

# Empirical Research on the Reasons Behind the Prosperity of China-Chic

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**Abstract**—The newly coined word “China-Chic”, which has been prevailing since 2018, refers to the “representation of Chinese culture and aesthetics offered by homegrown Chinese brands.” It is also a means for Generation Z to express their distinct identities and personalities. This paper examines the driving factors behind the boom of China-Chic from the supply and demand side “4P” model – place, price, promotion, and product. By using data provided by the Chinese National Bureau of Statistics and sales statistics of China-Chic brands’ flagship stores, the paper is able to construct a Student’s t-test, a regression model, and a SARIMA model. With the aid of statistical models, the paper found that incorporating China-Chic into a brand image and/or product design creates a positive effect on the sale of the product. The paper also found that, on the demand side, increasing level and cultural confidence and purchasing power among Chinese consumers facilitate the boom of China-Chic. Besides, the thriving e-commerce on social media provides an innovative and cost-saving channel for China-Chic brands, which helped the firms to reach a high level of social recognition in a short period.

**Keywords**-China, China-Chic, Cultural Confidence

## 1 INTRODUCTION

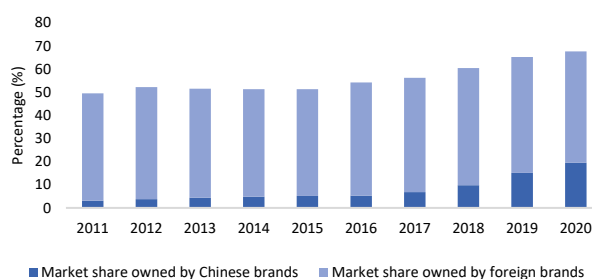
In the early stage of Chinese rapid economic growth, the low labor cost served as a competitive advantage in China’s international trade position and helped China to become “the world factory.” However, with the government pushing on economic reform, firms are encouraged to focus on innovations in terms of manufacturing technology, product design, management, and business model instead of retaining in the downstream of the production line [1]. Since then, local producers have altered their attention from low cost to high quality. Consumer began to recognize the value of goods originated in China; the well-known slogan “Made in China” is gradually turning into “Designed in China” [7].

The rise in cultural confidence in China has become an irreversible trend in recent years, which urges for study on the topic as China-Chic is likely to dominate the market soon [3]. This paper will focus on investigating the driving factors behind the boom of China-Chic marketing and explore the growth pattern of emerging China-Chic brands to provide a reference for future businesses. The structure of the paper is the following. First, the cosmetic industry is used as an example to prove the positive effect China-Chic has on the sales of the product. Second, the driving factors behind the rise of China-Chic is presented from two perspective – the demand and supply-side factors, where the supply-side factors are further segmented using the 4P model. Third, a SARIMA model is used to predict the monthly sales of China-Chic cosmetic brands.

Strategy recommendation for future businesses wishing to follow the China-Chic pattern is presented at the end of the paper.

## 2 POSITIVE EFFECT OF CHINA-CHIC ON SALES

Due to Chinese economic reform and advancement in manufacturing technology, with increasing consumer confidence in locally designed and produced China-Chic products, China-Chic proved to be having a positive impact on the sales of products [6]. Take the cosmetic industry in China as an example. The Chinese cosmetic industry has been through three stages. Initially, the market was dominated by foreign-funded brands, with local Chinese brands owning a little of the market share. In the 2010s, long-established Chinese cosmetic brands took a path to recover, while newly built Chinese cosmetic companies began to capture market share. The Chinese cosmetic brands are dominating the market and beginning to exceed multinational companies [8]. As shown in Figure 1, the total market share of Chinese cosmetic brands increased from 3.1% in 2011 to 19.5% in 2022, which is a significant increase. China-Chic brands Perfect Diary and Florasis show that the newly established local brands simultaneously reflect China's current popular aesthetic and traditional cultural elements in their product designs. In addition, as shown in Table 1, these two brands occupied the second and fifth largest market shares in only three years.



