

Analyzing Coach's Failure in China

FTM 482 Advanced Brand Management and Marketing in Textiles - Dr. Jin

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Introduction

Companies around the world are stepping up their game when it comes to making their products different from their competitors and appealing to their customers. Creating desire through exclusivity is a critical component of a successful luxury brand strategy. Exclusivity can be achieved in a variety of ways, including developing limited edition products, making select products available only at specific stores, or creating a waiting list for a newly released item. So, when was the last time you purchased a Coach purse or bag? As undergraduate college students at NC State, most students rarely purchase luxury brands such as Coach because the prices are not exactly within the average student's price range. But that doesn't stop many students from saving up and attempting to obtain such items. Coach's leathers are exquisite, their finishes are flawless, and their designs are modern and exciting. Although they are not as expensive as Chanel or Hermes, they are still high-quality luxury brands in which to invest.

Company Overview

Upon considering all of the specifics and essential components of the Coach brand, researchers view Coach as a mid-range, approachable luxury brand rather than a true luxury brand in the upper ranks of high-end brands. It's the perfect alternative for those who do not want to pay a four-figure price tag. Coach is also an ideal brand to choose for trendy bags that you want to wear for a few seasons. Although it is at a more accessible price point, the leather used in Coach's bags excels in its market placement. So a quick overview of the company Coach, the brand was founded in 1941 as a family-run workshop that is still currently located in Manhattan New York. It is an American fashion house specializing in leather handbags, luggage, and accessories as well as ready-to-wear products.

The brand is very popular. This is mainly due to its significant customer fandom and the brand owning its exclusivity quality with 20 innovations. Throughout, the brand offers the best quality leather and reasonably affordable prices. The brand typically attracts premium customers, aspirational luxury shoppers, or designer wannabes looking to step into the luxury market. Coach also appeals to shoppers that splurge on the occasional luxury purchase (Team, 2020). The company also has a market for high earners that do not yet fit into the rich category. The brand is without a doubt very popular, especially in the country of China. This is because of their

excellent marketing strategies and the affordable luxury items the brand provides. Some of Coach's top competitors are Guess, Michael Kors, Burberry, and Hermès.

Coach's strengths are their artistic craftsmanship in leather goods; their perfectly depicted modern designs and trendy styles for their consumers; their good advertising that creates a good image for their well-established brand; being headquartered in the fashion capital New York City; their loyal fan base; and their innovative, relevant, excellently valued products (Team, 2020). While these things are great for the company, that does not exempt them from having inappropriate means of advertising or controversies globally.

Coach's Failure in China

When entering a new market, especially an international one, the most important thing that global marketers must do is study and understand the cultures of countries in which they want to do business. When we use the word 'culture' this generally refers to the way of life, especially the general customs and beliefs, of a particular group of people at a particular time (McKelvie & Pappas, 2022). A company must conduct their research to ensure that they are respecting the local values and beliefs in an effort to enter the market accurately. They must also ensure that whatever marketing or advertising strategies they use, translate well among all cultures, not just their own. With Chinese individuals being one of the top luxury goods consumer groups, many luxury brands have made an effort to break into their luxury goods market. It is estimated that China represents between 40 and 45 percent of global luxury goods sales compared to the Americas' 21-23 percent (Holmes, 2022).

In May of 2018, Coach and Disney released a t-shirt collaboration where they listed Hong Kong, Taiwan, and Macau as separate countries from China (Lim, 2019). The design of this t-shirt was very disrespectful to Chinese culture and completely contradicts the way that China sees itself. In the product from the Coach 1941 series, there was a list of countries and their cities on their reverse side; to name a few examples are Chicago, United States and Milan, Italy (Lin & Kunyi , 2019). There were four cities in China on the list, however, Taipei is listed as "Taipei, Taiwan" and Hong Kong is listed separately as "Hong Kong" with no country. This alludes to the idea that Taiwan and Hong Kong are separate regions and not part of the Chinese country.

Many Chinese individuals were offended and, quite frankly, outraged by this as it can be seen as a challenge to China's 'One China' policy. The 'One China' policy is the diplomatic acknowledgment of China's position that there is only one Chinese government. It is under this policy that the United States, and other American brands, are meant to recognise that they have formal ties with China rather than the breakaway independent republics such as Taiwan. The release of these controversial t-shirts also came at a time of political sensitivity in regards to China's territorial claims with pro-democracy demonstrations occurring throughout Hong Kong (Paton, 2019). The context surrounding the release of this t-shirt is an important factor that Coach should have been aware of.

