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China: The Luxury Fashion Industry in the Covid-19 Era

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Introduction

As the Covid-19 pandemic is spreading worldwide at an alarming rate and seriously affecting all industries, the purpose of this thesis is to analyze the impact of the pandemic on the Chinese luxury fashion market. It is undeniable that the pandemic has posed challenges to the fashion industry, requiring a timely response, and it is interesting to analyze how luxury brands have reacted.

From store closures – temporarily or permanently – or shorter opening hours, to travel restrictions, luxury brands have been asked to find solutions to adapt to the new situation.

To understand in which measure the Chinese luxury fashion industry has changed, a distinction is made between the pre-pandemic period and the period characterized by the Covid-19 pandemic.

Following a brief overview on the origin and evolution of the luxury fashion industry in China, the first chapter focuses on the pre-pandemic profile of Chinese consumers, as well as the marketing strategies adopted by luxury brands after their entry in the market. Despite the fact that Western luxury fashion brands did not enter China until the 1990s, the luxury sector has developed rapidly, with Chinese consumers becoming among the most important consumers for many brands. Seen as both a way to demonstrate social status and to reward oneself, luxury fashion demand has increased greatly among different social strata.

Throughout the years many classifications have been made of the Chinese luxury goods consumers. The one developed in 2005 by ERNST & YOUNG provides a categorization into two groups: the first one consists of wealthy individuals attracted by fashionable luxury products no matter the price, and the second one is made of white-collar employees willing to spend their salary on luxury purchases in order to gain social acceptance. Two years later, in 2007 KPMG developed a four-group classification, in which two new categories emerged: the empowered women who started to be economically independent and to reward themselves with luxury goods; and the “little emperors”, identified as the only-children born under the one-child policy, able to buy luxury goods thanks to the great financial support coming from their families.

In the beginning, luxury fashion brands were located in the four richest cities: Beijing, Shanghai, Guangzhou and Shenzhen. After a few years they reached second- and third- tier cities where they found new consumers willing to spend on luxury.

Since they had just entered the Chinese market, consumers' brand awareness and loyalty were still relatively low, so Western luxury fashion brands undertook heavy communication strategies to attract and retain customers. They also had to face the “global-local dilemma”: avoid excessive localization in order not to damage their international brand image, but at the same time adapt to the local market to meet consumer needs.

Since the pandemic has affected the luxury market all over the world, in the second chapter the influence of Covid-19 on the luxury fashion industry in China is taken into consideration. Despite the initial impact, China has been able to recover rapidly and return to grow, attracting the interest of most luxury fashion brands. According to a Bain & Company research carried out in 2020, four drivers can be identified behind the growth of China's luxury market: repatriation of Chinese luxury purchases, consumers, digitalization, and Hainan offshore duty-free shopping.

As a matter of fact, being forced to stay at home, consumption patterns have changed, and with strict travel restrictions luxury purchases have been redirected internally, as part of the repatriation phenomenon, that starts a few years before the pandemic but is strongly accentuated by it. The increase of domestic purchases can also be attached to the growth in sales of Hainan offshore duty-free.

Chinese consumers are then analyzed based on two criteria: age and spending. The result is a classification in three groups for each criterion: Gen Z, Millennials, and the elder generations for the first criterion; light-spending, medium-spending and heavy-spending consumers for the second.

An in-depth analysis of these categories is conducted with the purpose of understanding the target of luxury fashion brands in the country and the marketing strategies adopted by companies to meet their needs. Because of the growing demand for online shopping, luxury fashion brands have found themselves obliged to include an extensive use of digital platforms in their marketing strategies.

Having an online presence has become fundamental to survive in the highly competitive Chinese market. Even if offline stores continue to represent the primary channel for purchase conversion, much of the activities connected to marketing and consumer engagement have moved online to address the needs of new consumers. Digitalization has become the center of the operating model of many luxury brands that have started to allocate greater resources on the development of online channels.

E-commerce and social media platforms are now essential tools for communication and selling purposes, therefore increased efforts are made to effectively position brands in the online marketplace. Nevertheless, Chinese consumers attach great importance to in-store experiences: they highly value the luxury experience provided by sales assistants, with whom they have a constant interaction, emphasizing the traditional concept of “guanxi”. Therefore, many luxury brands have opted for an omnichannel strategy, combining online and offline channels to offer a seamless and unique shopping experience.

Some trends analyzed in the pre-pandemic period like the daigou phenomenon and counterfeiting are still relevant today, even if Covid-19 and the consequent growing importance of e-commerce altered the conditions under which they take place. These recent years also highlighted some new trends such as the attention on the sustainability topic and the practice of digital shows. After the analysis carried out, the second chapter concludes with some expectations for the years to come.

Finally, the last chapter presents the case study of Moncler, the luxury brand founded in France and then acquired by the Italian Remo Ruffini, the current president and CEO. The aim is to analyze the challenges encountered due to the pandemic in the Chinese market and the responses adopted. After the entry in China in 2009, the brand expanded rapidly and found in the country a huge potential spending power. With the pandemic it has faced several challenges but its performance in the country has been outstanding. With Covid-19 and the related travel restrictions, the attention has moved on local Chinese and efforts are made to satisfy their needs. As a matter of fact, the pandemic has accelerated some trends, pushing the company towards increasing digitalization to better communicate with Chinese consumers, especially the youngest ones. Moncler digital transformation is analyzed based on five strategic pillars and some examples are given of the omnichannel services provided by the company with the final objective of offering to customers a seamless shopping experience. To conclude, the country is expected to become the world’s largest luxury market by 2025, with Gen Z and Millennials being the protagonist of luxury purchases. Therefore, understanding how to be present in the country and how to communicate with its customers is of outstanding importance for luxury fashion brands willing to succeed in the long term.

Introduction in Chinese

由于新冠疫情以惊人的速度在全世界蔓延，并严重影响到所有行业的发展形势，本论文的目的在于分析新冠疫情对中国奢侈品市场，尤其是时装行业的影响。不可否认的是，新冠疫情对奢侈品行业带来了巨大的挑战，所以笔者想分析由于新冠疫情的影响，奢侈品服装行业的及时应对策略。

有的奢侈品商店选择暂时性或永久关闭，有的选择缩短营业时间，有的国家限制入境，所以奢侈品牌要寻求更好的解决方法以应对新的形势。

为了了解奢侈品行业所发生的变化，笔者对奢侈品行业在新冠疫情的前后时期进行了对比。

在简要介绍中国时装奢侈行业的起源和演变之后，笔者在第一章分析了新新冠疫情暴发前中国消费者的消费情况，以及奢侈品品牌进入市场后所采取的营销策略。尽管西方奢侈时装品牌直到 20 世纪 90 年代才进入中国，但奢侈品行业发展迅速，中国消费者成为许多品牌最重要的客户之一。因为那时候中国消费者把购买奢侈品看作是展示社会地位和奖励自己的一种方式，所以奢侈品时装购物在不同的社会阶层中购买需求大大增加。

外国专家对中国奢侈品消费者进行了很多定义，其中 ERNST & YOUNG 在 2005 年将中国奢侈品消费者分为两类：一类是富人，不管价格怎么样，他们都会被时尚奢侈品所吸引；另一类是普通职工，他们买奢侈品的原因是希望得到社会认可。在 2007 年，毕马威 (Bain & Company) 提出了一个四组分类法，其中新出现的类别有两个：第一个是经济独立的女性，她们会用买奢侈品的方式奖励自己；第二个是“小皇帝”，也就是在独生子女政策下出生的孩子，家庭的宠爱让他们有经济能力去买奢侈品。

起初，奢侈时装品牌位于四个最富有的城市：北京、上海、广州和深圳。几年后，这些品牌发展到了二三线城市，因为他们发现二三线城市也有了对奢侈品的购买能力。由于刚进入中国市场，消费者对品牌认知度和忠诚度还比较低，所以西方奢侈时装品牌采取了大量的宣传方式来吸引和保留客户。他们还必须面对“全球-本地冲突”：首先要避免过度的本地化，以免损害他们的国际品牌形象，但同时也要适应本地市场，以满足消费者的需求。

由于全世界的奢侈品市场都受到了新冠疫情的严峻冲击，所以笔者在第二章中主要探讨了新冠疫情对中国奢侈品行业的影响。尽管最初中国市场受到了打击，但现在已经迅速恢复增长，吸引了大多数奢侈时装品牌的入驻。根据贝恩公司在 2020 年的研究表明，中国奢侈品市场有四个增长驱动力：传统消费者回归中国市场、新生代消费者的增加、网络购物和新增海南免税店。

由于新冠疫情带来的出入境的限制，消费模式已经发生了变化，随着旅行政策的改变，奢侈品的购买已经转到了国内，这标志着传统消费者回归中国市场，这种现象在新冠疫情之前就已经开始了，但在新冠疫情中得到了迅速的发展。新开放的海南免税店也使国内购买力得到了提升。

笔者根据两个标准对中国消费者进行定义，这两个标准是年龄和消费。每个标准分为三组：第一个标准分为 Z 世代、千禧一代和最年长的一代；第二个标准分为轻度、中度和重度消费的消费者。

对这些类别进行深入分析的目的是为了了解奢侈时装品牌在中国的目标客户以及为满足这些客户的需求而制定的营销策略。由于中国消费者对网络购物的需求日益增长，所以奢侈时装品牌必须在其营销策略中增加网络平台服务。