**Figure 1.** Change in market share of top 20 brands in Chinese cosmetic industry

Source: Euromonitor Passport Market Research Database

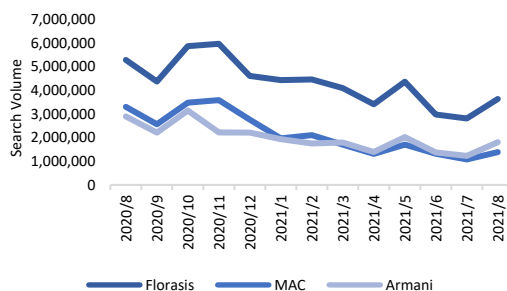
**Table 1** Change in market share of top 10 brands in Chinese cosmetic industry with moth market shares

Top 1	Top 2	Top 3	Top 4	Top 5
<i>Maybelline New York</i>	<i>Perfect Diary</i>	<i>Dior</i>	<i>L'Oreal Paris</i>	<i>Florasis</i>
6.8%	6.7%	6.0%	5.9%	5.1%
Top 6	Top 7	Top 8	Top 9	Top 10
YSL	Armani	Lancome	Mac	Estee Lauder
4.7%	3.5%	3.4%	3.4%	2.6%

Source: Euromonitor Passport Market Research Database

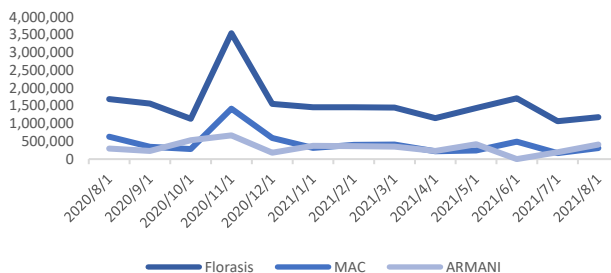
Moreover, Chinese domestic cosmetic brands that fall into the category of China-Chic received a significantly higher level of public attention compared to foreign brands. The paper used the

search volume of official flagship stores of Florasis, MAC, and Armani on Taobao as an example. As shown in Figure 2, the monthly search volume for China-Chic brand Florasis in August 2020 exceeded 3 million people, whereas foreign brand MAC and Giorgio Armani only received 1.39 million and 1.81 million searches, respectively, in the same period. The data shows a considerable difference in the public attention paid to China-Chic brands and foreign brands by the Chinese consumers, where the search volume of domestic brands nearly doubles that of foreign brands.



**Figure 2.** Search volume of Taobao official flagship store of Florasis, MAC, Armani

Source: Tmall, Taobao Seller Database



**Figure 3.** Payer number of Taobao official flagship store of Florasis, MAC, Armani

Source: Alibaba and Tmall Seller Database

As shown in Figure 3, the payer number for Taobao flagship store of Florasis, the China-Chic brand, remains above MAC and Armani, two international brands, throughout the whole year from August 2020 to August 2021. While the payer number of the two international brands are similar, the level of difference between the foreign brands and the China Chic brands is significant as Florasis exceeds the international brands by nearly a million payers.

In this paper, a hypothesis testing method is employed to prove whether the payer number of Florasis. The China-Chic brand, is higher than MAC, the foreign cosmetic brand. A significant level of  $\alpha = 0.05$  is used. In this testing, two major hypothesis states the following:

$$H_0: \mu_1 - \mu_2 \leq 0 \tag{1}$$

$$H1: \mu_1 - \mu_2 > 0 \quad (2)$$

In H0,  $\mu_1$  represents the average payer number of Florasis, while  $\mu_2$  represents the average payer number of MAC. The null hypothesis states average payer number of Florasis is less or equal to MAC's, while the alternative hypothesis states the opposite. Due to a relatively small sample number, as only data of one year is presented, and the unknown total variance, the Student's t-test is employed for the hypothesis testing.

$$t = \frac{(\bar{x}_1 - \bar{x}_2) - (\mu_1 - \mu_2)}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}} = 5.715 \quad (3)$$

As  $|t| > |t_{\alpha}|$ , P value is  $2.3 \times 10^{-5} < \alpha = 0.05$ . Therefore, the null hypothesis should be refused. This indicates that, under 99.5% of statistical credibility, payer number of Florasis, the China-Chic brand, is significantly greater than MAC, the foreign cosmetic brand. It is reasonable to conclude that the in-sample population, which is the Chinese cosmetic industry, China-Chic brands are more appealing to consumers. This indicates a positive effect of China-Chic marketing on consumers' willingness to purchase a product.

