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From Alo to Texas Chicken, foreign brands bet on China despite stiff rivalry

For premium and niche brands, China still represents a growth opportunity in a fast-changing consumer market

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Los Angeles-based Alo Yoga announced its entry into the China market on Wednesday. Photo: Shutterstock

Premium and niche foreign brands are entering or returning to China as they seek to unlock growth in the country's vast consumer market just as many international companies are either pulling out or closing shop amid fierce competition in a fast-changing environment.

Foreign companies including American firms Alo Yoga and Church's Texas Chicken (operating as Texas Chicken internationally), German supermarket chain Müller and British perfume brand Clive Christian have all either entered the Chinese market or are about to do so.

"Broadly, China is still too large and important a market for brands to ignore for long," said Chloe He, director of Asia-Pacific corporate ratings at Fitch Ratings. "For mass-market brands, the appeal is scale, while for niche or premium brands, China offers a large enough pool of affluent and aspirational consumers to support growth. But that does not mean it is easy to operate here."

Most recently, Los Angeles-based yoga apparel brand Alo, a competitor of Lululemon, announced its entry into the country on Wednesday via a WeChat post titled "Hello, China". It is making its debut shortly after an inquiry into Lululemon's alleged use of harmful apparel chemicals in its apparel was announced in the US in April by the Texas attorney general, which sparked widespread discussions online in China.

Alo has gained recognition for its stylish designs, social media marketing and celebrity endorsements from influencers like Hailey Bieber and Kendall Jenner. Its price positioning is comparable to Lululemon, with some items being slightly more expensive, such as a pair of yoga trousers that retails for HK$1,050 (US$134) online.

"Many foreign brands are exiting or scaling back because growth has slowed, competition from local players is intense, and margins are under pressure," He said. "Success in China depends on whether companies can localise effectively and offer something clearly differentiated."

Other companies are now seeking to re-enter the China market as well. One such firm is US fashion brand Guess, which announced its return in late May just two months after closing all its stores and halting its e-commerce operations in the country.

Together with Authentic Brands Group (ABG), which owns a majority stake in the intellectual property (IP) of Guess, they appointed Hangzhou Ruisi Haishang as the mainland China master licensee, fully responsible for developing, producing, distributing, and selling its women's, men's and children's apparel lines.

Sandy Lim, China consumers analyst at S&P Global Ratings, said Guess' temporary pullback from China was due to ABG's acquisition of a majority stake in January. As ABG mainly manages and licenses brand IP instead of running retail operations directly, Guess would re-enter China under this licensing-focused model.

"China remains an appealing consumer market given its massive size," Lim said. "However, the strategic playbook is changing. Previously, foreign brands could generate profits easily by addressing unmet demand. Today, overall market volume has reached a state of relative stability."

US fast food chain Texas Chicken plans to open its first store in China in Shanghai this summer. Photo: Shutterstock

Meanwhile, US fast food chain Texas Chicken will open its first store in China in Shanghai this summer. It has partnered with Deke Shengtang, a leading local operator with multiple quick service restaurant brands, to develop at least 600 restaurants nationwide over the next few years, it said in a statement in April.

The deal represents the brand's largest international development agreement so far and signals strong long-term confidence in the market, it said.

"This is more than growth. It's a defining moment for our brand," said Roland Gonzalez, CEO of Church's Texas Chicken and Texas Chicken, in a press release in April. "China is one of the most dynamic and influential consumer markets in the world. We are excited to partner with a team that knows how to win locally."

Separately, German supermarket chain Müller, often dubbed as Germany's Watsons, is expected to open its first store in Asia later this year in Shanghai, banking on the country's retail market, according to a cooperation agreement signed between its China operating entity and the Puxing Road subdistrict in Shanghai in January.

British luxury perfume brand Clive Christian also opened its first pop-up store in mainland China at Beijing's SKP-S mall from May 25 to June 30, following its debut in Hong Kong at Lane Crawford in Tsim Sha Tsui in February via Eternal Beauty Holdings, a fragrance brand management group in China.

Rooted in British royal heritage, the brand once held the Guinness World Record for the world's most expensive perfume, No.1 Imperial Majesty, at £115,000 (US$153,050).

The company did not immediately respond to a request for comment.

Broad structural shifts are reshaping China's consumption landscape. According to a joint report published on Tuesday by consulting firm Bain & Co and market researcher Worldpanel by Numerator China, the country was moving from a long period of rapid population growth and rising incomes towards slower growth. It also faced deflationary pressure and weaker confidence, it added.

The demographic and household profile of consumers was changing in ways that would define where and how fast-moving consumer goods growth appears over the next decade, the report said.