在激烈的中国市场竞争中拥有网上服务平台已成为奢侈品牌的生存的基础。即使去实体商店仍然是消费者购买奢侈品的的主要方式，但是由于新冠疫情原因许多吸引消费者的市场营销手段不得不在网上进行，以满足新消费者的需求。因此数字化已经成为许多奢侈品牌运营模式的核心，这些品牌已经开始分配更多的资源来发展其在线销售渠道。

线上门店和社交媒体平台现在已经成为奢侈品时装公司对外推广和销售的主要平台，因此时装公司更加努力地在网络市场上推广他们的品牌。然而，中国消费者非常重视实体店内体验，因为在实体店内他们可以跟销售人员进行有效互动，感受来自销售人员的关心。因此，许多奢侈品牌选择了全渠道销售战略，将线上和线下销售渠道结合起来，提供线下和线上无缝衔接的独特购物体验。

在新冠病毒之前出现的代购和造假现象，至今仍然存在，但是这种现象在新冠疫情期间日益增加。当然近些年也出现了一些新的趋势，如消费者对可持续性主题和在

线时装秀的关注。在进行了研究分析之后，第二章主要讨论是对中国奢侈品市场未来几年的一些期望。

最后一章笔者介绍盟可睐（Moncler）公司的案例研究，这个奢侈品牌创立于法国，后来被意大利人 Remo Ruffini 收购（他是现任总裁和首席执行官）。笔者的主要目的是分析这个品牌在新冠疫情期间在中国市场上遇到的挑战以及所采取的应对策略。该品牌于 2009 年进入中国市场后迅速扩张，并发现了中国庞大的潜在消费力。在新冠疫情暴发期间，盟可睐在中国市场面临了很大的挑战，但是他们及时采取了正确的应对措施，使得他们取得了不错的消费额。由于疫情期间的旅行限制规定，盟可睐将注意力转移到本土消费者身上，并努力满足他们的需求。事实上，新冠疫情加速了公司网络销售平台的发展，使得他们能更好地与中国消费者，特别是和年轻消费者之间的沟通。盟可睐的数字化转型可以基于五个战略支柱进行分析。笔者也列举出了一些案例来表明盟可睐公司的全渠道销售战略目的是为消费者提供线下和线上无缝隙的购物体验。

最后，预计在 2025 年中国将成为世界上最大的奢侈品市场，Z 世代和千禧一代将成为奢侈品牌的主要消费者。因此，对于奢侈时装品牌来说，为了长久地立足于中国市场，如何进行品牌营销以及与消费者沟通至关重要。

CHAPTER 1. THE FASHION INDUSTRY IN CHINA

1.1 The luxury sector in China

1.1.1 The origin of the luxury sector

Luxury is a constantly evolving, not easy to define concept. The word comes from the Latin term “luxus” which carries the meaning of superabundance, the satisfaction of desires that exceed the necessary. Therefore, the concept is related to human needs and its definition varies according to the specific time and society taken into consideration. In the fashion industry the word is used to refer to an item that is not essential, but that offers a unique set of characteristics that makes it desirable. These characteristics can include quality, exclusivity, efficiency, but also experience and social recognition. Similarly, in China the notion of luxury – expressed by the word 奢侈 shē chǐ – is linked to something pleasant, but also to a negative sphere of arrogance and waste.¹

The concept of luxury is not recent in China, since products such as silk, fine fabrics, ceramics, and jade were produced and traded during the Ming and Tang dynasties. However, during the Cultural Revolution and the Maoist era, the concept became synonymous with extravagance and shame. This association derives from the *Eight honors and Eight Shames* – a set of moral concepts developed by the General Secretary Hu Jintao – stating “Honor to those who uphold plain living and hard struggle, and shame on those who wallow in extravagance and pleasures”². It is necessary to wait for the development and opening up of the country to see the concept reappearing with a positive connotation.

China’s luxury fashion industry is relatively young, as Western luxury fashion brands did not enter China until the 1990s. In fact, as mentioned above, the luxury sector started to develop only after China’s opening up to the West thanks to the reform (改革开放 gǎi gé kāi fang) introduced by Deng Xiaoping in 1978. From the establishment of the People’s Republic of China in 1949 until the end of the Cultural Revolution in 1978, bourgeois lifestyles were not allowed, and all members of society were part of the proletariat.³ The reform program launched by Deng Xiaoping contributed to the modernization of the country and broadly

¹ Cabigiosu A., *An Overview of the Luxury Fashion Industry*, in Digitalization in the Luxury Fashion Industry. Palgrave Advances in Luxury, Palgrave Macmillan, Cham, 2020

² Cheek T., *The Chinese Communist Party: A Century in Ten Lives*, Cambridge University Press, 2021, p.103

³ Perry P., Ye T., Barnes L., *The Evolution of Chinese Luxury Fashion Consumer: An Interpretive Study of luxury Value perceptions*, in Understanding Luxury Fashion: From Emotions to Brand Building, 2020

encouraged the entrepreneurial activity. It fostered the transformation of China from a production to a consumption-based economy. Deng Xiaoping's motto "Get rich is Glorious" exemplifies this transition.

A rising middle class emerged, showing the desire to assert professional position and social status through the purchase of luxury products, especially from the Western world that became the symbol of a new freedom. The purchase of luxury goods was used as a way to obtain admiration in a rigidly hierarchical society.

1.1.2 The evolution of the luxury sector

In 2008 China hosted the Olympics in Beijing and at that time Chinese consumers represented only 12% of global luxury spending. According to McKinsey, in the eight years following the Olympics, Chinese consumers were responsible for 75% of the total growth in global luxury spending.⁴

By 2012, China bypassed Japan as the world's luxury second market (Bain & Co., 2012), and in 2017 Chinese luxury spending globally represented 32% of the global luxury market. The country delivered more than half of the global growth in luxury spending between 2012–2018⁵, and keeps growing at an exponential rate, being vital for many European brands.

Chinese purchasing power has increased dramatically over the past few years, leading to a significant expansion of the luxury segment. China has been targeted as an excellent growth opportunity, with around 21% of global consumer spending on luxury goods in 2021 coming from China. According to the State of Fashion 2022 report by The Business of Fashion and McKinsey & Company, the Chinese fashion market is already back to pre-Covid sales levels. However, even as the luxury market recovered to 2019 levels, due to ongoing travel restrictions, consumers continue to shop mainly in mainland China.⁶ Following a 48% increase

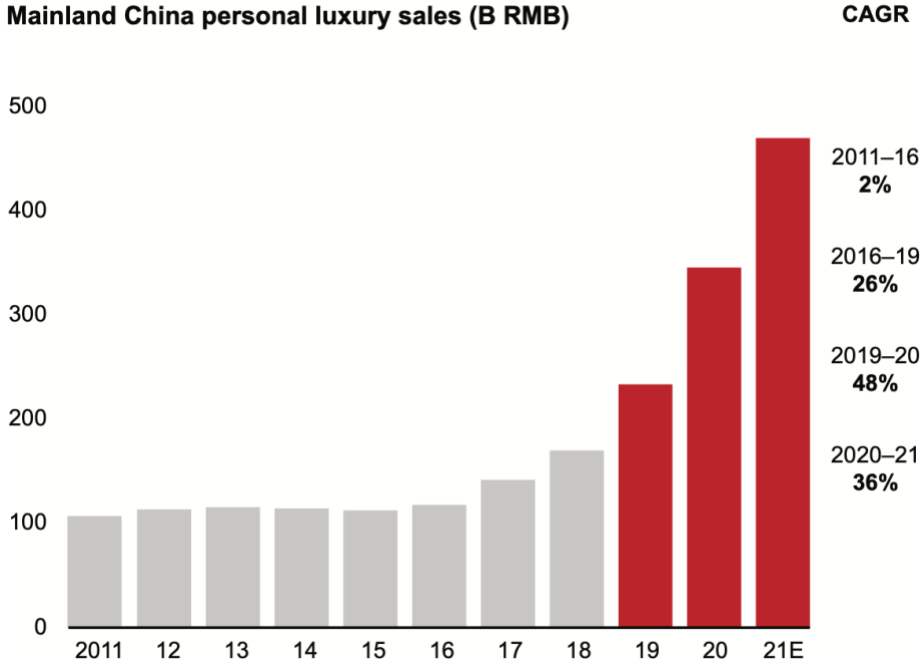
⁴ Bu L., Durand-Servoingt B., Kim A., Yamakawa N., 2017 China Luxury Report: *Chinese luxury consumers: The 1 trillion renminbi opportunity*, in McKinsey & Company, 2017, <https://www.mckinsey.com/~media/mckinsey/business%20functions/marketing%20and%20sales/our%20insights/chinese%20luxury%20consumers%20more%20global%20more%20demanding%20still%20spending/chinese-luxury-consumers-the-1-trillion-renminbi-opportunity.ashx>

⁵ Luan L., Kim A., Zipser D., Su M.Y., Lo A., Chen C., Zhang C., China Luxury Report 2019, *How young Chinese consumers are reshaping global luxury*, in Mc Kinsey & Company, 2019, p. 4

⁶ Lannes B., Xing W., *A year of Contrasts for China's Growing Personal Luxury Market*, in Bain & Company, 2022, p. 1

in 2020, China’s domestic sale of personal luxury goods grew 36% in 2021, totaling nearly RMB 471 billion (see figure 1.1).