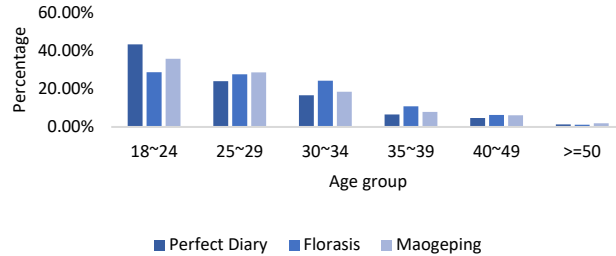
### 3 ANALYSIS ON THE DRIVING FACTORS

#### 3.1 Demand side factors

##### 3.1.1 Consumer willingness to purchase

The economic status of a country mainly decides its international position and relationship with other economies. Nevertheless, the improvement in a country's international position has a positive impact on citizen's sense of national identity and cultural recognition [7]. With the rapid economic growth, Chinese people gradually recovered their sense of national identity. An increasing number of people became proud of the country and developed cultural confidence. In the case of China-Chic products, the utilization of both Chinese traditional and modern elements in product design and brand imaging facilitates consumers to develop a sense of consumer identity in the product. To display an individual's identity and status that the consumer is proud of, this consumer identity in China-Chic products triggers purchasing behavior of consumers [5].

As shown in Figure 4, China-Chic brands such as Florasis, Perfect Diary, and Maogeping have 18~24-year-olds as a major consumer group. In the meantime, 43.3% of consumers of Perfect diary are aged 18~24 in August 2021, which suggests the growing passion of Generation Z in China-Chic comparing to other age groups. Therefore, consumer's willingness to purchase China-Chic products has increased considerably due to increase in pride in the culture.



**Figure 4.** Percentage of consumers of China-Chic brands in terms of age groups

Source: Alibaba and Tmall Seller Database (2021)

### 3.1.2 Affordability

According to the income effect, the demand for normal goods increases as people earns higher disposable income. With the rapid economic growth in China, people now earn a higher real income, which increases demand for goods and services and total consumption, including purchases of China-Chic products [4]. In this paper, a regression model is employed using quarterly GDP per capita as the explanatory variable and monthly revenue of top 20 China-Chic firms that capture the most market share in the Chinese cosmetic industry as the response variable.

The data obtained are presented in Table 2. The explanatory variable quarterly GDP per capita is measured in ten thousand RMB, while the sales revenue generated by the top 20 China-Chic cosmetic brands with the most market share is measured in hundred million. Due to a considerable difference in the scale and magnitude of the two groups of data, the natural logarithm is acquired. This process converted the raw data so that the magnitude and units of the variables became comparable without changing the relationship between the variables.

**Table 2** Quarterly GDP per head and sales revenue of cosmetic industry March 2018 to 2020

Date	Quarterly GDP per head (ten thousand¥)	lnX	Cosmetic industry sales revenue (hundred million¥)	lnY
3/1/2018	1.532652797	0.427000088	2.402849149	0.876655
6/1/2018	1.572240267	0.452501524	2.440174094	0.892069
9/1/2018	1.611239821	0.477003958	2.501784404	0.917004
12/1/2018	1.647008521	0.498960625	2.788492867	1.025501
3/1/2019	1.67412049	0.515287947	3.087067019	1.127221
6/1/2019	1.705546339	0.533885493	4.374410465	1.475772
9/1/2019	1.735237176	0.551144105	5.813869808	1.760246
12/1/2019	1.761571372	0.566206236	7.03431137	1.9508
3/1/2020	1.741141209	0.554540766	9.692787233	2.271382
6/1/2020	1.754502339	0.562185249	10.00481135	2.303066
9/1/2020	1.779376451	0.576262994	10.48991127	2.350414
12/1/2020	1.814196279	0.595642548	10.64651479	2.365233
3/1/2021	1.892020464	0.637645286	8.348423436	2.122073
6/1/2021	1.952504553	0.669112935	8.570572986	2.148335

