When Gen Z meets Chinese domestic brands

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In recent years, China has experienced a rise in home-grown brands. What these brands lack in maturity, they make up for in social media and e-commerce skills. Following an explosion in sales, they have caught the attention of the public.

New consumption, new guochao and new domestic products – these are some of the concepts used to encapsulate the success of these brands. Furthermore, 'new consumer brands' refers to recently-established brands that target Gen Z and which have built their success upon social media and e-commerce.

01
Backdrop: An era in which domestic products meet Gen Z

The trends of any era are defined by its youth. Behind the rise of China's new consumer brands is the emergence of a new generation of consumers, Generation Z, who are now shaping China's fashions and trends.

Gen Z typically refers to those born between 1995 and 2009 (about 260 million people in China). Raised in an era when China has emerged as a global powerhouse, they are highly-expressive 'digital natives' passionate about social media.

For Gen Zers, it is not only about buying a brand – it is also about expressing their individuality. Brands are tools for them to build their personal image. If a brand can create an identity for them, they will not only buy, but also advocate for it.

While everyone in China has observed this trend, foreign brands have been slow to catch on. For one, Gen Z is accustomed to foreign brands and does not 'look up' to them like previous generations did. At the same time, the gap in quality and performance between Chinese and foreign brands has also narrowed. Most importantly, many foreign brands have not responded positively to Gen Z's needs.

Most foreign brands adopt a 'one-size-fits-all' localisation strategy in overseas markets. Zara, for example, introduced many global fashion styles to China, but its focus on fast fashion is less appealing to Gen Z's desire for individuality. Many foreign brands have thus lost their edge amongst Gen Z consumers.

China's new consumer brands, however, have seized the opportunity. With a grasp of Gen Zers' needs, they tailor their products to differentiate themselves from the rest of the market. These brands adopt approaches that target Gen Z with products on their preferred social channels. Consequently, they have become a magnet for Gen Z.

02
Solid foundations: Made in China and the media environment

China's industrial and manufacturing, and social media and e-commerce capabilities also provide a foundation for the production, marketing and sales of new consumer brands. Domestic industrial and manufacturing capabilities have also made it possible for brands to make their products at a lower cost.

Several of the world's largest cosmetics original equipment and design manufacturers (OEMs/ODMs) have factories in China. Local Chinese OEMs, however, are also growing rapidly. Shanghai's A&H International Cosmetics, for example, serves luxury brands such as Dior, Saint Laurent, Gucci and Armani, as well as cosmetic groups such as L'Oreal and Estee Lauder.

China's manufacturing capabilities have allowed new brands to employ a strategy of 'copycat innovation'. While it is difficult to surpass industry leaders in quality, it is easier to produce a 'good enough' product (one which is almost as good as leading products), many of which are welcomed by Gen Zers.

The unprecedented growth of domestic e-commerce and social media has laid the foundations for new brands to market themselves.

First, a variety of e-commerce formats have gained unprecedented market penetration in China. From traditional e-commerce and social e-commerce to livestreaming e-commerce and WeChat mini programmes, brands now have direct access to consumers.

Second, social media has become an integral part of Chinese people's lives, with platforms such as Weibo, WeChat, Xiaohongshu and Bilibili dominating young people's spare time. This has laid a solid foundation for brands to communicate directly with consumers.

Third, social media and e-commerce can be seen as a 'one-two punch,' turning marketing leads into sales. This synergy can be greatly enhanced by the combination of channel operations and advertising campaigns.

Fourth, big data has helped brands better tailor their product development and marketing and sales approaches to their target audiences, resulting in increased efficiency and lower product launch costs.

03
Instant hits: Affective value differentiation and viral marketing

So, why have these brands become instant hits?

The first thing to look at is what characterises the industries of new consumer brands. Whether it is make-up brands (such as Perfect Diary and Florasis), beverage brands (Genki Forest and Saturnbird), or electronics brands (Apiyoo), they have one thing in common: they operate in mature industries.

When an industry matures, new brands do not need to educate the market. The market is big, but its growth has slowed. At this point, it is a zero-sum game. If you can grab a piece of the pie, your share will be significant.

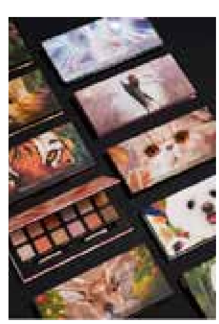
The key to grabbing market share is differentiation. New brands that achieve rapid breakthroughs are those who have entered a mature industry and identified a unique point of differentiation.

The differentiation of perceptual values also matters to the success of new consumer brands. Gen Z does not demand a lot when it comes to the practical value of products, but has more needs for affective value, such as individuality, external appeal and self-expression. It is this unique characteristic of Gen Z that new brands must tap in to.

The communication of a product's perceptual values relies heavily on social media and e-commerce. Most new brands allocate marketing resources to social media platforms, often turning to key opinion leaders (KOLs) and key opinion consumers (KOCs) for help.

This approach generates a network effect, reaching many consumers. Then, there is a viral effect, where consumers get involved and help a brand's message snowball, leading to a rapid explosion effect.

Perfect Diary, for example, has succeeded by partnering with KOLs to draw attention to itself, and the brand's parent company Yatsen has cooperated with over 15,000 KOLs. Similarly, Florasis gained popularity by working with livestreamer Austin Li. Meanwhile, Chicecream has raised awareness on Xiaohongshu and become exemplar for incorporating sampling, customer engagement and communication.



04
Future challenges for new consumer brands

The success of new consumer brands depends on the differentiation of perceptual values and virality on social media.

Given consumption trends in China, there is still room for growth for products with perceptual values in line with people's quality of life and happiness. While the growth of people's functional needs is slowing, the growth of perceptual needs is still accelerating.

However, while perceptual value-oriented brands may succeed in the long run, they cannot rely only on a handful of hit products. Since perceptual value-led consumption is easily influenced by others and thus highly volatile, a company is unlikely to predict consumers' preferences and anticipate what kind of goods will be popular. Therefore, a brand emphasising perceptual value differentiation needs to launch new products.

With viral marketing, brands may generate a lot of buzz on social media, but this is also unlikely to be sustainable, as this kind of communication revolves around the audience, meaning success is rare.

Finally, it should be emphasised that not every domestic product leads to the rise of a new consumer brand. The key is to respond positively to the individual needs of Gen Z and to adopt a tailored marketing and sales approach.