Figure 1.1 – Mainland China personal luxury sales

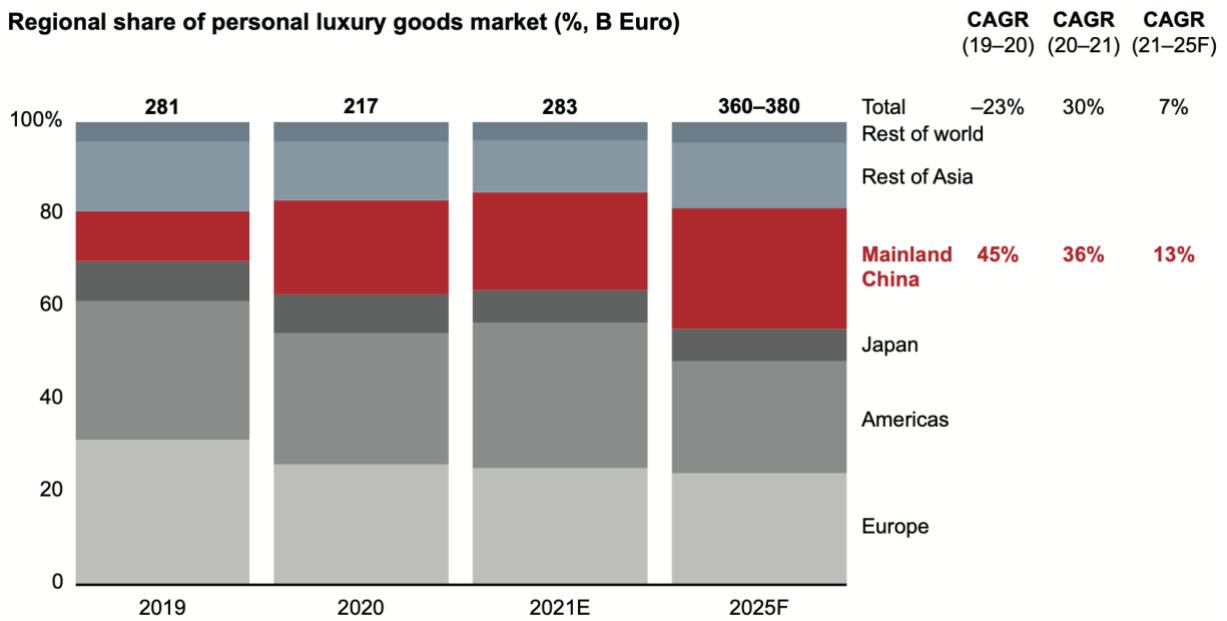


Source: Bain-Altgamma 2021 Worldwide Luxury Market Monitor; Bain analysis

Luxury goods categories are growing at different rates in the Chinese market: the fastest growing is leather goods with a growth rate of around 60%, followed by fashion clothes (about 40%).⁷ Globally, China’s share of personal luxury market grew from about 20% in 2020 to approximately 21% in 2021. According to Bain & Company, the Chinese are expected to become the world’s largest luxury market by 2025, thereby surpassing the regional share of the Americas and Europe (see figure 1.2).

⁷ SCMP, *China to be the biggest luxury market by 2025, say consultants, after Chinese spending in sector doubled from 2019 to 2021*, 2022, <https://www.scmp.com/lifestyle/fashion-beauty/article/3164527/china-be-biggest-luxury-market-2025-say-consultants-after>

Figure 1.2 – Regional share of personal luxury goods market



Source: Bain-Altgamma 2021 Worldwide Luxury Market Monitor; Bain analysis

Moreover, in October 2021, the consulting firm Oliver Wyman released a report revealing that in 2021 China’s luxury fashion market encompasses 1,5 million consumers who each spend more than RMB 40,000 per year on fashion-related luxury products, contributing 81% of the total spending in 2021. According to the report, 50% of these consumers bought luxury fashion items for the first time from October 2020 and September 2021.⁸

Tencent Marketing Insight (TMI) and Boston Consulting Group (BCG) have released the “2021 Tencent x BCG China Digital Luxury Report”, after analyzing about 4,700 consumers aged 18-55, from tier 1-5 cities in mainland China – without covering consumers living in Hong Kong, Macao and Taiwan – and several case studies. The report reveals that new luxury consumers that began purchasing luxury products after 2020 represent 17% of the total luxury shoppers in the country. Moreover, according to this report, the luxury market in mainland China is expected to reach a value of RMB 630 billion by 2022⁹.

⁸Hall C., *Report: 88% of China’s Luxury Growth Driven by New Consumers*, in BOF, 2021, <https://www.businessoffashion.com/news/china/report-88-of-chinas-luxury-fashion-growth-driven-by-new-consumers/>

⁹ Wei A., *The Generational Shift of the Luxury Market in China*, in Luxury Society, 2021, <https://www.luxurysociety.com/en/articles/2021/11/generational-shift-luxury-market-china>

1.2 Luxury brands presence

As mentioned before, western luxury brands started entering China in the 1990s, thanks to the opening up of the country after a period of restrictions imposed by the government.

The first group of brands approaching the Chinese market consisted of Zegna, Louis Vuitton, Burberry, Dunhill, Ferragamo, and Hugo Boss, entering China by penetration between 1990 and 1995; these brands can be thought of as pioneers. The second wave took place between 1990 and 2000, with the entry of several luxury companies such as Gucci, Hermès, Lancôme, Armani, and Max Mara. They perceived the potential of the Chinese market, with consumers increasingly wealthier and with greater spending power. In particular in those years, the growth of middle-class wages has been a key driver for the consumption of luxury goods. The third wave started from 2000 and saw the entry of the so-called late comers, encouraged by the incredible growth of the country. These companies were more prudent and skeptical, but after recognizing the significant development of China they decided to follow the others. This wave involved – among some others – Chanel, Prada, Dolce & Gabbana, and Coach.¹⁰ The country's environment became increasingly favorable for foreign companies. Following the trade liberalization and the gradual disappearance of limitations, the admittance of China to the World Trade Organization (WTO) in 2001 led to a reduction of customs duties and of tariffs imposed on imported luxury goods and enhanced the economic and commercial opening up of the country. The entry to the WTO also enabled foreign companies to set up joint ventures with Chinese partners. With favorable conditions (in terms of taxation, labor costs, government support, etc.) China was able to attract foreign capital and knowledge to support the economic, social, and industrial development of the country. Needless to say, the first movers found an environment more hostile than the late comers, with fewer entry mode options and business opportunities.

There are several modes of foreign entry companies can use when approaching a market. According to the Uppsala model companies follow a process of internationalization made of well-defined steps. This gradual process is based on the company's circumstances (i.e., industry, business model, market exposure, geographic diversification etc.) and implies that the company gradually develops its interdependencies with foreign markets and increases its

¹⁰ Mosca F., Re P., *International Development Strategies of Luxury-goods Players in China*, in Chinese Business Review, Vol.13, Torino, David Publishing, 2014, p. 369

level of involvement.¹¹ Since firms are risk-averse, the advance in the process depends largely on the risk perceived. As a result, companies usually start with indirect exports, to move then to increasing commitment. Even if the model is widely used to understand firm internationalization, it has been criticized for being too simplistic in the notion of sequential expansion, as instead many variables are required to explain the process. Therefore, in many cases this path is subject to exceptions, especially when dealing with luxury brands. As an example, for luxury brands in the Chinese market the phase involving “local manufacturing” is not well regarded since craftsmanship and traditions in manufacturing are related to the country of origin and represent a distinctive factor that emphasize the exclusivity of the brand in which the Chinese consumer is particularly interested.

The study conducted by Fabrizio Mosca and Piergiorgio Re “International Development Strategies of Luxury-goods Players in China” highlights that luxury fashion brands used both direct and indirect options to enter the Chinese market (*see figure 1.3*). The amount of equity invested by a company in the entry mode affects the risk, return, and control the company has. The pioneers used primarily indirect entry strategies that required no equity investment and thus a low risk, low rate of return, and little control. Adopting this approach, firms could build their presence in the market without transferring know-how or having to set up operations in the country. As a result, they acquired market knowledge assuming little risk, but on the other hand having little control.

In the second phase, companies opted for a direct entry strategy, taking advantage of less rigid limitations imposed by the country. This mode required greater use of resources, increased costs and risks, but enabled companies to have more control over distributions and the marketing mix, being more rapid and responsive to the local needs.

Finally, during the third wave luxury fashion brands started to use both direct and indirect strategies, profiting from a better environment providing more options.

Generally speaking, the traditional entry route has been through partnerships with distributors and local franchisees. The use of importer-distributor strategy involved distributors purchasing goods from the company for then reselling them, organizing logistics and deliveries, taking care of the marketing and of promotion activities. Through the other

¹¹ Collinson S., Narula R., Rugman, A., *International Business*, 7th edition, Pearson, UK, 2017, pp. 59-61

option – franchising – firms could penetrate in the market and benefit from the resources and know-how provided by the franchisee, while retaining a good level of control over operations. To operate directly in the Chinese market joint ventures were also adopted, providing firms the chance to acquire expertise, in-depth knowledge of the market, and rapid access to the distribution networks of their local partners. Until the accession of China to WTO, joint ventures with a Chinese partner were the only option for companies to open a subsidiary in the country. Joint ventures were also a preferred method in view of the size of the Chinese market and the difficulties that companies could encounter due to business traditions, culture, language.

Despite that, partnerships and joint ventures have posed some challenges for brands, including entrusting the brand to a third party, losing control over it, and in general the difficulty of selecting a reliable local partner sharing the same standards and values.

For some companies it was possible to overcome these obstacles by establishing wholly foreign owned enterprises (WFOE), from the first entry – as in the case of Burberry – or a few years after entering the country – like Hermès. This mode enabled firms to have extensive control over management and intellectual property but required at the same time greater commitment of financial resources and a wider understanding of the local environment.