Source: Alibaba and Tmall Seller Database and National Bureau of Statistics

The result of the regression model is the following:

$$\hat{Y} = -2.45 + 7.60 \times X \quad (4)$$

In this model, P value is smaller than  $\alpha$  and  $R^2 = 0.71$ , which indicates a relatively strong relationship between the explanatory variable and response variable. Other parameters can all pass the Student's t test under the significant level of  $\alpha=0.05$ .

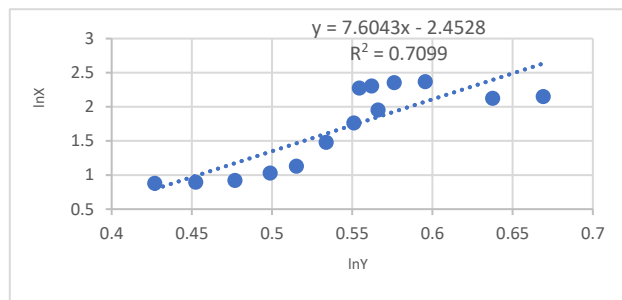


Figure 5. Chinese Quarterly GDP per capita

Source: Tmall, Taobao Seller Database and National Bureau of Statistics

The result of the model suggests that as GDP per capita increases by 1%, the sales revenue of the Chinese cosmetic industry increases by about 7.6%. It is reasonable to conclude from the model that the increase in real income (GDP per capita) causes the rise in consumer purchasing power in China-Chic products. This aids the increase in cultural confidence among Chinese consumers. With a rise in affordability, consumers have improved their ability to purchase China-Chic products that they recognize as what they belong to – their cultural identities – as mentioned in 1.2.

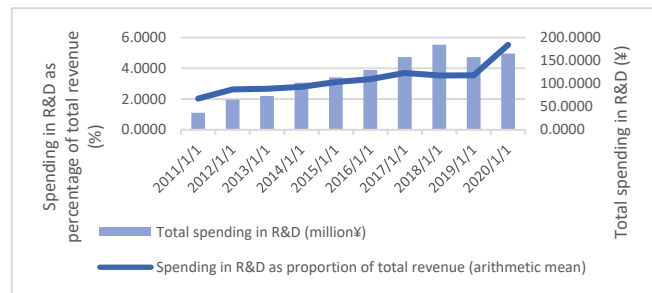
### 3.2 Supply side factors

In this section, the paper segmented the supply side factors that facilitate the boom of China-Chic using the 4P model – product, promotion, place and price.

#### 3.2.1 Product

Starting from 2005, the State Council has been issuing policies that push reform in the Chinese production structure [2]. The aim of the policies is mainly about shifting the focus of manufacturers to technological innovation and invention. Since then, local producers have been investing an increasing amount of money into research and development, as shown in Figure 6. Domestic Chinese manufacturers started to build their brands and produce goods designed by themselves instead of retaining in the low-end production model – simply processing goods developed by foreign firms are no longer the way. As Chinese local producers are moving towards high end in the value chain of production of consumer goods, a considerable proportion of domestic products are achieved the same level of technological and functional advancement as top end foreign brands.

In 2019, the “Baidu China-Chic Proud Big Data” report published jointly by Baidu and People.cn displayed a clear conversion of the brand image of Chinese domestic brands from the perspective of consumers. Now, Chinese consumers no longer regard domestic products as low-quality and low-innovation, but instead believe that locally-produced products are highly original and cost-effective. Chinese brands have received increasing public attention.



