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# HTH's Exploration in China

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## Case Synopsis

### *Research Problem*

How does HTH conduct market research and how should it enter the market in China?

### *Case Summary*

HTH is a high-end home furnishing fabrics “editor”. Since it was a subsidiary of a global famous luxury group M, it benefited from M’s production facilities: two printing mills and two weaving mills with the most advanced production lines, as well as the most traditional looms and frame printing lines. After producing its collections, HTH distributed these collections worldwide through building up a well-organized distribution structure composed of showrooms, sales teams, and franchised distributors. HTH’s creations were very popular among many developed countries, such as France, UK, Germany, Italy, Spain, Switzerland, Belgium, Greece, USA, Canada, Australia and Japan, etc. HTH was esteemed as a luxury brand in the furnishing fabrics sector.

The financial crisis exploded in 2007 badly influenced the global luxury market, including the sector of the high-end furnishing fabrics. Yet, luxury consumption in the emerging economies, especially in China, kept growing in a relatively high speed. The management team of HTH realized that the demand was getting saturated in developed countries. They thought that it was time to explore the business in emerging economies, where the market demand grew rapidly. HTH

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made China their first trial. They planned to conduct a complete market research and then enter the market with effective and sustainable strategies.

### *Learning Objectives*

The case was prepared for students to learn about market research, and how to formulate and implement a market entry strategy fitting the local environments. The objectives could be reached with the following details step by step:

- Understand the furnishing fabrics industry and the organization of HTH (business model, product portfolio and distribution structure in Western countries, etc.).
- Identify HTH's competitors and competitiveness, and get to know the market competition situation.
- Learn about Chinese consumers' preference on furnishing fabrics compared with Western consumers.
- Discuss the practical approaches to formulate and implement the market entry strategies.

### *Themes and Tools Used*

- Market environment analysis
- Basic methodology in conducting qualitative market research
- Competitive strategy formulation

### *Target Audience*

This case is prepared for MSc students in studying marketing or strategic management.

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## **1 Introduction**

It was a sunny afternoon in Paris. Miss Tang was walking on the "CAMBON" street, which was full of art, luxury, and fashion. Having passed Chanel's first shop, Miss Tang entered the office of HTH, a Rococo architecture building. Inside the office, the sofas, chairs, curtains and walls were upholstered with various fabulous furnishing fabrics in a harmonious way. HTH, the expert of furnishing fabrics, was called the creative genius in this sector. Its creations were widely accepted by individual consumers, interior designers and various organizations.

HTH was a manufacturer and also a distributor of furnishing fabrics. This kind of enterprise was called "editor" in Western countries, because they worked like editors: they collected the well-designed furnishing fabrics all around the world; sometimes, they designed and produced some fabrics by themselves; then they compiled these fabrics into their collections; at last, they distributed those collections to global markets. There were plenty of "editors" in the world. HTH

was considered as one of the luxury brands in the furnishing fabrics industry, due to its remarkable designs, high quality and excellent service. HTH's business covered many developed countries, such as France, UK, Germany, Italy, Spain, Switzerland, Belgium, Greece, US, Canada, Australia, South Korea, Japan, etc.. Its business had run very well until 2007, when the global crisis exploded. The furnishing fabrics consumption in developed countries was badly influenced. HTH's sales revenue decreased. The executives of HTH realized a serious fact: the demand in developed countries was getting saturated, thus a slowdown in the growth of demand, or even a decrease in the demand would be inevitable. The executives of HTH thought that it might be the right time to explore some new markets. Emerging economies came to their mind. Emerging economies kept growing rapidly, and the market demands in these countries were very dynamic. Among the emerging economies, HTH valued China with a huge potential. China's GDP kept growing during these years with an annual rate around 9 %, which could be hardly seen in other countries. During the global crisis, the luxury industry had been negatively affected in most of Western countries, especially in US and Western Europe, but, in China, the luxury brands' revenues kept growing with satisfying rates. Thus, HTH believed that China was a huge market for many of the luxury brands. Would it be good for a luxury furnishing fabrics brand? This is actually the mission that Miss Tang got from HTH. They invited Miss Tang to do a market research project to further understand the Chinese furnishing fabrics market. Based on the research, HTH's executives would make a final decision on whether they would start business in China.