Figure 1.3 – Chinese Market Entry Strategy

Players	Periods	Company	Entry Year	Entry Method	Evolution	Current Situation (2014)
Major players	Initial entry wave (early 1980s-1995)	Ermenegildo Zegna	Early 1980s	Opening of a subsidiary	2003: acquisition of 50% of the local company sharemoon as an E-commerce platform	80 boutiques in 35 cities in mainland China
		Burberry	1993	Creation of a WFOE and investment in the web		71 boutiques in 36 cities in mainland China
		Alfred Dunhill	1994	First sales outlet, a franchise, opened in Beijing (importer-distributor strategy)	2006: joint-venture with China Resource Holdings Co. Ltd	58 boutiques in 18 cities in mainland China
		Salvatore Ferragamo	1994	First sales outlet opened in Shanghai. (Importer-distributor strategy)	Creation of subsidiary. January 2013: achieved 75% of the share held by Imaginex Group with which it had set up a joint venture agreement	67 boutiques in 37 cities in mainland China
	Second entry wave (1995-2000)	Hermès	1996	Retail presence established using franchised outlets and a local importer-distributor	2008: creation of a branch which became a WFOE	21 boutiques in 16 cities in Mainland China.
		Gucci	1996	2 mono-brand sales outlets opened by creating a franchising network and using a local importer-distributor	Increase in directly operated stores	66 boutiques in 35 cities in mainland China
		Armani	1998	Reliance on Hong Kong based importer-distributor and a joint venture set up with local partners	2010: creation of an online platform for sales of its own products	Over 100 boutiques in 40 cities in mainland China
	Third entry wave (from 2000 onward)	Porsche	2001	Indirect export through an importer-distributor intermediary	2008/2009: creation of Porsche China Motors Ltd	44 sales outlets in 36 cities in mainland China
		Coach	2003	An importer-distributor intermediary	2008: riacquisition of its own retail network	73 boutique in 36 cities in mainland China
	SMEs		Richard Mille	2009	Indirect export through an importer-distributor intermediary	

Source: Mosca F., Re P., International Development Strategies of Luxury-goods Players in China

1.3 Pre-pandemic marketing strategies

Since luxury fashion companies have entered China, marketing has played a crucial role. At the beginning it was conceived for raising Chinese consumers' awareness of the brand and in general of the concept of luxury, fostering the establishment of a luxury culture in the market. Companies entering China had to significantly increase their brand awareness. Therefore, particularly in the first years of expansion, investments in marketing were not just to promote products but also to inform consumers.¹² Because of the low brand awareness and loyalty of Chinese consumers, Western luxury fashion brands had to undertake heavy communication strategies fostering the brand's heritage and craftsmanship.

At first, luxury fashion brands located themselves around the four wealthiest cities of Beijing, Shanghai, Guangzhou, and Shenzhen. After some years, these brands reached second- and third-tier cities populated by consumers increasingly willing to spend on luxury. This step pushed them towards greater adaptation as, being China made of many regional markets, tailoring business operations and products to the different local markets became crucial.¹³ Operating in second-and third-tier cities allowed companies to profit from lower rents, less competition, and consumers being more open to new brands.

In 2011, TNS conducted a survey on 1,200 middle class consumers based in 24 tier-one and tier-two cities across China, aged between 20 and 45 and earning a minimum of RMB 7,500 per month in tier-one cities and RMB 5,500 in tier-two cities. According to this survey, brand recognition was rising among Chinese consumers, mainly as a result of increasing resources devoted to marketing (*see figure 1.4*).

Figure 1.4 – Brand recognition

		Clothes	Bags and shoes	Watches	Jewellery	Import cars	Total
2011 survey	Average number of brands recognized	13.5	15.9	8.8	5.6	13.1	56.9
	As a percentage of brands listed	35%	40%	34%	43%	77%	
2010 survey	Average number of brands recognized	9.8	11.9	7.5	4.9	11.3	45.4
	As a percentage of brands listed	27%	35%	31%	38%	66%	
2006 survey	Average number of brands recognised	9.3	4.7	7.6	2.5	10.1	34.2
	As a percentage of brands listed	28%	31%	30%	28%	60%	

Source: KPMG, *Luxury experiences in China*

¹² Debnam N., Svinos G., *Luxury brands in China*, in KPMG, 2007, p. 18

¹³ Ernst & Young, *China: The New Lap of Luxury*, 2005, p. 4

In 2011, being a well-known brand was still particularly significant for luxury fashion brands, with 40% of Chinese consumers agreeing that to be successful luxury brands should first be well-known and 64% of them claiming they would be more willing to pay a premium if the brand was well-known.¹⁴

The country-of-origin effect (COE) – defined as any influence the country of manufacture, assembly, or design has on a consumer’s positive or negative perception of a product ¹⁵– should also be taken into consideration since, as stated in the survey, Chinese consumers create associations between certain products and certain countries. For instance, France is known for cosmetic/perfume, clothes, and bag; Italy scores high for shoes, followed by bag, and clothes (*see figure 1.5*). As a result, consumers in China are more prone to accept products from countries known for those categories.

Additionally, Chinese consumers tend to frown upon the “made in China” tag as foreign products produced in foreign countries convey the idea of quality and exclusivity.

Figure 1.5 – Country association for different luxury product categories (%)

	France	Italy	Hong Kong	Mainland China	UK	US	Japan	Switzerland
Clothes	37	30	10	7	6	6	3	1
Bag	33	31	8	7	9	6	1	5
Shoes	19	43	7	9	8	10	2	2
Watch	2	2	3	2	2	1	1	87
Jewellery	26	16	25	9	10	4	1	9
Cosmetic/perfume	76	3	5	2	3	5	4	1
Alcohol	35	7	2	37	13	4	0	2

Source: KPMG, Luxury experiences in China

Analyzing the different channels through which a brand could communicate, the survey suggests that sponsorship is seen as effective in building brand image and enhancing brand awareness, while brand events are functional in reaching target consumers. Online advertising

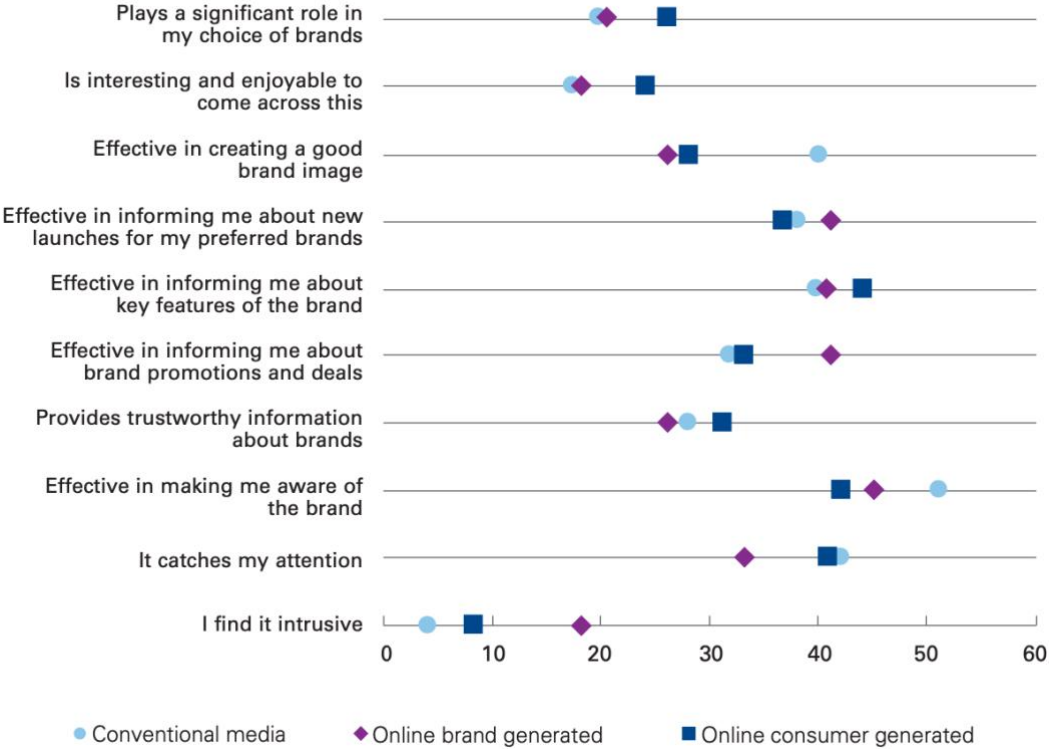
¹⁴ KPMG, *Luxury experiences in China*, 2011, p. 23

¹⁵ Funk C., Arthurs J. D., Treviño L. j., Joireman J., *Consumer Animosity in the global value chain: The effect of international production shifts on willingness to purchase hybrid products*, in *Journal of International Business Studies*, pp. 629-51, 2010; Sharma P., *Country of Origin Effects in Developed and Emerging Markets: Exploring the Contrasting Roles of Materialism and Value Consciousness*, in *Journal of International Business Studies* 42, no. 2, pp. 285-306, 2011; Bertrand O., *What Goes around Comes around: Effects of Offshore Outsourcing on the Export Performance of Firms*, in *Journal of International Business Studies* 42, no. 2, 2011, pp. 334-344

is not appealing for the consumers that prefer to look at celebrity blogs, even though just 19% of respondents visit such blogs, against 40% who visit brand websites to acquire information. In those years, brands started to interact with consumers also through mobile apps, even though apps were used to look for information rather than to make purchases. The figure below illustrates the effectiveness of different media channels such as conventional media (including TV commercials, brand sponsorship, print, store display), online brand generated (such as brand official website, pop out ads, TV commercials on video sharing websites, etc.) and consumer brand generated contents (consumer talking about brands in blogs, social networking sites and e-commerce sites).

