



# Small Fashion Boutiques and Retail Change in China

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#### **Abstract**

Although scholars and business leaders generally expect the small fashion boutique retail format to phase out in China after the China joined the WTO, it has so far remained very resilient under current retail changes. This essay investigates the characteristics of the small fashion boutique format and explicates why small fashion boutiques remain to have certain advantages over larger retail formats. Based on case studies, ethnographic observation, and in-depth interviews of successful operators, I find that small fashion boutiques excel in relational marketing and store branding. I document how small boutiques operators invest their effort in relational marketing by developing friendship with a group of core customers and supplying accurate fashion information to all customers. I also demonstrate how small fashion boutiques effectively gain store brand equity through flexible visual merchandizing and cultivating a charismatic image for the operator.

Keywords: Retail change, Fashion retailing, Store branding, Relational marketing, Fashion boutiques, Chinese fashion

# 1. Introduction: Are small fashion retailers in China flourishing or perishing

The Chinese apparel retailing market will become very competitive when no restrictions on the market access in equity, geographic areas, number of and form of establishment will be imposed on foreign investors after three years of China's accession into WTO. It is believed that many small domestic apparel retailing firms will be phased out from the market (Kwan, Yeung, and Au, 2003: 99).

The previous passage reflects a commonly held view on the prospects of small, individually-owned fashion retailers in China in the near future. While the view appears to make much sense on at a first glance, it is actually not tenable in the face of empirical evidence. Larger retail formats that are new to the Chinese context, including department stores, hypermarkets, or discount stores, are already diffusing from major metropolitan centers such as Shanghai and Beijing to numerous other Chinese cities. But at the same time, the small boutique format has not yet shown signs of decline. It is still a major retail format in small towns and rural areas, since larger retail formats are only beginning to find their way into economically marginal areas. As of 2008, the small fashion boutique remains to be one of the major retail formats in metropolitan Chinese cities, provincial capitals, and major hinterland cities. For instance, one of foci of urban regeneration in China is huge and centrally located underground shopping compounds that contain hundreds of small fashion stores. Some of these aggregates were built more than a decade ago, but many of them are recently developed and the number of them is still growing. Examples include those that developed around the People's Park underground station in Shanghai, those in Zhuangyuan Fang of Guangzhou, or those that span underneath the Nanping shopping district in Chongqing. In addition, the small boutique retail format is encroaching on larger retail formats through concessions and other hybrid retail formats.

Detailed and updated statistics on small fashion boutiques are not available, but we can still catch a glimpse of their significant scale through indirect sources. For example, according to an extensive census of commercial activities in Beijing in 1998, individually owned retailers represent 29% of the city's retail market turnover and employ 31% of the workers in the retail industry (Wang and Jones, 2002). Additionally, urban markets (largely made up of small retailer stalls) shared 10% of the city's retail market turnover and employ 34% of the workers in the retail industry. Another indirect evidence is that in Hong Kong, a Chinese city in which large and sophisticated fashion retailer formats have already been operating for decades, the percentage of retail establishments (among all retail establishments) that employ less than 50 employees has remained around 99.5% for the past two decades (Sun and Chew, 2005).

Why is the small fashion boutique retail format so resilient in China? Will small fashion retailers retain a significant role and market share in the future fashion retail structure of China? Are the advancement of more complex fashion retail formats and the survival of small fashion retailers mutually exclusive? No one has yet paid attention to these questions,

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because the research the field focus on the newer and larger retail formats that currently dominate the retailing structures in the West (Dickson and Li, 2004; Li, Wang and Cassill, 2004; Lo, Lau, Lin, 2001). This essay will focus on the small boutique retail format and provide an empirical basis that will help answer the previous questions.

The current resilience of the small fashion boutique format in urban China hints that it is perhaps not as primitive and weak as it appears. Although they may be uncompetitive in certain ways, I will show that they possess certain advantage over larger retail formats in the context of Chinese retailing. I identify two of these strengths in this essay: relational marketing and store branding. I will analyze how small fashion retailers in China make use of the special characteristics of the small fashion boutiques format to capitalize on these two aspects of marketing operation.

### 2. Methods and data

Quantitative statistics on small fashion retailers in China are seriously lacking. A significant minority of them are not registered businesses. Even the most basic aggregate figures about them — the total number of them in the nation or in individual cities — remains unavailable. Furthermore, because of the predominance of cash transactions, it is difficult to obtain the sales turnover and profit figures for these retailers with accuracy. I collected data on small fashion retailers through case studies, ethnographic observation, and multiple in-depth interviews of operators of small boutiques. My interviews are open-ended, including all major issue in fashion retail management, buying and merchandizing, inventory management, shop floor and staff management, accounting and finance, visual merchandizing, marketing and customer relations, and branding. All the small fashion boutiques from which my data derive focus on trendy apparel products for young women.