This embarrassing lack of research and cultural awareness is exactly where coach failed in the Chinese market due to this particular product release. Localization is a key strategy when doing business in any country other than your own. It is clear that Coach failed to spend the time educating themselves on the current state of their target market in order to better predict the reactions to this new t-shirt release. Had they conducted the proper research, they may have been able to better understand their brand from a Chinese consumer perspective and possibly prevented this failure from ever happening.

Strategies that Led to Failure

Coach's failure in China was a combination of multiple company strategies which all, in turn, escalated the issue into an international incident. However, the primary company strategy that led to Coach's failure was the product component of the marketing mix. The product design of the t-shirt itself included in Coach's 1941 series collection with Disney was the subject of controversy. Coach's 1941 collection, specifically the Coach 1941 t-shirt, was designed to appeal to their entire global market, featuring various countries and cities worldwide. (Lin & Kunyi, 2019). However, a lack of local input resulted in the outrage of Chinese citizens as the list showed Hong Kong, Taiwan, and Macao as three separate countries and thus not being a part of China (disrespecting China's territorial integrity and violating the one-China policy). This problem with the product design falls under Coach's greater marketing strategy, whose flaws in balancing standardization and adaptation in the Chinese market also contributed to the failure. Coach's marketing strategy is a combination of standardization and localization, with the best description being a localization of more elements within the global branding framework.

However, their degree of localization varies between the components of the marketing mix, one of which led to their downfall in China. While their promotions are tailored and appeal towards Chinese consumers by using Chinese celebrities, their products are still very standardized.

“Luxury brands tend to operate with a centralized marketing strategy to ensure global consistency,” says Athena Chen, of consultants WGSN. “It’s not easy to ensure everyone within the pipeline across countries is aware of sensitivities.” (Ribet, 2020). It can be inferred that this was the case with Coach. This oversight undermined their success in promotional strategies, as their Chinese brand ambassadors cut ties with the brand as a result of the controversy.

The absence of local input points to another company strategy failure: a lack of risk analysis from different environments. This can be broken down into a heedlessness in researching country risks as well as cross-cultural risks. Coach neglected to research country risk before posting the product, which would have showcased the different political environments of which territories are considered a part of China. Local branches should have been consulted before publishing the product since this is a well-known and published fact about the country, as “Any China reporter or exchange student would have known not to make this mistake.” Additionally, “A year earlier, China’s central government had warned international airlines against the same mistake.” (Ribet, 2020). Research could have been done to understand the Chinese political climate, which showcased increased policing against western brands not respecting Chinese sovereignty. (The Fashion Law, 2020). Secondly, Coach’s deficiency to continue research on the cultural environment of China after establishing entry and before releasing new products lead to a higher risk of failure especially as Chinese consumers become more outspoken online against western brands who do not respect their ideals. Cross-cultural risk involves the analysis of cultural differences, negotiation patterns, decision-making styles and other factors which have an impact on how a fashion brand does business in a country. A major cultural difference between the United States and China is that China has a collectivist culture, which means identity is based on the social groups to which one belongs. This can include one’s country as people belong to groups that look after them in exchange for loyalty and national pride is reinforced by the Chinese communist political structure. Collectivist cultures also emphasize a “we” consciousness, which can explain the escalation of social media outrage as

Chinese consumers unify behind one stance against western brands due to sentiments of similarity and blending in. (Hofstede, 2021.)

Lastly, the scale and severity of Coach's failure in China were greatly impacted by the timing of the product release. The t-shirts were released around the same time Hong Kong protestors were calling for freedom of the nation, which had been ongoing for many months. In June 2019, protests in Hong Kong started as peaceful rallies in opposition to the Hong Kong extradition bill, which "would have allowed criminal suspects to be sent to mainland China for the first time, for trial in courts controlled by the Communist Party." (Reuters Staff, 2019). In the months following, protestors called for increased democracy and the liberation of Hong Kong against the Chinese government as violence increased on both sides. Due to the timing of the product release later that year, Coach's failure escalated to a political scale, since "According to The South China Morning Post, social media users accused Coach of supporting Hong Kong, Macau and Taiwanese independence." (Lim, 2019). This was further emphasized by other Chinese publications, with The People's Daily claiming that "these "coincidental" mistakes, especially during the current "sensitive moment," when Hong Kong is being assaulted by secessionists, are even more egregious, and will only dim the prospects of their brand prestige in the Chinese market." (Lin & Kunyi, 2019). Coach's company strategies overlooked key market factors that were essential to a business's success in China at the time.