Brand generated media do not perform particularly well in many areas, except for informing the consumer about brand promotions, deals, and new launches. Conventional media score high when considering the creation of a good brand image and a strong brand awareness, while online consumer generated contents are found interesting, enjoyable, and effective in informing about the brands.

Figure 1.6 – Effectiveness of different media channels



Source: KPMG, Luxury experiences in China

When considering international marketing strategies, two options arise: standardization or adaptation. Companies choosing standardization simply take the local marketing mix to an international level, leveraging homogenization of consumer needs, desires, and demand.

While companies opting for an adaptation approach consider all the differences existing in the various markets in order to provide the best solutions trying to meet local needs.

If when taking into consideration store formats most Western luxury fashion brands decided not to adapt them, for products they sometimes opted for an adaptation strategy, proposing items specifically tailored for the Chinese market.

The choice of standardized store formats is made in order to be consistent with the global image. As, especially in the first years of entry, Chinese consumers were strongly attracted by international retailing, the strategy to rely on mega-store formats with large ranges proved to be successful. “Dior Cosmetic” boutique can be mentioned as an example: opened in 2003 in the West Gate Mall in Shanghai, it was designated as the most luxurious boutique of the brand, making China the third country to have such a place. In November 2004, the Xinhua News Agency stated that Dior annual sales were increasing by 40% to 50% and that along with this brand others started to appear in the area (Louis Vuitton, Armani, Cartier, Ermenegildo Zegna).

¹⁶ Moreover, as mentioned before, luxury fashion brands are strongly related to the country of origin and the quality perception coming with it. Adaptation for the local market could even lead to a decrease of this appeal.

That being said, the majority of fashion brands decided, from time to time, to present products specifically designed for the Chinese market. As an example, in 2005 Louis Vuitton introduced a range of Lantern Charm accessories based on the traditional Chinese lantern on the occasion of the opening of its second store at China's World Trade Center in Beijing¹⁷.

In dealing with the Chinese market, adaptation was also necessary to meet Asian sizing requirements and body shapes. Moreover, the importance of the main holidays of the Chinese calendar – such as Chinese New Year – pushed companies towards the release of capsule collections specifically conceived for the occasion, with limited-edition, zodiac-theme products. At first, this effort was made for the sole purpose of selling, but throughout the

¹⁶ Xinhua News Agency, *Luxury Brands Seeking More Chance in China*, 2004, <http://www.china.org.cn/english/BAT/111674.htm>

¹⁷ China Daily, *Louis Vuitton opens flagship shop in Beijing*, 2005, http://www.chinadaily.com.cn/english/doc/2005-11/21/content_495936.htm

years it became the representation of the willingness to understand and give relevance to Chinese culture.

The desire for luxury products with a reference to Chinese culture also pushed Hermès to launch a Chinese brand – Shang Xia – conceived as a wholly separate first line from Hermès, with reasonable prices by luxury standards.¹⁸ The brand proposes products based on Chinese designs and craftsmanship.

To conclude, it was significant for Western luxury fashion brands entering China to be able to manage the “global-local dilemma”, exploiting their origins and avoiding excessive localization so as not to damage their international brand image, while at the same time adapting to the local market to meet consumer needs.

1.4 Pre-pandemic portrait of Chinese consumers

For many Chinese, the desire to buy luxury has also been a result of the abandoning of the idea of frugality fostered by Mao towards access to material wealth. Material aspirations of Chinese increased dramatically and buying became a social need to show status of new wealth and success thanks to the country’s economic development. In 2004 China Association of Branding Strategy (CABS) stated that 175 million Chinese consumers can afford luxury brands and 10 to 12 million of them are active purchasers of luxury goods.¹⁹ Even if the number of active luxury goods consumers accounted just for 1% of the population, given the size of the country’s population, it was still quite remarkable and could not be overlooked. Looking at this data, companies’ interest in the country increased greatly.

According to a TNS survey carried out in October 2006 to more than 830 Chinese, focusing on their attitudes and spending habits towards luxury brands, status and self-reward are two fundamental motivations among Chinese consumers, meaning that buying luxury goods is both a way to demonstrate status and success, and to reward themselves. The survey reveals that consumers with higher income are more willing to buy luxury goods as a means of self-reward.

¹⁸ Jing Daily, *Hermès Launches Shang Xia In Shanghai: Jing Daily’s Exclusive Coverage*, 2010, <https://jingdaily.com/hermes-launches-new-brand-shang-xia-in-shanghai-jing-daily-exclusive-coverage/>

¹⁹ Ernst & Young, *China: The New Lap of Luxury*, 2005, *cit.*, p. 2

Many classifications of Chinese luxury goods consumers have been made over the years. In 2005 ERNST & YOUNG classified Chinese luxury goods consumers into two categories. The first consists of wealthy individuals looking for fashionable products, who are attracted by newness and personalized services, without paying particular attention to price. The second category encompasses white-collar employees who are willing to spend their salary on a single purchase.²⁰ In those years, Chinese consumers gave more value to the brands than to the products themselves, as possessing goods having certain brand names was a way to get recognition. This is the reason why they were willing to pay a premium price for what they regarded as more recognizable.

KPMG in 2007 portrayed Chinese consumers using four groups: the traditional luxury shoppers, the new luxury shoppers, the empowered women, and the “little emperors”.

The traditional luxury shoppers are described as male, aged over 35, belonging to the business elite, with highly sophisticated tastes coming from a long history of buying luxury goods, and with a growing interest in personalized luxury experiences.

The new luxury shoppers group consists of people from different social strata – such as entrepreneurs, businesspeople, celebrities – having as a distinctive feature the fact of being newly rich. They are usually younger than the categories described before, less cautious, and more willing to spend than to save.

KPMG proposed a new category of Chinese consumers that is on the rise in those years: women. Even though men have been the traditional buyers of luxury goods in China, women started to be independent economically and to desire to reward themselves with luxury goods. Last but not least, the “little emperors” were the focus of that year. They are only-children, born under the one-child policy introduced by the government in 1979, having at their back parents and grandparents contributing abundantly to their needs. Also known as the “one child” or “me” generation, they are described as self-centered, self-indulgent, and the most avid and savvy consumers.²¹

According to the paper published by Ronald Jean Degen in the European Financial Review in 2010, Chinese consumer behavior is influenced by Confucian values: the need to be respected by others push them towards consumption of luxury goods as a mean to gain and maintain social acceptance; possessing luxury goods is also a way to show financial success, being part

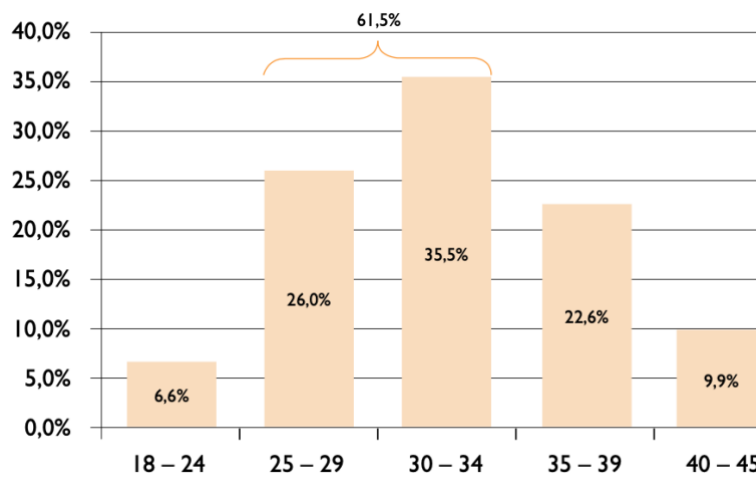
²⁰ Ernst & Young, *China: The New Lap of Luxury*, 2005, *ibidem*.

²¹ Debnam N., Svinos G., *cit.*, p. 17

of the Chinese elite, and again gain respect. In the Chinese culture, the concept of “face” (面子 miàn zi) is of utmost importance, it is linked to the role of the individual in the society, from which derives a set of behavioral characteristics and social expectations. This concept affects the buying behavior, as even material goods became a way to improve one’s reputation within society, to distinguish and affirm the individual.

The data presented in the paper reveals that over 90% of Chinese luxury goods consumers were below the age of 40 – while in the US and Europe the average was between 40 and 70 – with the majority (61,5%) aged between 25 and 34 (see figure 1.7).

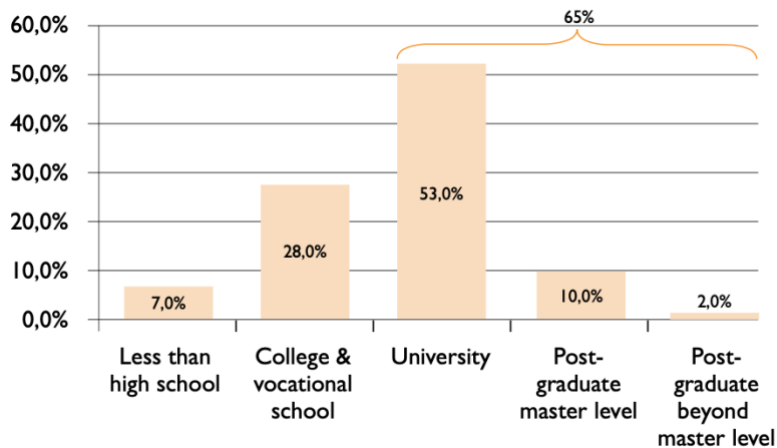
Figure 1.7 – Age of Chinese luxury consumers



Source: The European Financial Review, Opportunity for luxury brands in China
https://www.academia.edu/65367320/Opportunity_for_luxury_brands_in_China

65% of these so-called affluent Chinese consumers have university and post-graduate education (see figure 1.8). This data is in line with what has been mentioned before regarding the characteristics of the younger generation, having more opportunities and being more ambitious.