Data of the research were mostly collected in the years 2002 and 2006. The locations of data collection include Shanghai, Wuhan, Beijing, Chongqing, Changsha, and Guangzhou. I conducted detailed case analysis of two small boutiques — one in Shanghai and another in Wuhan — through many hours of participant observation at their store and long conversations with their owners and customers. I was also given comprehensive information on eight small boutiques (three in Shanghai, two in Wuhan, and one in Guangzhou, Chongqing, and Changsha respectively) in the course of advising the owners on the boutiques' set-up, operations, and management. Additionally, I have interviewed around thirty other small fashion store owners in the course of my fieldwork.

## 3. The strengths of small fashion boutiques

Although small fashion retailers cannot afford to have specialized marketing staff or a budget for mass media advertisements, their small size put them in a position to develop relational marketing with their customers much more thoroughly and deeply than large fashion retailers (Marzo-Navarro, Pedraja-Iglesias, and Rivera-Torres, 2004). Moreover, although most small fashion retailers neither have the budget nor conscious plans for store branding, the more successful among them cultivate store brands that become well known among fashion consumers in their home city.

# 3.1 Relational marketing

None of my retailer informants have heard of the term 'relational marketing', but many of them are utilizing relational marketing tactics to build and retain their customer base. Since small fashion boutiques are mostly run by one or two persons (including the owner), the relationship between the business and customers is very direct. There is a high degree of flexibility afforded by this unmediated relationship. For example, when a new walk-in customer is identified as having good consumption potentials, the owner often immediately tries to befriend the customer. She may invite the customer to coffee at a nearby café or a night-out to bars. Customer loyalty is easier to cultivate when the owner directly and personally deal with customers. The small scale of the store and the directness of the salesperson-customer relationship obviate the numerous costly tactics devised by marketing experts to cultivate customer relations. Without the mediation of multiple levels of management and salespersons, the relationship between retail business owner and customers also tends to be less power-ridden (Szmigin, 2003: 9-29).

Not all small fashion retailers pay an equal amount of attention to cultivating customer relations. Some owners of small fashion boutiques prefer to focus on providing good products and low prices in order to attract customers. But many of the profitable and successful small fashion retailers consciously make use of the relational marketing advantages of the small store format to allure customers. As two of my informants put it, they are "selling [them]selves, not merely the apparel items." These small retailers typically maintain a close relationship with between 50 and 300 core customers. There are various ways through which such a core customer base is built and maintained. I have described how the store owners would personally approach walk-in customers. They may also reach out to their own friends and customers' friends. They would keep a contact book that records core customers' phone numbers. They would call up the customers when a new shipment of inventory arrives, while customers would often call to make sure the owner is personally at the store (instead of having nobody but a hired salesperson in the store) before they visit. They set up an email groups to periodically contact with and advertise to the core customer base. Despite the small size of these boutiques, it is quite common to find a large sofa inside the stores. They provide the atmosphere in which

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fashionable people can hang out and chat with the owner in the store.

After a chat and a smoke [in the store], a customer who was not originally planning to buy would often buy something before she leaves. She might have stopped by the store simply because she was going to have dinner in a nearby restaurant.

The more aggressive cultivators of customer relationship would arrange regular dinners and night outs with customers. I participated in many of these gatherings. Some owners treat the core customers as close friends, or at least as close party friends. Many small fashion store owners are fashion aficionados themselves, and they truly love to make friends with the boutiques' fashionable customers and hang out with them at fashionable public places.

Trust and loyalty cannot be completely established through cultivating friendships, however. Satisfaction of customers' demand is equally important. In this respect, the small fashion store also has an advantage over the larger retail formats in the context of contemporary China. The Chinese began to pursue global fashion trends as early as the 1980s. But because of state control of mass media and language differences, global fashion information (together with all global information) is still not abundantly accessible to the average urban Chinese. Advertising for global fashion is still not commonly seen except in several of the most globalized Chinese cities. Global fashion information is also often accessed through indirect sources such as magazines, television shows, or websites from Hong Kong, Taiwan, Japan, and South Korea. Small fashion boutique owners can provide vital informational services to their customers in this context of fashion informational deficit. Compared to specialty fashion stores, department stores, large fashion chains, and other retail formats, small fashion retailers can inform customers personally and effectively on global fashion trends. Moreover, the information they supply is more likely to be truthful and less likely than large stores to be biased by the need to promote particular brands. Because the buyer of a small fashion retailer is most likely the owner herself, the inventory that the store carries reflects the owners fashion tastes and beliefs. The information communicated to their customers is not usually affected by preordained marketing plans or sales strategy.

