internet and carve up the market, Melody should focus on developing electronic distribution much faster than they do now.

## Bargaining Power of Suppliers

According to an interview with the founder of the firm, Melody owns two clothing factories in northern Jiangsu province. Their output is usually able to meet market demand. Melody's suppliers are fabric industries, especially cotton suppliers. Data from the National Bureau of Statistics of China show that in 2012 cotton output was 6.84 million tons with an increase of 3.8 per cent compared to the previous year.<sup>(5)</sup> The cotton industry went through a recession in 2011, and the price of cotton fabric is beginning to slowly increase this year. Therefore, current competition among cotton suppliers is quite fierce, which is beneficial to Melody as the more intense competition decreases its input costs. Under these circumstances, the bargaining power of suppliers is assumed to be low.

## Bargaining Power of Buyers

Since the late 1990s, the clothing industry has become commoditized and represents a buyer's market in China. According to a survey we conducted in Jiangsu province, 53.3 percent of consumers claim that they care more about price rather than the brand name. Facing many new entrants and releases of similar products every year, many companies win the market by lowering their prices. As a result, the bargaining power of buyers is high at this point. However, the owner of Melody has pointed out that he wants to avoid this cutthroat competition because the company is targeting consumers with high consumption potential. Since Melody seeks to deliver a premium brand image to consumers, reducing the price will definitely damage it which compels Melody to build brand reputation and loyalty by offering reasonable prices, differentiated products and extraordinary shopping experiences.

## Marketing Strategies of Brand Melody in Jiangsu Province

### New Collections

To enter the Chinese local market, Melody has to redesign the style of its dress shirts since there are a lot of differences between Chinese and Australian consumers fashion-wise.

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<sup>5</sup>Report on Cotton Production in 2012, National Bureau of Statistics of China, <http://info.1688.com/detail/1112797721.html>

Given the fact that Melody is currently focuses on one province, Melody should try to find what consumers in Jiangsu province favor since sizes, prints and colors vary from region to region throughout China.

According to an interview with its manager, Melody wins in the markets in Australia and New Zealand primarily due to its premium fabrics and reasonable prices. The brand simply sticks to classical styles and cares less about innovative designs and fashion trends.

However, this strategy does not work in China as consumers want more than just quality. We conducted a survey of 60 people mainly in the age range of 30 to 50 years old selected from different parts of Jiangsu province and found that 46.67 percent of people showed interest in shirts with particular Chinese elements, followed by 23.33 percent with interest in classic American-style shirts, 20 percent with British style preferences and 10 percent with preferences in fashionable patterns. It is apparent that more people in Jiangsu province prefer Chinese elements since this reveals uniqueness, elegance, wit and local style. Becoming tired of universal styles, many consumers are willing to try something representing cultural identity, especially for important occasions such as formal business events. Thanks to the province's advantageous location, fasteconomic development and great education system, men in Jiangsu province are more open-minded and always ready to embrace fashion. In fact, this trend has been propagated by numerous celebrities as well. When Mo Yan, the first Chinese writer awarded Nobel Prize in literature, went to the award ceremony in Stockholm last year, he chose a shirt with patterns of Chinese traditional seal stamps, displaying Chinese culture and the Chinese scholars' particular style.

Melody should therefore pay attention to styles and blend in Chinese elements ingeniously. In terms of sizes, it preferred the existing brands' size table in the beginning. However, it is a necessity to obtain data from each order, change of the inventory and market observations in order to create the company's own more localized sizingdatabase.

## Price

Chinese consumers have a range of acceptability in prices and believe that price and quality are highly interrelated. That is to say, an expensive brand is rejected as too pricy; a brand priced below the range is rejected as suspected of the inferior quality.<sup>(6)</sup> As we mentioned before, Melody has already reduced the price of shirts to 600 RMB (98 USD) in order to enter the Chinese market. Is this an appropriate price?

Using Van Westendorp's price sensitivity scale <sup>(7)</sup> and data from our survey, we found the optimal price point: it is at the intersection of the "too cheap" and "too expensive" lines, which is 500 RMB (around 80 USD). Only at this point most respondents considered the price to be neither 'too expensive', nor 'too cheap'. The intersection of "too cheap" and "expensive", and the junction of "cheap" and "too expensive" respectively indicates the lowest and the highest prices consumers would accept, which are 400 RMB (65 USD) and 600 RMB (98 USD) in this case.<sup>(8)</sup> Therefore, it sounds appropriate for Melody to set its prices between 400 RMB and 600 RMB with an average price of 500 RMB per shirt.

## Place

Melody's two specialty stores and two online stores are not enough for efficient distribution. According to the manager of Melody, these two brick and mortar stores are located in central business districts in southern Jiangsu province where people shop more frequently and spend the most regardless the high commercial rent prices in this area. Moreover, the online store on Taobao does not perform well: its sales in the past 6 months reached a plateau and remained slow.

Distribution is vital for new entrants like Melody. In order to increase the brand's market penetration and win the market, Melody should reconsider the location of its specialty stores and try to open more throughout the Jiangsu province. Consumers buy high-end shirts not only to satisfy their needs, but also for revealing self-concepts.

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<sup>6</sup>AmbarG.Rao & Melvin F.Shakun, 1974, A Mathematical Model For Price Promotions, *Management Science*.

<sup>7</sup>Peter van Westendorp, 1976, Price Sensitivity Measurement, 1976, <http://wiki.mbalib.com/wiki/PSM%E6%A8%A1%E5%9E%8B>

<sup>8</sup>Ibid., Appendix 2, P. 20.