Figure 1.8 – Education of Chinese luxury consumers



Source: The European Financial Review, Opportunity for luxury brands in China
https://www.academia.edu/65367320/Opportunity_for_luxury_brands_in_China

As shown in figure 1.9, all age groups make extensive use of the Internet (above 90%), with the exception of consumers between 30 and 34 registering the lowest percentage (79%); they all watch TV on a regular basis; magazines are widespread especially among consumers aged 18 to 24 and 35 to 39. Finally, newspapers present the lowest percentages, with the age groups 18-24 and 35-39 being the exception.

Figure 1.9 – Media exposure of Chinese luxury consumers

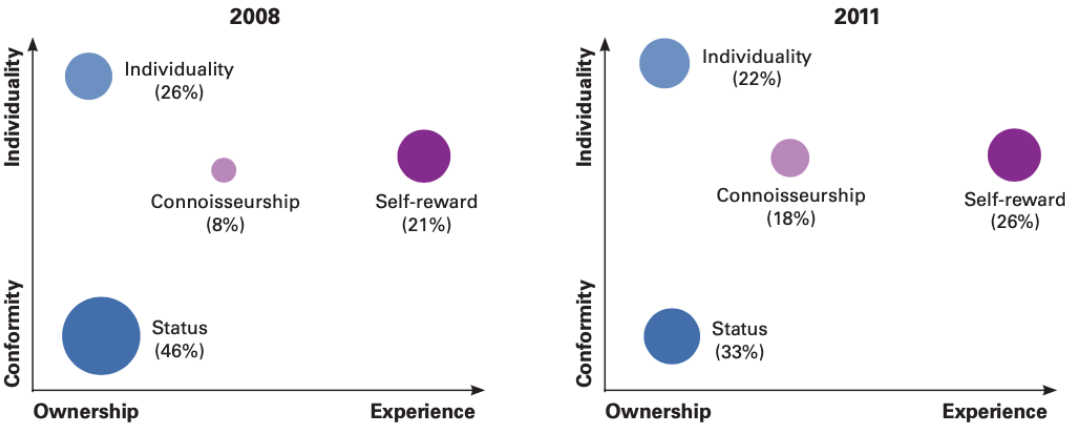
Age Group	Newspaper	Magazine	TV	Internet
18 – 24	84%	97%	98%	100%
25 – 29	44%	78%	97%	91%
30 – 39	64%	88%	98%	79%
35 – 39	94%	98%	99%	100%
40 – 45	77%	96%	100%	93%

Source: The European Financial Review, Opportunity for luxury brands in China
https://www.academia.edu/65367320/Opportunity_for_luxury_brands_in_China

According to the survey conducted by TNS in 2011, cited in the previous paragraph, luxury consumption is increasingly associated with positive feelings and less with negative traits like showing off, superficiality, and waste of money. As shown in figure 1.10, compared with the

study carried out by the same market research company in 2008, self-reward remains the strongest motivator, with connoisseurship incentive becoming stronger (from 8% to 18%), all this at the expense of status seeking, decreasing from 46% to 33%. Connoisseurship is the result of the increasing sophistication of consumers, slowly starting to appreciate luxury products not only for the brand image, but also for the history and values of the company.

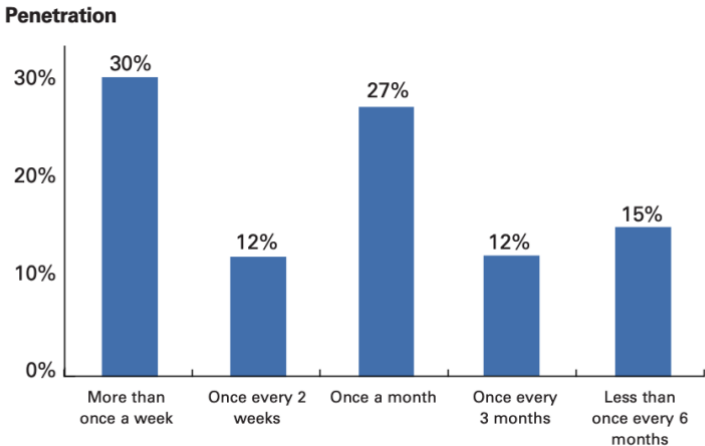
Figure 1.10 – Connoisseurship and self-reward growing while status declining



Source: KPMG, Luxury experiences in China

In the same report, brands’ digital strategies are analyzed, showing that 30% of respondents search online for information on luxury brands more than once a week and nearly 70% of respondents on a monthly basis (see figure 1.11).

Figure 1.11– How often Chinese consumers search for luxury brands on Internet



Source: KPMG, Luxury experiences in China

A low number of respondents manifested interest in making purchases online. Those expressing interest recognize as main benefits the convenience (79%), the possibility to make comparisons among products (67%) and the time saving aspect (56%); while the impediments include concerns over authenticity (74%), after-sale service (56%), and payment security (38%).²²

In May 2017, McKinsey & Company published a report stating that the Chinese luxury sector experienced two shifts. The first shift can be described as a transition from customer recruitment to customer retention, as luxury spending is no more driven by consumers making the first purchases but by existing luxury consumers. The second transformation involves a change from luxury consumers being mainly upper income Chinese to luxury consumers being wealthy Chinese. Wealthy Chinese are described as heavy spenders (they spend on average RMB 71,000 annually on luxury goods, some even RMB 100,000, with this number increasing by more than 5% every year since 2010), and impulsive (one in two decides for the purchase within a single day, whereas in 2010 only one luxury bag out of four was purchased within a single day). The report finds a connection between the impulsiveness and the importance acquired by word of mouth, being the factor number one influencing purchases, characterizing 30% of luxury purchases in 2016, compared to 14% in 2010.

Another significant aspect the report focuses on is the scarcity of online purchases. Despite the fact that Chinese consumers are familiar with social media and make extensive use of it, only 7% of Chinese luxury purchases occur in official online channels. Moreover, even if luxury brands are investing in the “O2O” (Online-To-Offline) strategy – integrating online and offline shopping experiences – only 16% of wealthy Chinese luxury consumers have expressed their intention to increase online purchases.

Finally, wealthy Chinese luxury consumers value authenticity and pricing as the most important factors behind their purchase decisions. From this derives the preference for shopping at official channels (department stores and brand stores) or at duty free shops and, as seen before, buying luxury goods abroad rather than in Mainland China due to the price gaps.

²² KPMG, *Luxury experiences in China*, 2011, *cit.*, p. 17

1.5 Trends

1.5.1 Travel for shopping

Linked to the trend of buying abroad, some words can be spent on the theme of travel for shopping. In fact, in the first 2000s Chinese consumers started traveling abroad and shopping as their main activity. One of the first destinations was Hong Kong. In 2004 Golden Week holiday, in just ten days around 380,000 mainland tourists went to Hong Kong²³. Hong Kong attracted a large number of Chinese consumers of luxury goods due to its proximity, its favorable pricing, the visa access of Mainland residents to the special administrative region following the passing of the two Closer Economic Partnership Agreements (CEPA) in January and August 2004, the easing of restrictions on the amount of cash Chinese could take to Hong Kong, and the relaxation of restrictions on Yuan-denominated credit cards.²⁴

Apart from Hong Kong – where, for the reasons aforementioned, many brands like Zegna, Ferragamo, Louis Vuitton, Prada, and Dior started to open big stores in those years – Chinese consumers started to reach European countries, where luxury stores began to employ Mandarin-speaking assistants. Among the reasons behind the preference of Chinese for purchasing luxury products overseas there is the guarantee of the originality of goods (shopping at the boutiques ensure the goods are not counterfeit), the lower costs (since in mainland China imported luxury products are subjected to high taxes and duties), the wider assortment, the in-store experience, the quality of customer service, and in general the shopping experience.

In the 2008-2016 timeframe, overseas luxury spending value increased from two-thirds to three-quarters in terms of spending value.²⁵

1.5.2 Corruption

In 2012, shortly after he came to power, Chinese President Xi Jinping implemented a government crackdown on corruption and extravagance that has affected the luxury fashion market after years of double-digit growth. His decision is part of a broader history of constant

²³ The Economist, *China: A bear's dream*, 2004, <https://www.economist.com/taxonomy/term/111?page=72>

²⁴ Ernst & Young, *China: The New Lap of Luxury*, 2005, *cit.*, p. 2

²⁵ Bu L., Durand-Servoingt B., Kim A., Yamakawa N., 2017 China Luxury Report: *Chinese luxury consumers: The 1 trillion renminbi opportunity*, in McKinsey & Company, 2017, <https://www.mckinsey.com/~media/mckinsey/business%20functions/marketing%20and%20sales/our%20insights/chinese%20luxury%20consumers%20more%20global%20more%20demanding%20still%20spending/chinese-luxury-consumers-the-1-trillion-renminbi-opportunity.ashx>

battle against corruption. In this campaign, the president's purpose is to address corruption at all levels of the government and to reduce luxury consumption in different contexts.