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## **2 Chinese Preference on Furnishing Fabrics**

Having done the marketing research, Miss Tang found that there were many differences between the preferences of Chinese consumers and Western consumers on furnishing fabrics. Chinese consumers preferred fabrics with bright and rich colors, while Western consumers preferred fabrics with harmonious and quiet colors. Besides, in terms of choosing the fabrics to make the curtains, Chinese consumers preferred the soft fabrics. While Western consumers preferred fabrics that gave a hard touch. Miss Tang thought about developing a new product line for Chinese consumers. But the cost exceeded her expectation.

According to an official report from World Luxury Association: Although Chinese luxury consumption kept growing fast, Chinese consumers actually only bought products from the luxury brands which are worldwide well known, such as Gucci, Chanel, Louis Vuitton, etc. They seldom paid for unknown luxury brands, although the product quality could be quite high. It exactly explained the dilemma of luxury furnishing fabrics brands encountered in China. Their products were well designed and manufactured. They were well accepted in the Western countries, but not in China.

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### **3 HTH Background**

HTH was a subsidiary of the brand M, which was esteemed as one of the top luxury brands in the world. Brand M sold fashion products, accessories, tableware and furniture. Different from company M, HTH sold high-end furnishing fabrics. As a subsidiary, HTH benefits from the manufacturing facilities of its mother company: two weaving mills and two printing mills, with superior equipment and highly skilled craftsmen. It was hard to find another “editor” in Europe, who had the similar manufacturing facilities as HTH. Thus, it was very hard for the other “editors” to make the same promise as HTH did: “we manufacture all our fabrics only in France.” Except for these four well-equipped mills, HTH had its own logistics company with a warehouse of more than 2000 square meters. There were storage, cutting, shipping, sampling, production, and accounting departments based in this logistics company. HTH’s head office was located in Paris. It set up a branch office in New York. HTH had a very talented designer team. Each member of the team had strong background in furnishing fabrics design and interior decoration design. HTH’s creations were remarkable for the creativity, uniqueness, identifiableness, and fineness. HTH’s collections were favored by plenty of outstanding designers all over the world.

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### **4 Product Portfolio**

HTH had 3 sub-brands: Parallelism, Badge, and Chivalry. Each of them had distinctive characteristics.

#### **4.1 Parallelism**

This sub-brand was created in 1981. The characteristics of its creations were innovative, surprising in touch and shimmering in color. Parallelism’s collections were quite popular among the modern designers for its contemporary style, uniqueness, and identifiableness. Parallelism adopted a variety of materials in its collections: cotton, linen, silk, wool, mohair, polyester, polyester trevira CS, Rayon, etc. Besides, Parallelism used various weaving technologies to realize some distinctive effects, such as jacquard, satin, velour, flock, and brocatelle, etc. (The fabric glossaries that had been mentioned above could be found in the Appendix with the explanations).

Due to these distinctive features, Parallelism was selected as the long-term suppliers for many global leading luxury hotels, such as Plaza Athénée Hotel Paris, Four Seasons Hotel, The Venician Las Vegas, Ritz Carlton, Villa des Orangers Marrakech and Savoy Hotel London.

## 4.2 Badge

Badge was a luxury furnishing silk maker. The history of Badge could be traced back to four centuries ago. It was composed of several distinguished family enterprises of furnishing silk in Lyon, which was the ancient silk manufacturing center in Europe. With its rich archives and know-how, Badge had succeeded throughout the years by integrating the fresh elements into antique designs with the contemporary colorings and faithful reproductions. It was exactly what people called “neoclassic” creation. Covering several important periods of French civilization, from seventeenth century to today, Badge collections could be classified into four series: damasks, striped or embossed silk velvets, taffetas, and lampas (These fabric glossaries’ explanations could be found in the Appendix).

Badge collections were widely used in many historical places: some palaces, such as Versailles Palace in France and Royal Palace in Thailand; art centers, like Louvre Museum; political centers, as French Senate; also some leading luxury hotels, such as Bristol Hotel, Plaza Athénée Hotel in Paris, Meurice Hotel, and Metropole Hotel.