Thus, specialty stores should be upscale in order to match the brand image, creating an exciting shopping atmosphere and providing an extraordinary shopping experience. It is a great way to interact with potential customers and keep in touch with regular consumers. The greater the number of specialty stores, the greater the chance that Melody will gain and maintain relationships with its target consumers. As a result, Melody has to choose locations with reasonable rent and open as many stores as it can within the resources available. Since urbanization is an inevitable trend in China, numerous new shopping districts are quickly emerging everywhere. Melody could open stores in these new markets instead of traditional places since these areas have amazing business potentials and lower commercial rent rates.

More importantly, we believe that Melody should put more emphasis on its online stores. The survey proved the same assumption: 71.67 percent of people claimed that they purchased T-shirts online more than once. The manager pointed out that Melody spends 10,000 RMB (1,640 USD) per year on services such as "golden booth" and "bidding ranking" on Alibaba as well as on the "search engine optimization" tool on Google. Orders from Alibaba were considerable, so the company neglected Taobao which proved to be an unwise decision. According to our survey, 65.12 per cent of online buyers purchased products on Taobao, 20.93 of online buyers purchased merchandise through brands' own websites, 11.63 of buyers purchased on Jingdong (the most popular online retailer similar to Amazon) and only 2.33 of buyers purchased on Alibaba. As the biggest B2C and C2C electronic commerce company in China, Taobao has the largest number of individual consumers. If a brand wants to make the most of the Internet, it shouldn't exclude Taobao. It is time for Melody to design a more user-friendly homepage instead of relying upon the simple modules provided by Taobao and keep updating its website timely like Youngor and Jack&Jones do, delivering the message that the brand is memorable, relevant and responsible. Moreover, Melody should purchase services such as bidding ranking and SEO (Search Engine Optimization) on Taobao complimented by frequent and regular promotions to attract more consumers. Melody is supposed to establish a department to take closer look at the Internet distribution, especially on Taobao platform, and hire its own customer service representatives, web designers and logistics management experts.

## Advertising and Promotion

According to our observations, Melody's current website is no longer appealing and contains out-of-date information with low-resolution pictures. Melody does not make use of social media like Sina Microblogs (Chinese Twitter), Renren (Chinese Facebook) and Wechat although they are highly popular among young Chinese. Modern consumers are accustomed to first searching for information online when they are curious about any product. As a result, a poorly designed and maintained website reveals that the brand is not relevant. Similarly, if the brand has no social media representation, potential consumers might think it is too conservative and lacks innovation. As a part of developing its unique brand image, Melody needs to release its latest corporate news involving new collections and manage consumer relationships online since traditional methods like advertising on TV, via billboards, or using celebrity endorsements are very costly.

We would advise Melody to introduce three digital spokesmen to disseminate information about the new products and interact with potential consumers online. These three spokesmen would have similarities to Melody's target consumers— they would be around 35 years old, well educated, would often attend important events and care about fashion and modern lifestyle. However, they would differ slightly in their occupation, habits and buying preferences: one would be a businessman, another an organization officer and the third may be a lawyer, representing three typical types of target consumers. These three spokesmen would wear Melody shirts every day with distinctive dress style. They would be willing to advise young men what to wear and give fashion suggestions according to the specific daily weather conditions. Additionally, they would act like patient postpurchase service clerks when consumers complimented or complained about the products via online interaction.

The company's second step to improve its business would be to promote online and offline stores. As we mentioned previously, southern Jiangsu is wealthier than the province's northern region. The rent in the northern part is lower and consumers are more accustomed to shopping offline. Thus, Melody should open more specialty stores in the northern region of Jiangsu province while focus on the e-commerce to attract more southern shoppers within a wider demographic.

We think that in order to help northern consumers pay attention to specialty stores, Melody could conduct a campaign called "Find Melody's Stores around You" with the help of LBS (Location Based Services) technology. Consumers would need to sign in on Melody's website in order to use this system which subsequently provides the location information and business hours of the nearest store. The first 100 people to sign in each day would receive coupons with some attractive discounts. Moreover, Melody should continue operating its two flagship stores in Jiangsu's southern region and concentrate on promoting online stores on Taobao.

In our opinion, the third step that Melody needs to take in order to increase its brand recognition is to design a new Corporate Social Responsibility (CSR) program. The program would benefit society as well as the company itself. Through this program, Melody, for instance, could donate shirts to homes for the elderly, and generate media buzz to cover this action. Such a program both provides for society's well-being and boosts brand recognition among consumers and viewers.

## **Summary**

With the continuous appreciation of the Chinese currency, it is wise for Melody to expand its presence in the country's provincial market. In order to gain a competitive advantage, Melody should reposition the brand and build reputation among target consumers as fast as possible. Here is a summary of suggestions offered above:

1. Change shirt styles: add a few casual elements, follow fashion trends and blend in Chinese elements.
2. Introduce fabrics that absorb moisture easily.
3. Build brand reputation and loyalty by offering reasonable prices, differentiated product lines and extraordinary shopping experiences.
4. Refer to the existing brands' size table at first and establish its own sizing database gradually.
5. Set the price between 400 RMB and 600 RMB and the optimal price at 500 RMB (around 80 USD).
6. Open stores within the resources available in the new Jiangsu province shopping districts instead of traditional ones.
7. Open more stores in the northern part of Jiangsu province and run a campaign "Find Melody's Stores around You".

8. Focus on online stores on Taobao, update site promptly, purchase bidding ranking and SEO services and offer customers more promotional discounts.
9. Redesign the corporate commercial website and manage social media's accounts via outlets like Sina Microblogs, Renren and Wechat.
10. Introduce digital spokesmen to release brand information, style advice, share stories and intermingle with potential consumers.
11. Launch CSR program to donate shirts to the elderly and invite various media to report.

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