The practice of gift giving suffered from this campaign. Gift giving is a social custom widespread in China, involving the significant relationships (关系 *guān xi*) of people. Gift giving is done with family, friends, but also political authorities, social institutions, and businesspeople. This type of gifting is not associated with bribery in the Chinese business culture, but with mutuality, benevolence, and good relationships. This practice was especially widespread in the business environment, in which luxury goods used to be chosen to display respect or to show financial success, becoming one among the biggest factors of growth of the luxury market in the country. This allowed luxury goods to maintain an important role in business and political practices, but with the crackdown on corruption, investments in luxury goods for gifting fell dramatically. To understand the extent of the phenomenon, before the anti-corruption campaign, gift giving accounted for 50 percent of all luxury sales.²⁶

Luxury advertising was also affected. In 2013, China banned advertisements for luxury products on its official radio and television channels, as well as billboards, on the grounds that they promote wrong values and social ethics. Moreover, brands were obliged to change their marketing strategies, limiting their advertising to magazines and the Internet. This forced transition had its positive outcomes as it pushed companies towards a greater investment in e-commerce and advertising through mini-commercial on web-sites, thus reaching China's young, middle-class consumers.

1.5.3 Counterfeiting

With the growth of the Chinese luxury goods market, counterfeiting has become a serious concern for luxury brands. According to the figures of European customs, 60% of the 92 million counterfeit articles seized at EU borders in 2003 came from China. In 2005 counterfeit goods accounted for 10% of luxury goods trade worldwide, twice as much as in 2000.²⁷ The demand for fake products in the country is quite high, since – as mentioned several times – for Chinese customers buying luxury products represent a way to reach a higher social status and to display success.

²⁶ Chadha R., Husband P., *The Cult of the Luxury Brand: Inside Asia's Love Affair with Luxury*, Nicholas Brealey Publishing, 2006, p. 103

²⁷ Ernst & Young, *China: The New Lap of Luxury*, 2005, cit., p. 3

Since the quality of counterfeit products has increasingly improved, it has become more and more difficult to identify them and the joint efforts of the government and luxury brands have often proved insufficient to stop the illegal practice.

The phenomenon represents a serious threat to foreign firms in China, increasingly worried about their brand integrity. If on one hand the practice can enhance the luxury brand perception and the awareness, on the other hand, quality assurance is not guaranteed, not to mention the loss of profits and the legal issues around the protection of intellectual property rights.

It is with e-commerce that counterfeiting has increased significantly, therefore the developments of this phenomenon will be discussed in the following chapter.

1.5.4 Daigou phenomenon

The term *daigou* (代购 *dài gòu*) can be defined as an overseas personal shopper. The word's translation is "buying on behalf of third parties" and the figure refers to a Chinese person living abroad and offering himself as intermediary for the purchases of luxury goods. Underlying this phenomenon is the fact that, as previously mentioned, luxury goods are cheaper abroad than in Mainland China. *Daigou* gave rise to a real e-commerce model, whereby Chinese consumers can buy luxury goods abroad through their compatriots at lower prices and have them shipped to China. Every step is made on the Internet: the choice of the product, the order, and the payment. After the purchase, the products can be sent directly to the customer's house or to a collection point. Since the purchase is made at the official stores of the brand – and knowing the interest of Chinese consumers for original, not made in China products – this practice is highly valued by consumers.

According to the China E-Commerce Research Gate, in 2013 the *daigou* business was worth USD 12 billion (with 60% represented by luxury goods), becoming a parallel trade. Many Chinese students studying abroad take part in this business, being able to make a profit from this lucrative activity.

The anti-corruption campaign launched by president Xi Jinping in 2013 also affected the business of *daigou*, as sales of luxury goods decreased significantly.

Since luxury fashion brands started to perceive the negative effects of this practice, some of them began to adjust their pricing with the aim of reducing the price gap existing between

China and other markets. As an example, in March 2015, Chanel increased prices in Europe by 20% and decreased them in China by the same percentage.²⁸ However, this was not enough to stop the practice.

The *daigou* phenomenon will also be affected by the significant developments produced by e-commerce, which will be discussed in the next chapter.

²⁸ Jiacheng L., Carl A. Boger Jr., *The Shift from a Local to a Global Consumption Pattern in the Drivers of China's Luxury Consumption*, in *Advances in Social Science, Education and Humanities Research*, vol. 146, Atlantis Press, 2017

CHAPTER 2. INFLUENCE OF COVID-19 PANDEMIC ON THE FASHION INDUSTRY IN CHINA

2.1 Covid-19 impact

2.1.1 Exceptional challenges and incredible growth

Since the outbreak of the pandemic, the global fashion industry has faced exceptional conditions and challenges. Inevitable consequences have affected the gross domestic product, employment, consumers' spending power and willingness to spend on luxury.

According to Bain & Company, luxury brands found themselves obliged to temporarily close stores and reduce working hours in China.²⁹ Sia Partners consulting firm stated that the widespread closure of stores (*see Figure 2.1*) caused lost sales and increased inventory costs.

Figure 2.1 – Impact of Coronavirus on Chinese luxury operations (as of 21 February 2020)

Premium brand / Group	Status of stores
Ralph Lauren	Two-third of the stores are closed
Burberry	24 stores out of 64 are closed
Capri (brands include Michael Kors and Jimmy Choo, etc.)	150 stores out of 225 are closed
Tapestry (brands include Coach and Kate Spade, etc.)	Most of the stores are closed

Source: Sia Partners, Global Luxury feeling the chills of the Coronavirus

<https://www.sia-partners.com/en/news-and-publications/from-our-experts/global-luxury-feeling-chills-coronavirus>

Moreover, the flight suspensions and restrictions imposed on Chinese travelers at the beginning of the pandemic had a profound impact on sales volume in overseas destinations, where a large share of luxury sales used to be made by spending Chinese tourists.³⁰

²⁹ D'Arpizio C., Levato F., Fenili S., Colacchio F., and Prete F., *Luxury after Covid-19: Changed for (the) Good?*, 2020, in Bain & Company, <https://www.bain.com/insights/luxury-after-coronavirus/>

³⁰ Shang J., *Research on Current Situation of Luxury Consumption in China under Epidemic Situation -- based on the SCP Analysis Paradigm*, in Proceedings of the 2022 7th International Conference on Social Sciences and Economic Development, Atlantis Press, 2022

However, following an initial period of difficulty, thanks to China's strict zero-Covid strategy, the country recovered to 2019 levels of economic activity faster than the rest of the world, with consumer demand particularly focused on the luxury segment.

Until 2019, Europe and the Americas represented the biggest regions for luxury sales, but in 2020 the luxury sales global ranking by region changed, with Asia becoming the top region.³¹ Mainland China has been, in fact, the only country in the world to end 2020 positively, with a growth of 45% at current exchange rates to €44 billion and local consumption continuing across all channels; while consumption in Europa has fell by 36% at current exchange rates to €57 billion, and in the Americas by 27 % at current exchange rates to €62 billion. Asia as a whole saw a reduction of 35% at current exchange rates to reach €27 billion, with Hong Kong and Macau ranking among the worst performers on a global level.³²

According to a research report jointly released by Bain & Company and Tmall Luxury Division on China's luxury market, despite the decline of the global luxury market in 2020 (23%), China's market share increased from 11% in 2019 to 20% in 2020. It almost doubled and will continue to grow with the perspective of becoming the biggest share of the global luxury market by 2025.³³

Finally, China's luxury goods market closed 2021 with double-digit growth, even if the second half of 2021 experienced a slowing growth with respect to the first half, due – among other reasons – to sporadic Covid-19 outbreaks across China and to the reduction of marketing expenditures for many luxury brands.³⁴

2.1.2 Drivers of luxury market growth

Due to the decrease in global travel, people have remained at home, changing their way to purchase luxury products, and increasing the luxury purchases at national level. The growth

³¹ Christodoulides G., Michaelidou, N., *Guest editorial: Advancing research on global luxury consumption*, in *International Marketing Review*, Vol. 39 No. 2, Emerald Publishing Limited, 2022

³² D'arpizio C., Levato F., Prete F., Gault C., De Montgolfier J., *The Future of Luxury: Bouncing Back from Covid-19*, in Bain & Company, 2021, <https://www.bain.com/insights/the-future-of-luxury-bouncing-back-from-covid-19/>

³³ Bain & Company, *Growth in uncertain times: China's share of global luxury market reaches new high despite Covid-19*, 2020, https://www.bain.com/about/media-center/press-releases/2020/growth_in_uncertain_times_chinas_share_of_global_luxury_market_reaches_new_high_despite_covid/

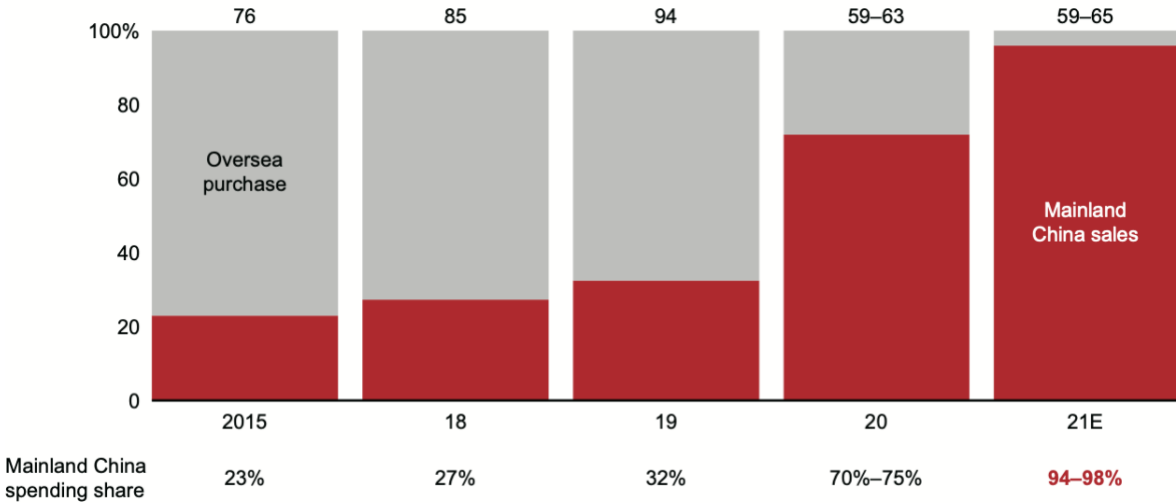
³⁴ Lannes B., Xing W., *cit.*, p. 3

of China’s domestic luxury goods market has been uneven, varying across brands, regions, and products. Some brands performed better than others, as did some regions (south, east, and southwest regions prevailed) and some categories of products (leather goods dominated, followed by fashion and lifestyle).