## 4.3 Chivalry

Chivalry was a French cultural heritage brand dated from 1814. The distinguished characteristic of this brand was that it mainly chose horsetail as the raw material to make furnishing fabrics. Horse was connected to the noble spirit, and was esteemed as the synonym of strength and vigor. The horsetail shimmers, like silk, gave very slippery touch. The textile made of horsetail could be used over centuries without wearing out. Chivalry mainly purchased the horsetail from Argentina, where the horsetail’s quality was the best. Except for horsetail, the supplementary raw materials that Chivalry sometimes adopted were sisal, linen and cotton. Chivalry bought the sisal only from Madagascar.

The mill of Chivalry was located in a village 200 km away from Paris. Because of the special texture of horsetail and sisal, Chivalry chose a traditional manual weaving method to achieve the best effect of the textiles by adopting the traditional looms, which could be traced back to a century ago. This kind of manual weaving process required highly skilled craftsmen, which made this mill’s average daily output to be around 4 yards, because of handwork in each of the production processes, including raw material filter, dyeing, weaving, and quality control. Chivalry was awarded the “French National Cultural Heritage” by French government.

Due to the historical value of this brand, the nobleness of its collections’ raw material, and the sophisticated craftsmanship, Chivalry collections were used in many noble places: art centers, such as Louvre Museum, Comédie Française, and Metropolitan Museum; famous castles, such as La Malmaison, Le Trianon, and Fontainebleau; political centers, like French Senate, French National Assembly, Buckingham Palace, and White House.

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## 5 Distribution Structure in Western Countries

As the furnishing fabrics industry evolved throughout years in Western countries, market structures were well established. Each “editor” had set up its own distribution network. It was clear for the interior decoration designers which furnishing fabric brands should be chosen in certain projects. Thus, the market structures in Western countries were in good order.

HTH had already well built its distribution structure in Western countries. It set up two showrooms in Paris and one in New York. These showrooms were not for selling products but for displaying HTH’s furnishing fabrics. There were, generally speaking, three kinds of clients who came to visit the showrooms: the first was individual consumers/proprietors, who needed to decorate their house(s); the second was interior decoration designers, who came to the showroom to select some furnishing fabrics for certain interior decoration projects; the last was organizational clients who needed furnishing fabrics for their projects, for example: the furniture manufacturers needed furnishing fabrics to upholster sofas, beds and chairs; the private aircraft companies needed furnishing fabrics to upholster the chairs and walls in the aircrafts, etc. In the showrooms, clients could choose any furnishing fabrics as they prefer, and ask for small samples for free. No matter whether the client was an individual buyer, a professional designer or an organization, the price was the same in the showrooms. However, professional or organizational clients could receive further discounts by contacting the customer service representative appointed by the company in private. Doing all of these was to protect the pricing system of HTH. If individual consumers got the same price as did professional designers or organizations, the HTH’s pricing system would be negative impacted. What was worse, HTH might lose the trust of customers. This kind of pricing mechanism could also help to keep a stable profit margin for franchised distributors and retailers.

In addition, HTH had a sales team, which did not only support the sales in showrooms, but also worked on promoting sales in other fields. The function of HTH sales team included implementing the training program for retailers and distributors, presenting and selling the collections to organization users and interior design companies, while, HTH’s sales team never competed with its franchised dealers and distributors. If they were bidding for the same project, the sales team would help the dealers or distributors to win the bid, rather than competing against. HTH’s business model and distribution structure kept the company running well in the Western countries.

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## 6 Main Competitors

There were not so many competitors in the high-end furnishing fabrics market, and their distribution structures in the Western markets were quite similar to HTH’s. The competitive advantages of some competitors are shown below.

## 6.1 Lelièvre

Focusing on manufacturing the furnish fabrics, Lelièvre was good at producing variety of velvets (the products of the main competitors). Its average price was 10 % lower than HTH's.

In order to expand its product portfolios, Lelièvre bought Tassinari & Chatel, a traditional furnishing silk manufacturer in France. In addition, Lelièvre gained the distribution license of Kenzo Missioni Home.

## 6.2 Pierre Frey

It was famous for the remarkable pattern design. Pierre Frey had no sub-brand. Its average price was close to HTH's.