Market Factors

Coach had many market factors that led to the demise of the brand in China which included: consumers' reactions to their products, timing of the product release because of the political climate, and misunderstanding of the culture of the Chinese market. The largest incident that Coach had to face was their failure to understand China's political climate at the time. Their production of a t-shirt that showcased Hong Kong, Macau, and Taiwan separately from China went viral for its inaccurate representation which led many of their followers to believe that they were siding with these three countries. Coach responded to this theory by saying "In May 2018, we found a serious inaccuracy in the design of a few T-shirts..." (Lim, 2019) and that they apologized if anyone was offended. They also inaccurately represented the countries on their website, where you can independently search for these three countries separately versus just being under "China". Although they apologized for their inaccuracy, the Chinese market had

already created an image of Coach as a “disrespectful” brand in their head. This brand image that the Chinese market assumed of Coach spoiled its ability to regain popularity within China, ultimately leading to its exit.

When entering a new market, awareness of the country in which you are entering is extremely important. Due to Coach’s ignorance of understanding the Chinese market and entering prematurely created tension between the brand and the market. At this time the ‘One China policy was enforced and expected to be respected by American brands and companies, when the Chinese government saw that Coach was interacting and creating products that showcased the independence of Taiwan, Hong Kong, and Macau they felt betrayed and that Coach was siding with these three countries versus China as a whole. Coach can be seen as an example of incorrectly using product development steps, they created a product for the market before understanding the culture and economic climates. This was a risk that they took and it, unfortunately, backfired for them. This also created tension between influencers/celebrity endorsements with the brand. Chinese and American influencers felt like they were representing a company that they disagreed with, for example, Liu Wen was made to end her contract with Coach because of their mistakes internally, and she received disapproval from her supporters as well (Paton, 2019).

Coach failed at creating a new appearance for themselves when it comes to succeeding in China, which is a huge market for many apparel and accessory companies. Brand image and brand loyalty are two huge factors when it comes to entering a new market, which Coach failed to gain. Many global brands have made similar mistakes when trying to enter China, but Chinese citizens have made it known that they are wanting brands to enter only if they understand China as one entity.

The Aftermath

Directly following the release and subsequent backlash of the t-shirt, Coach removed the t-shirt from their website and issued an apology on several of their social media platforms. In this apology, they stated, “We are fully aware of the severity of this error and deeply regret it” (Paton, 2019). On their Weibo profile, “Coach published a statement on Weibo,” saying “In May 2018,

we found a serious mistake with the design of several T-shirts. We realize how serious the problem is and immediately took action to remove them from shelves" (Campaign Staff Reporters, 2019). Their full apology can still be found on their Twitter account today, as seen in Figure 1. Additionally, brand partner and celebrity, Liu Wen, ended her contract amidst the scandal, stating her regret about partnering with the brand in the first place (Paton, 2019). These apologies, however, we met with disapproving comments from consumers, as Coach released these statements fifteen months after discovering the product flaw. Chinese consumers talked of boycotting and expressed an overall sentiment of frustration and disapproval; the hope of redeeming their brand in China appeared weak for Coach.



Figure 1

Despite the initial backlash and fall in popularity, Coach was able to make a comeback and win back its Chinese consumer base over time. Their prompt apology fostered the beginnings of a forgiving sentiment (Paton, 2019). To continue to gain back consumer trust,

Coach employed and changed several different strategies and tactics. Their social media approach, offline presence, and localized approach are the three main strategies that aided in their recovery. These strategies are not only what rescued the brand, but helped Coach maintain their prestigious image.

Coach started their recovery quietly, and “went silent on social media for two months” (Yi, 2021). Their first post following the scandal was announcing “participation in the second China International Import Expo...a national-level expo, being recognized by the Chinese government” (Yi, 2021). Ending their social media hiatus with this announcement produced a clear and concise message of commitment. The stature of the expo demonstrated that Coach was not only making an effort to remain in the Chinese market, but do so with approval, in this case of the Chinese government. Coach also participated in the third expo in 2020, showing consistency and continued dedication to the Chinese market. Currently, Coach employs an engaging social media strategy on several platforms. Their Weibo account specifically draws large attention from their Chinese consumers, given the platform’s overall popularity in the country (Yi, 2021). As seen in Figure 2, China also has a strong WeChat presence, surpassing other popular brands in several monthly searches. Integrating various giveaways, challenges, forums, and campaigns on platforms like Weibo and WeChat, Coach has implemented many unique ways to engage and interact with its Chinese consumer base. (Yi, 2021). Their respectful re-emergence to social media, paired with their later employment of enticing and engaging offerings, is why Coach’s social media approach has aided in their scandal recovery.

