Chen Yihong, a member of Cheung Kong's 2009 China CEO Program, is an entrepreneur in a hurry. The sports retailing firm he founded in 2002, China Dongxian, has already expanded to over 3,300 retail outlets in China. Helped along by the success of the Italian Kappa brand, which Dongxian licenses in China, the company generated nearly US$500 million in sales in 2008. It is already the third largest international sportswear brand in China after Nike and Adidas, but Chen is far from complacent.

Dongxian posted gross profit margins of 62 percent in the first half of 2009, and such fat margins have already attracted investors' attention. Morgan Stanley invested $38 million in 2006.
A year later, Dongxiang had its US$702 million IPO in Hong Kong. In 2008, it was added to the MSCI China Index, boosting its profile among professional money managers.

In a relatively short time, Chen has become very wealthy. According to the Hurun Report, in 2009 he ranked forty-sixth on the list of richest people in China with an estimated fortune of $2.1 billion.

But far from pausing to savor his accomplishments, Chen has continued to push the company forward on an aggressive course of expansion. In his boldest move yet, two years ago he engineered the purchase of 56-year old Japanese skiwear company Phenix.

In an era when outbound acquisition by private Chinese companies is unusual, the deal underscored the depth of Chen's ambitions. There was scarce precedent for private Chinese companies doing M&A overseas, all the more so when the deal involves an upstart company buying a venerable Japanese elder.

Some of the Japanese employees at Phenix wept on hearing their employer had been sold to a Chinese company, and Chen acknowledges the M&A process hasn't been simple.

"Buying the company was easy. That's an issue of money. It's bringing the management systems together, merging cultures -- that's difficult."

Still, he reckons, Japan and China's shared cultural heritage made it easier to bridge the gaps and integrate the two companies. And to hear Chen tell it, the logic for the deal was compelling: Phenix is another Kappa licensee with rights to market the brand in Japan. Even so, the main goal of the acquisition, Chen says, was not to allow Dongxiang to expand into the Japan market, but rather, to buy Phenix's R&D and bring it back to China. (Dongxiang has already moved Phenix's manufacturing operations to China to reduce costs.)

"The market opportunities in China are much bigger than in Japan," Chen says. The deal's ultimate goal: to strengthen Dongxiang's position on its home turf, in part by providing the know-how for the company to move into higher-end skiwear, skiwear, for example.

A piece of skiwear clothing may incorporate over 200 different types of material, which was previously too complex for Chinese manufacturers to handle, Chen explains. He says he purposely went shopping for a Japanese manufacturer capable of such work, impressed by Japan's reputation for high-quality workmanship and attention to detail. Phenix, which has the biggest market share for skiwear in Japan, can boast of having satisfied Japan's finicky customers.

In the wake of its purchase, Dongxiang has rolled out a new line of skiwear in China. Still, Chen admits, skiing as a sport is still in its infancy in China and will probably need some time to develop.
As it develops higher-end clothing -- having also recently launched a line of clothing for golfers -- Dongxiang is aiming to boost its fashion credentials. To this end, the company recently hired Adidas' former global creative director to help develop a new Kappa collection.

Chen is well-versed in the likes and dislikes of increasingly fashion-conscious Chinese consumers, having previously spent 15 years at sports shoe giant Li Ning. Between 1991 and 2005, he worked his way up from vice general manager to general manager, and from there to CEO. But for all that experience, he says his biggest challenge remains trying to stay one step ahead of consumers' fast-changing tastes.

Asked which retailers he admires, he mentions Uniqlo, Zara and H&M. These companies have a knack for reading subtle changes in consumer preferences, he says.

With its big disparities in income and consumer preferences by region, product segmentation is especially important in China. In contrast, such distinctions are much less obvious in developed markets with a large middle class. While China might have seven different markets
segments for a given product, Europe would have only three, Chen explains.

Likewise, while a single clothing brand in the U.S. may appeal to consumers in both big cities and small towns, China needs products tailored for customers in both big and small cities. Hoping to reach the emerging middle-class demographic outside the major cities of Beijing and Shanghai, Dongxiang has begun a major push into second- and third-tier cities. For these customers, Dongxiang offers products that cost 10 percent to 15 percent less than the goods available in first-tier cities.

Another feature unique to China retail: luxury products are sold to those in their 20s and 30s, unlike in more developed economies, where the consumers with the most money are usually in their 40s and 50s. Indeed, Kappa's target customers are high-income earners aged 18 to 35. Hoping to grab more customers from that age group, Dongxiang opened an online store on Taobao, China's premier online retailer, in September 2009.

"Everyone's going after the youth market," Chen says.

That may be true. But as one of the biggest and most influential Chinese players in sports-wear, Dongxiang already has a big head start.