## 6.3 Rubelli

Established in 1858 by Lorenzo Rubelli, it was famous for its know how in manufacturing high-end furnishing silk. Rubelli mainly chose natural materials in making fabrics, such as silk, linen, cotton, and wool. . . . Rubelli had no sub-brand. Its average price was slightly lower than HTH's. Rubelli gained a distribution license of Armani Casa.

## 6.4 Manuel Canovas

The brand was created in 1963 by Manuel Canovas in Paris. Its creations were recognized by the shimmering colors. Manuel Canovas had no sub-brand. Its average price was slightly lower than HTH's.

In terms of the pricing strategy, only slight differences could be found between these competitors and HTH. What making HTH differentiated from the others were its product characteristics. HTH used to have a brand positioning research by a consulting firm: in terms of the value of art, Chivalry ranked No. 1 among all the high-end furnishing fabrics brands; in terms of the value of heritage, Badge ranked No. 1; but in terms of industrialization, both Chivalry and Badge were weaker than Lelièvre, Pierre Frey, and Manuel Canovas; in terms of Stylishness, Parallelism ranked as No. 2, but in terms of industrialization, Parallelism was weaker than both Armani Casa and Kenzo Missioni Home.

Having followed a 2 months' training program in HTH, Miss Tang learned a lot about HTH's products, operation and business model, as well as its main competitors. However, all the information she received was based on Western market situations and was probably not transferable to China. She was wondering what the situation in China would actually be like.

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## 7 The Decision to Enter China

According to the official report from the World Luxury Association, Chinese luxury consumption had reached 10.7 billion US dollars by the end of March 2011 (excluding the consumptions of luxury cars, yachts and aircrafts). China, whose luxury consumption accounted for one fourth of global luxury consumption, became the world second largest luxury market followed Japan. Besides, because of the high tariffs imposed on luxury goods, the prices of foreign luxury goods were higher in China mainland compared to Western countries. Thus, many Chinese consumers went abroad for luxury shopping. In 2010, Chinese consumers spent 50 billion US dollars in buying luxury products overseas.

The executives of HTH were confident with the potential of the luxury market in China, although Chinese luxury consumptions concentrated on jewelry, bags, watches and garments. But Chinese luxury consumption habits and propensities changed gradually. More and more luxury consumers became interested in luxury cars, yachts, aircrafts, and real estates. Furthermore, plenty of high-end real estate properties were under construction in China. The executives of HTH believed that there would be a huge potential for the high-end interior decoration materials. In addition, many of the competitors already entered China or had the plan.

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## 8 Competitors' Distribution in China

The main competitors of HTH: Lelièvre (who had the distribution license of Kenzo Missioni Home), Pierre Frey, and Rubelli (who had the distribution license of Armani Casa) had already entered China. Only Manuel Canovas was absent. Those competitors who had already entered the Chinese market all set up their own distribution network.

### 8.1 Lelièvre

Without building its own sales team, Lelièvre chose to work with two high-end agencies: one was located in Beijing, and another in Shanghai. Each of them distributed the furnishing fabrics of Lelièvre exclusively in their own areas. These two distributors that Lelièvre had chosen were actually the wholesalers, who had built good partnership with the retailers all around China. Instead of selling or buying the fabrics in large quantity from Lelièvre, these wholesalers only bought the samples, and then they sold these samples to retailers. These retailers would sell the fabrics to the clients, such as individuals, interior decoration designers, and organizations. Once a retailer received an order from a buyer, the order form would be delivered to Lelièvre through the wholesaler. Thus, it was the retailer sold the fabrics for Lelièvre. Unfortunately, Lelièvre had no contact with the retailers and its sales performance was not much satisfying.



## 8.2 Pierre Frey

Pierre Frey authorized the distribution rights to many distributors around China. Some of them were wholesalers, and some were retailers. Indeed, Pierre Frey tried to build a firm presence in the market. However, as so many distributors were franchised, they competed with each other. Especially when the distributors of Pierre Frey encountered in the same project, a fight for bidding cannot be avoided. As a result, the profit margin was eroded for most distributors of Pierre Frey. Gradually, they gave up to sell Pierre Frey products.