# 3.2 Store branding

Retail branding (and particularly retail branding in the fashion retail sector) is one of the most important recent developments in the retail industries of the US and Europe (Birtwistle and Freathy, 1998; Wileman and Jary, 1997). Having limited resources, few small fashion retailers in China are able to engage in the investment-heavy components of store branding such as the development of own-brand products. Despite that, small fashion retailers in China are not very dissimilar from other retailers around the world in pursuing the strategy of developing the store as brand (Smith, 2000). I discuss two of the commonly employed ways through which small fashion retailers in China develop their boutiques as brands: building store brand equity through the character of the store owner and communicating store identity through store interior design and visual merchandizing.

Small fashion retailers in China do not directly promote the name of their store; the lack of own-brand products seriously handicaps this strategy. There are a few extraordinarily successful small fashion retailers that are able to have their stores' name branded and diffused throughout their home cities' fashionable crowds. *Mogui Tianshi* Boutique in Shanghai and *Qingxi Jinsheng* Boutique in Wuhan were good representatives of this class a few years ago. Most other small fashion retailers do not adopt this route. Instead, they heavily rely on the personal actions of the boutique owner to build a distinctive image and identity.

The relational marketing efforts of small retailers are highly conducive to this route to store branding. As I have previously mentioned, owners of successful small fashion boutiques consciously understand that they are 'selling themselves' to customers in addition to selling fashion products. These boutique owners strive to market themselves to customers as a charismatic and trendily dressed figure, a helpful and informative fashion guide, and a resourceful socialite around with which beautiful people of the city mingle. These attractive qualities of the owner can to a significant extent be transposed to the store brand. For example, I observe that some core customers of small fashion retailers affectionately address some store owners by their store's name instead of their personal name, even though the usual Chinese practice is to address an acquaintance by their personal names. Another piece of evidence is that customers often emphasize that hanging out in the fashionable small boutiques is a unique fashion experience.

It is exciting to be in here, because it's a rendezvous of fashionable people of the city. [...] Through the owner, I learn many things [about fashion], I get to meet trendy new friends, and I participate in this glamorous community. The atmosphere here is so much different from department stores, though I sometime shop at department stores at times for the bigger brandnames they carry. [...] I admit I get intimidated occasionally — by the boutique's very stylish atmosphere, the scrutiny of what I am wearing, the competition.

Such experiences are not very dissimilar to those experienced by customers of department stores in early-20<sup>th</sup> century Paris. The self-marketing efforts of small fashion store owners create store brand equity. If successful, they compose a considerable part of the price tag of garments sold. A successful operator explains that:

Sometimes, there are identical items being sold in nearby stores and department stores' counters. But I price them

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significantly above these neighbors anyways. I can count on customers to pay more for the additional value that I [as a charismatic, informative, and socially resourceful store owner] am capable of delivering.

Small fashion boutiques in China show strengths in visual merchandizing and store interior design, two of the main variables that generate store identity (Kent, 2003). Small fashion boutiques show great differences in their market self-positioning through choices of inventory, degree of fashionability, and store locations. The most upscale and trendy among them would invest in visual merchandizing and store interior design. Store exterior design is constrained by the fact that small fashion boutiques in China are usually located in densely packed malls, with no individual architectural structure and with window display as the only alterable and workable element of the boutique's exterior.

Nonetheless, small fashion retailers enjoy a considerable degree of flexibility in visual merchandizing. Most often, visual merchandizing for small retailers involve not much more than dressing up mannequins with the stores' current inventory in creative ways. Unlike specialty store chains, department stores, and other large retailers, there is no specialized staff to do visual merchandizing work. The small fashion boutique owner is usually responsible for this type of work, though some owners would ask for inputs from core customers and friends. At the same time, visual merchandizing in small boutiques faces fewer constraints than that in larger retail formats. For example, in contrast to specialty brand stores, small boutiques are free to mix and match a wide variety of brands to achieve the best aesthetic result. In contrast to department stores and chains, small boutiques do not have to compromise to mainstream tastes and standardization considerations (across geographic areas) in the design of window display. As a result, it is very common to hear trendy fashion customers claim that an item that is displayed in a department store is often less stylishly rendered than the identical item being displayed in small fashion boutiques. The capacity for boldness and fashionability in visual merchandizing is general higher for small boutiques, even though not every small boutique owner is able to take advantage of it. Another advantage of the small fashion boutique is that because their visual merchandizing work is done by someone who routinely deals with customers on the shop floor, the work can be very responsive to rapidly changing fashion tastes.