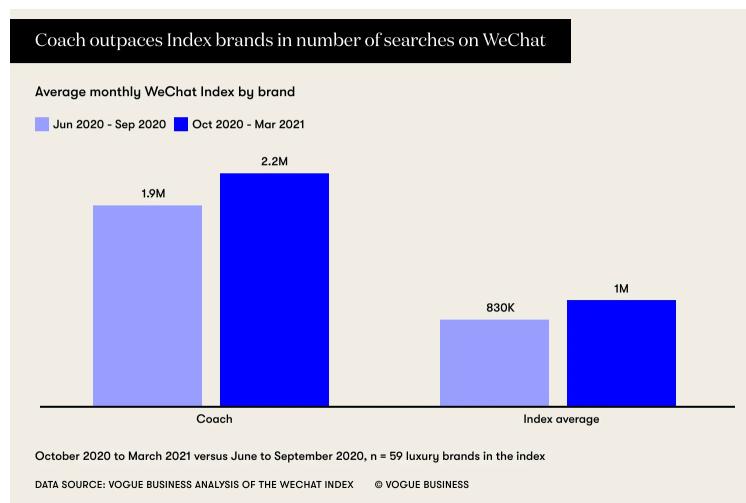


Figure 2

Additionally, Coach's overall online presence has supported their social media strategy. In September of 2019, just one month after their scandal, Coach launched their online flagship site with Tmall, a popular eCommerce site among Chinese consumers (Daxue Consulting, 2020). While their first two attempts to launch with the site in years prior were unsuccessful, the third time proved fruitful. With this third launch, "90% of customers (were) first time Coach Consumers". Although in the wake of their scandal, Coach was still able to successfully launch with a notable eCommerce site. Not only that, but they were able to attract new customers at the same time. Currently, Coach's Tmall flagship has 0.75 million followers (Daxue Consulting, 2020).

Outside of social media, the world's misfortune was Coach's fortune. The Covid-19 pandemic hit just a few months after the scandal, allowing Coach's presence and scandal to be strongly overshadowed. The quiet and reserved offline approach was not only acceptable, but preferred, given travel restrictions, lockdowns, and health guidelines at the time (Yi, 2021). Coach's low profile allowed their brand to exist without the spotlight, creating neutral foundations for their future. In December of 2020, Coach wished everyone a happy holiday season with a 400 drone bright light display at the Bund, Shanghai. Time was once again in their favor, as the nature of the holiday season is an overall joyous time. The positive mood allowed Coach's display to be a celebrated event. Months later, Coach hosted their Winter Collection Show in Shanghai with an A-list guest list. By inviting key opinion leaders and other notable celebrities, Coach demonstrated to the public that they were confident in their recovery. The acceptance and actual attendance of said guests supports these sentiments. And lastly, the success of the offline event was validated by online attention it gained with a plethora of social media engagement.

Furthermore, Coach's localized marketing approach once again reiterated the fact that they were and are committed to their Chinese market and to making genuine amends. Partnering with beloved Chinese celebrities and key opinion leaders, Coach worked to appeal to the Chinese consumer with familiar faces (Gentleman Marketing Agency, 2021). Implementing campaigns and products catering to the Chinese market is another way Coach executed a localized marketing strategy. For example, Coach launched a Chinese New Year campaign with a line of

products featuring symbols and colors aligned with the holiday. Featuring such a product line allowed Coach to demonstrate their commitment to uplifting and celebrating the culture of their Chinese consumers, a sentiment much needed post-scandal. In addition, Coach has implemented a successful localized approach to marketing by where and how they share their promotional content. As mentioned, they have joined a variety of media and online platforms that are popular amongst Chinese consumers. (Gentleman Marketing Agency, 2021). By existing on platforms that its western market does not use, Coach continues to demonstrate their interest in its Chinese consumers.