## 8.3 Rubelli

It chose to work with only one luxury furniture retailer in China. This retailer worked with many luxury-furniture brands, such as Fendi, Bottega Veneta, Versace, etc. However, since this retailer mainly distributed the final products, it lacked know how in selling raw materials of interior decoration, such as furnishing fabrics. Besides, it did not have manufacturing facilities to help clients assemble the furnishing fabrics into furniture. Thus, Rubelli's sales revenue in China was not satisfying. Even worse, the retailer was involved in a lawsuit. Its reputation was damaged seriously and all of its stores had to be closed. Rubelli's business in China was negatively impacted either.

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## 9 Distribution Structure in China

Since HTH's distribution network in Western countries was successful, Miss Tang considered building a similar one in China. After estimating all the costs, Miss Tang gave it up, since it was too expensive to open a showroom in the central business area in Shanghai or Beijing. Just for the commercial rent, the cost could reach 150,000 to 200,000 US dollars per year. Besides, Miss Tang thought that it was not the right time to build a sales team, for the market of high-end furnishing fabrics was not mature in China. If they opened the showrooms and built the sales team, the sales revenue might not fully cover their total cost. After analyzing, Miss Tang thought to explore the market in China by franchising local distributors, since they already had well established sales team, showrooms and customer relationship. By the cooperation, HTH could build up its brand image and gain a market share in China within a short term and an acceptable cost. But how to choose good partners became critical. Chinese furnishing fabrics market was still underdeveloped, and the marketing structure of this sector was disordered to some extent. Wholesalers might also do retailing. Some distributors selling luxury products might sell low-end products as well. Thus, a thorough investigation was needed for choosing the most suitable franchisee(s).

### Questions

1. For market research, which aspects of information need to be collected about the competitors in China? How to get the information and how to verify?
2. What kind of research needs to be done to facilitate the location selection process, if HTH was entering China?
3. For HTH's competitors, what are the disadvantages of their distribution network in China? And, what can be learnt by HTH?
4. Compared with competitors, what are the advantages and disadvantages of HTH products?
5. The preferences of Chinese and Western consumers in furnishing fabrics are quite different. Should HTH launch a new product line in China? Otherwise, what need to be done in solving the problem?
6. In order to increase the competitiveness of HTH, what kind of strategies can be adopted in China?

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### Appendix: Fabrics Glossaries

Brocatelle	a specific type of medium weight brocade utilizing four or more sets of threads, equally for warp and weft. It has large patterns in high relief to appear embroidered or puffy. It is woven finely for formal, refined and sophisticated wear.
Damask	a formal satin base Jacquard fabric of linen, cotton, silk, or wool with reversible patterns. It is medium weight with variety in colors and patterns. Used in decorative fabric situation.
Flock	a material made by cutting or grinding textile fibers to fragments. There are two types of flock: precision cut flock, all fiber lengths are approximately equal, and random cut flock, the fibers are ground or chopped to produce a broad range of lengths.
Jacquard	a weaving system, which utilizes a versatile pattern mechanism to permit the production of large and intricate patterns.
Lampas	a type of luxury fabric with a background weft (a "ground weave") typically in taffeta with supplementary wefts (the "pattern wefts") put on top. To form a design, sometimes it is also woven with a "brocading weft". Lampas is typically woven in silk, and often has gold and silver thread enrichment.
Mohair	a fabric obtained from yarn made from the silky hair of the Angora goat.
Polyester	a man-made fiber where the forming substance is any synthetic polymer. It has high strength and is resistant to shrinking and stretching. It is also wrinkle resistant.
Polyester trevira CS	a kind of polyester, which is anti-fire.

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Rayon	a man-made fiber basically composed of regenerated cellulose.
Satin	a basic type of weave with up to eight weft threads are tied down with one floating weft thread. It is light to medium-weight with glossy face and a dull back.
Taffeta	a crisp, smooth plain-woven fabric made from silk or synthetic fibers.
Velour	a closely napped fabric with a soft, velvet-like texture, used for clothing and upholstery. It includes some velvet, and all plush-pile surface cloths.
Velvet	a pile woven cotton, silk, or rayon fabric with a soft yet sturdy face, like plush but with a shorter pile; the underside is plain.