The interior design of the majority of small fashion stores in China is nothing more than the functional basics. The average sizes are between 10 to 20 square meters, with variation among different cities. But even with such a small amount of space (and a small budget) to work with, a notable minority of small fashion boutiques shows an outstanding capacity in building store identity through interior design. Similar to the case of visual merchandizing, small fashion boutiques enjoy a high degree of flexibility in designing their interiors. The design can be as bold as their owners wish. For example, one of the small stores that I advised uses pink color on almost every interior feature. Their interior designs are seldom luxurious due to budgetary constraints, but they could be stylish nonetheless. For example, using white and black floor tiles do not significantly increase a store's overhead, but it generates a more stylish effect than the average brandname concession counters in department stores. Other examples of affordable yet stylish design features include draperies on the walls or minimalist concrete floors and walls. In every mall filled with small fashion boutiques, it is possible to find a few that have very bold, stylish, and unique interior designs.

#### 4. Discussion and Conclusion

The previously discussed resilient features of small fashion retailers in China could well make it possible for them to survive the competition brought by WTO and the corporatization of local fashion retailing. Their comparative advantages in marketing will not easily dissipate. Large-scale retail format may of course install new relational marketing programs or improve their existing ones, but that can only shorten the gap between themselves and the successful small retailers. Low overhead cost will keep attracting small investors to founding new boutiques, even if these stores are not highly profitable. Store branding and visual merchandizing will always remain more flexible in small fashion stores than department stores and specialty chains.

On the theoretical level, we may interpret small fashion boutiques in China in terms of symbiotic theories of retail structural change rather than assuming that they will be driven out of business out by more 'advanced' retail formats. While Darwinist theories are suitable for explaining the competition of firms of the same format, symbiotic theories are particularly useful in explaining competition between different types of retail formats (Miller, Reardon, and McCorkle, 1999). It is entirely possible that small fashion boutiques in China will exist in a mutually beneficial relationship with larger fashion retailers. For example, the majority of aggregates of small fashion retailers are in fact located next to major department stores. This setup structurally resembles the American suburban mall format in which a department store works as an anchor and smaller retail stores fill up the rest of the mall space. Furthermore, the fashion products sold at small boutiques in China are often complementary to what are carried or what can legally be carried in specialty chains and department stores. For instance, small retailers would carry the very trendy non-brandname items and 'inspired' items produced by the enormous number of small garment factories in Guangdong province, whereas the larger retailers carry national and global brands.

Another theoretical approach to interpreting the resilience of small fashion boutiques in China is the dialectic theory of retail change (Maronick and Walker, 1974). Through a dialectic process, competing retail formats may take on

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characteristics of each other and yield hybrid new formats. Small fashion retailers in China are aggregated in fashion malls that specifically cater to them. Larger retailers such as specialty chains are not commonly found in these malls. In these cases, small fashion boutiques are to some extent internalizing elements of the modern mall format. At the same time, in a small number of department stores, modern malls, and hypermarkets in China, shop floor space is occupied by small fashion boutiques through concession arrangements. These cases demonstrate how small fashion retailers may encroach on the more complex retail formats and alter them.

A limitation of this study is that my analysis is based largely on cases of small fashion retailer that sell fashionable apparel products instead of non-trendy, primarily functoinal apparel products (such as thermal wear). The prospects of small retailers that specialize in non-fashion apparel products are generally not as good as the small fashion boutique. They will likely be phased out more easily and more completely by larger retail formats. They will also face a larger number of competitors than small fashion boutiques. For example, because hypermarkets carry non-trendy apparel products much more than fashion apparel, they represent a major threat to small retailers of non-trendy apparel products. Moreover, certain potential advantages of the smaller fashion boutiques, such as the flexibility to be bold in visual merchandizing, are not fully utilizable by small retailers that do not target trendy fashion consumers. Nonetheless, this limitation does not undermine my arguments of where the strengths of small retailers of fashion-wear are. Trendy small fashion boutiques will have a good chance of thriving in the foreseeable future in China's fashion retail structure. Global fashion retailers who wish to enter the China market may want to recognize small local boutiques as a meaningful competitor as well as develop a pragmatic symbiotic relationship with them.

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