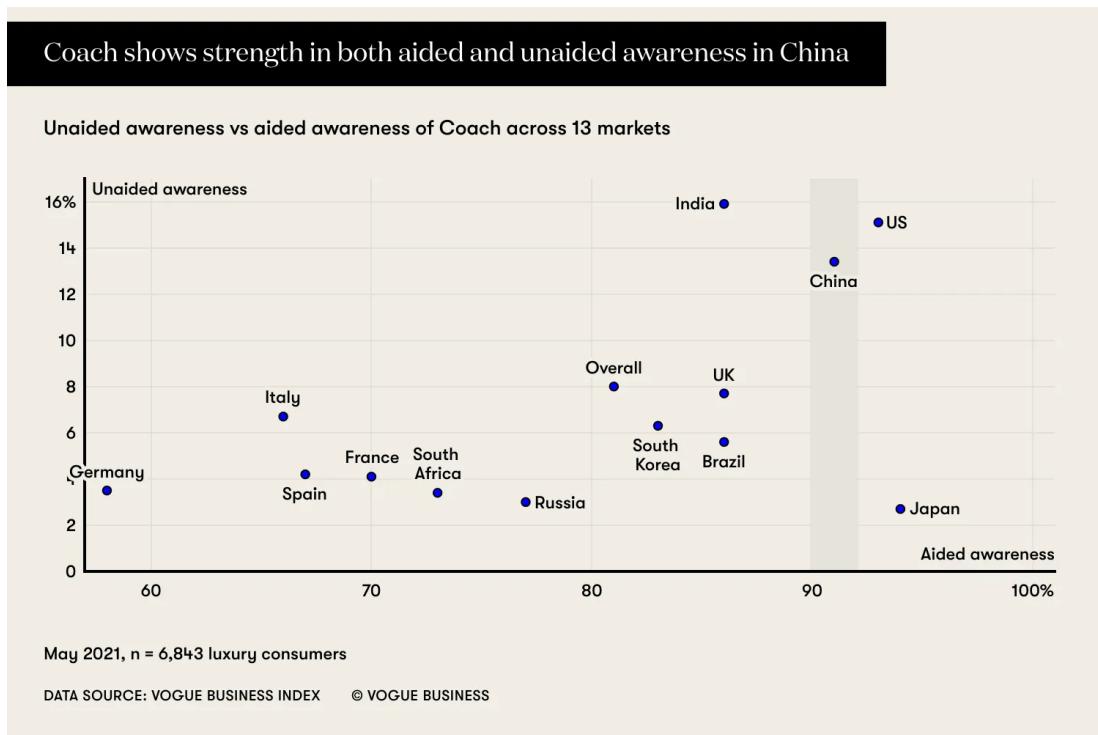


Figure 3

Overall, it's clear that Coach successfully recovered from the scandal. As seen in Figure 3, Coach has both highly aided and unaided brand awareness in China (Pan, 2021). This is not something many of Coach's other markets can claim, also demonstrated in Figure 3. This strong brand awareness is a testament to the Coach's recovery and how they have maintained their image. Their brand image laid a solid foundation for their social media, offline, and localized approaches towards recovery.

Possible Solutions

Several strategies can be seen as beneficial for all luxury retailers' future product development and also as possible solutions for the aforementioned controversy surrounding Coach's previously released shirt. These strategies include cultural awareness, political timing, and consumer feedback.

Cultural Awareness was the main aspect of the controversy and is also a crucial concept for other retailers to prioritize. If Coach was aware of the territorial tensions involving Hong Kong and various other locations listed on their shirt, they would've known how sensitive and meaningful the topic is to Chinese consumers and citizens. Having an overall pulse on global current events helps brands "identify their (consumer's) pain points and allows (brands) to serve them with better products" (Treyham, 2021). Without this pulse, brands produce tone-deaf and insensitive products and are left to repair their brand image and consumer relations.

Coach could have released the product with better political timing, such as when territories were more certain and there was less political unrest. This would have prevented the backlash from escalating to such a severe scale. In the future, Coach can conduct market research on the political climate of its target market for new products before releasing the product. As a part of market research, local branches or consultants can also give insight into how a product will be interpreted with the current market climate to bring new perspectives the company may have overlooked during the production process.

The third recommended strategy for Coach and other luxury brands is to incorporate consumer feedback. Listening to positive and negative feedback from customers is the best way for a company to gain insight into their preferences for their products. This can frequently assist the company in not only utilizing feedback prior to product launches to avoid certain public scandals but also in inspiring new products for the future. Some examples of what Coach can accomplish are by creating free surveys and polls, emailing their clients and customers to solicit feedback, enabling feedback on their website, gathering and soliciting feedback on social media, and finally, speaking with their customers face-to-face. Most customers simply want to know that large corporations, such as Coach, care not only about selling their products to the best of their ability, but also about major issues and how their brand and products are portrayed. So putting customer feedback into action would be extremely beneficial to Coach as a brand.

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