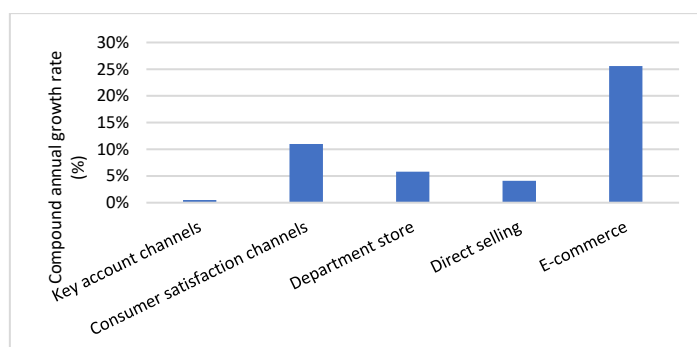
**Figure 6.** Spending in R&D by Chinese manufacturers 2011-2020

Source: Annual financial report of public listed companies

### 3.2.2 Place and Promotion

Nowadays, China holds a leading number of patents in the world. It has the most advanced technology in communication, the internet, AI, new-energy vehicles, and other high-end emerging industries. Goods made and designed in China, the China-Chic products, displayed high quality, innovation, as well as price competitiveness. However, the biggest drawback is the brand’s level of recognition and influence among consumers [7]. In this case, e-commerce in social media and live streaming effectively resolved the shortcomings in terms of place and promotion.

The decentralization of media in China provides newly established China-Chic brands with increasing opportunities to survive and expand. Taking the Xiaohongshu as an example, the app combines the function of the community, content-sharing, and e-commerce, which provides solutions to consumers when they have the demand to choose a product to purchase. Comparing to the traditional advertisement method on mass media, the new method involving social media provides a lower-cost alternative for newly established China-Chic firms with a limited budget to capture market share. China-Chic brand Perfect Diary is a good case in point. The firm took a marketing strategy that focused on multiple social media platforms, such as Xiaohongshu and TikTok, to accumulate potential customers – it published 1100+ posts on Xiaohongshu and has 3 million followers on TikTok [4]. As shown in Figure 7, Euromonitor International found that sales revenue through the e-commerce platforms has the highest compound annual growth rate among all other channels, displaying a CAGR of exceeding 25%. Furthermore, most firms that use e-commerce as their main sales channels are China-Chic brands. The boom of social media allows China-Chic brands to reach a wider range of costumers, which increases the its popularity and won customer’s heart.



**Figure 7.** 2013-2018 compound annual growth rate of multiple sales channels

Source: Euromonitor Passport Market Research Database (2019)

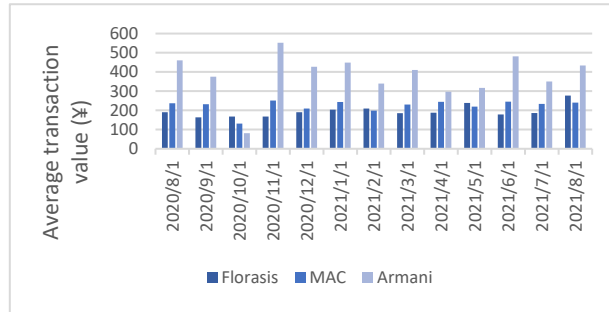
### 3.2.3 Price

China-Chic products demonstrate cost advantage comparing to foreign products

As foreign firms enter the Chinese market, costs accumulate since they have to pay tariffs, extra labor, and shipping costs. This leads to a decrease in profitability and an increase in the product price. In contrast, domestic Chinese brands have a competitive advantage regarding the cost of production.

First, labor cost competitiveness in the Chinese manufacturing industry largely surpasses developed countries, such as the US, Germany, and Japan. According to Deloitte Touche Tohmatsu Limited, the competitiveness index for China is 96.3, whereas the US and Germany are 39.3 and 37.2, respectively. Second, foreign countries usually have higher shipping costs. According to the data published by WIND in 2018, shipping cost accounts for 8.4% and 9.5% of GDP in North America and Europe, where developed countries are concentrated. On the other hand, shipping cost accounts for an even higher proportion of GDP in South America and Asia-Pacific, with 12.1% and 12.7%, respectively. In China, where the shipping cost is low due to the convenient infrastructures, China-Chic brands can enjoy lower costs of production. Third, tariffs are unavoidable for foreign companies. For cosmetic products, the tax rate reached 150%, which is a high number. As presented in Figure 8, the average transaction value of Florasis, a China-Chic cosmetic brand, is significantly lower than that of MAC and Armani. Therefore, as the cost competitiveness of China-Chic product pass on to its price, it is more popular among consumers comparing to foreign products.





**Figure 8.** Average transaction value for cosmetic brands on Tmall flagship stores.

Source: Tmall, Taobao Seller Database

#### 4 PREDICTION OF SALES OF CHINA-CHIC BRANDS

Under the supportive government policy and demand and supply-side driving factors, the sales of China-Chic are growing constantly. This paper employs a SARIMA model to further anticipate the sales of China-Chic products. Because the majority of China-Chic cosmetic brands were not established until 2018, the autoregressive model is constructed using monthly sales revenue of the Taobao flagship store of all locally produced Chinese cosmetic brands. However, due to the two large-scale promotion activities – “618” and “11.11” – on Taobao, the raw data is influenced by seasonal variation. As shown in Figure 9, an impulse in sales revenue occurs every June and November. In addition, the data displayed a strong tendency. To eliminate the trend and minimize fluctuations in the series, an ARIMA model is employed. Considering the seasonal variation, the paper constructed a seasonal autoregressive integrated moving average (SARIMA) model to absorb the seasonal variation in raw data.

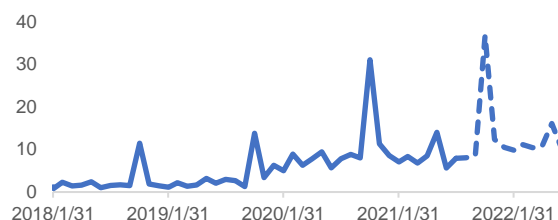
After a series of tests, including unit root test and augmented Dickey-Fuller test (stationary test), and analysis in autocorrelation and partial autocorrelation, it can be concluded that the series is first-order integration. Meanwhile, it has a seasonality of 12 months.

The paper constructed a SARIMA(1,1,1) × (1,1,1)<sub>12</sub> model for the sales  $Q_t$  with the following coefficient.

**Table 3** SARIMA results

Variable	Coefficient	t-statistic	P value
AR (1)	0.68	2.08	0.0480
SAR (12)	1.0	881	0.0000
MA (1)	-0.99	-1.38	0.1775
SMA (12)	-1.00	-10167	0.0000
SIGMASQ	7.58	0.86	0.3957

The models displayed a relatively significant variable coefficient. According to the SARIMA model, the sales revenue of China-Chic cosmetic brands will demonstrate an upward moving trend, indicating a consistent increase in consumption of China-Chic products in the future.



**Figure 9.** Monthly sales revenue of Tmall flagship store of Chinese cosmetic brands and prediction (Source: Tmall, Taobao Seller Database)

## 5 CONCLUSION

China-Chic has become an unstoppable trend as it continues to prevail and expand. It has penetrated the thinking of the Z generation as they are more exposed to social media and various e-commerce platforms [4]. For the native producers who originate and produce their own products by incorporating China-Chic elements, China-Chic positively boosted the sales of products. The main reasons behind the boom of China-Chic, on the demand side, is the growing cultural confidence and purchasing power of Chinese consumers. The incorporation of Chinese traditional elements and prevailing elements in modern local society in the China-Chic products provides a chance for consumers to gain satisfaction by purchasing merchandise that they recognized as what they belong to, in other words, their cultural identity. The increase in purchasing power aids the rise in cultural confidence as an increasing number of Chinese consumers can afford to purchase more goods. As local producers invest an increasing amount of funds into research and development, the quality and level of innovation of locally produced goods increase, which allows native producers to compete with high-end international brands and capture increasing market share. The thriving e-commerce through social media channels provides a cost-efficient and more effective way for China-Chic brands to reach their main consumer group, Generation Z. To conclude, prevailing China-Chic is an irreversible trend in the Chinese market. However, this essay is still limited as the boundaries of China-Chic product blurs. An increasing number of domestic start-up companies design their products without using traditional cultural elements, though considered to be China-Chic brands. Future study can focus on positive and negative impact the emerging China-Chic brands bring to the economy, as well as the effectiveness of government measures taken to facilitate its growth.

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