Bain & Company 2020 research suggests that there are four drivers behind the growth of the country’s luxury goods market. The first is repatriation, that has been on the rise since 2015, thanks to historical trends such as a reduction in import tariffs (based on product categories), more stringent controls on gray markets (customs control and supervision over *daigou*), the attempt of some brands to harmonize prices (reducing price gaps between markets), and to new trends such as travel restrictions related to Covid-19.

The phenomenon kept growing in 2021, with repatriation of Chinese global luxury purchases reaching 90% growth (see Figure 2.2).³⁵

Figure 2.2 – Geographic breakdown for Chinese luxury goods spending (% B Euro)



Source: Bain-Altgamma 2021 Worldwide Luxury Market Monitor; Bain analysis

Mainland sales increased, while travel restrictions reduced overseas purchases by about 30 billion euros in 2021, compared to 2019.³⁶ However, Bain & Company reveals that purchases previously made abroad are not totally replaced by mainland purchases, but also by purchases made through parallel channels, which include *daigou*.

³⁵ Lannes B., Xing W., *cit.*, p. 8
³⁶ Lannes B., Xing W., *ibidem*.

The second driver is the consumer, in particular represented by Millennials and the Generation Z. Millennials were born between 1980 and 1995 and, according to the research, are the main consumers of luxury products on Tmall Luxury Pavillion – a platform launched by Alibaba in 2017, dedicated to luxury products. Gen Z were born after 1995 and are considered savvy consumers of luxury and, being born in a digital world, they foster a continuous digitalization.

Digitalization is the third driver, which – as will be further explained in the next paragraph – is underpinning the strategy of many luxury brands in the Chinese market, allowing them to reach the younger generations and to survive the pandemic era. E-commerce started to be a marketing channel beyond being a sales channel, thus helping to increase consumer awareness and to attract new consumers. China's annual luxury online penetration increased from 13% in 2019 to 23% in 2020, with the luxury fashion and lifestyle category growing more than 100%.³⁷ The research also highlights that the main focus of digitalization in China in 2020 is omnichannel and its expansion. In fact, many luxury brands in the country do not want to give up their offline presence (still considered important by Chinese consumers) and are therefore opting for an omnichannel strategy that allows them to leverage both worlds: online and offline.

Last but not least, Hainan offshore duty-free shopping has further driven the growth of the luxury market. Compared to 2019, sales of Hainan offshore duty-free increased by 98% in 2020, reaching RMB 21 billion by October. Behind this phenomenon are once again Covid-19-related travel restrictions that have driven domestic purchases, and favorable policy changes (like an increased duty-free quota per person per year).³⁸

Hainan offshore duty-free emerged as a new luxury hub helping to keep luxury purchases inside the country. For luxury brands this duty exemptions, with the addition of promotions, could pose threat to the brand image. Nevertheless, Hainan duty-free sales keep growing, reaching in 2021 RMB 60 billion and contributing 5% to the country's overall luxury goods

³⁷ D'arpizio C., Levato F., Prete F., Gault C., De Montgolfier J., *The Future of Luxury: Bouncing Back from Covid-19*, in Bain & Company, 2021, <https://www.bain.com/insights/the-future-of-luxury-bouncing-back-from-covid-19/>

³⁸ Li Z., *Luxury During the Epidemic: The Rise of the Chinese Market*, in Proceedings of the 2021 3rd International Conference on Economic Management and Cultural Industry, Atlantis Press, 2021

market growth.³⁹ If in 2020 China Duty Free Group was the only duty-free operator in Hainan, in 2021 four additional operators arrived on the island, boosting price competition.

2.2 New luxury consumers

2.2.1 Segmentation of new luxury consumers

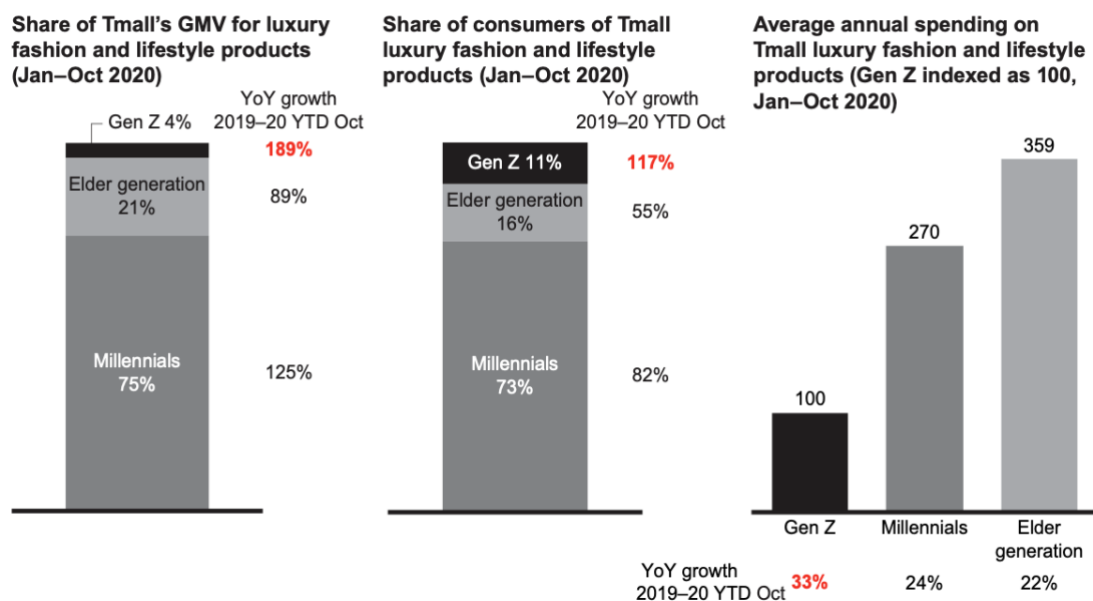
What is taking place in China, also fostered by the pandemic, is a generational shift of consumers.

Chinese consumers segmentation can follow two criteria: age or spending. As a result, three groups are created: Gen Z, Millennials, and the elder generations following the first criterion; light-spending, medium-spending and heavy-spending consumers according to the second.

2.2.1.1 First segmentation: Gen Z, Millennials, elder generations

As stated in Bain & Company research carried out in 2020 and mentioned above, Millennials represent more than 70% of Tmall’s luxury fashion consumers, while Gen Z is the age group that is growing the fastest, with a year-over-year growth rate of more than 100% (see Figure 2.3).

Figure 2.3 – Tmall’s consumers

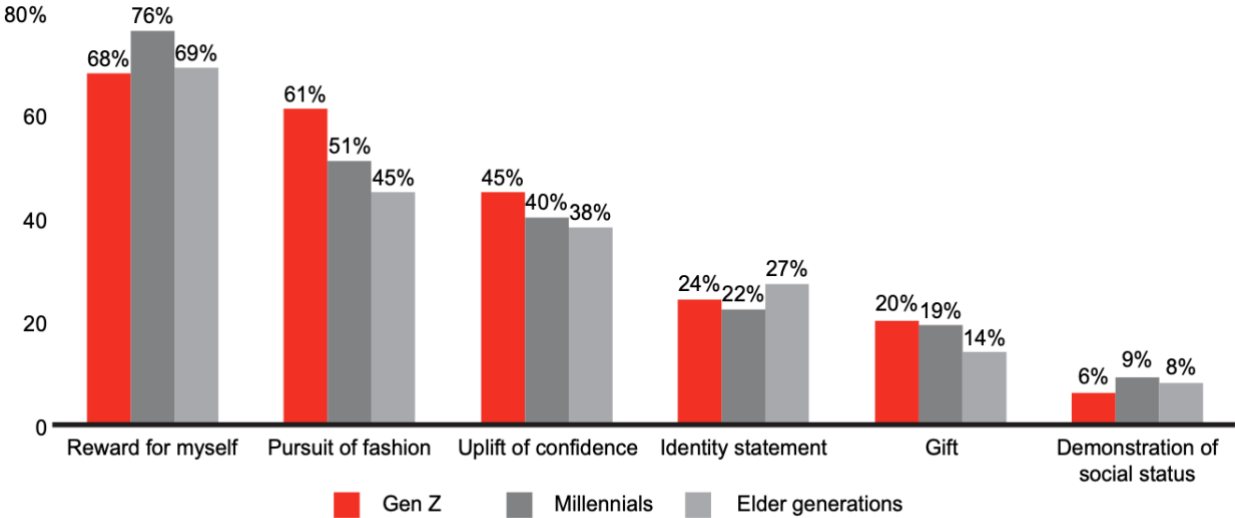


Source: Tmall; Bain analysis

³⁹ Lannes B., Xing W., *cit.*, p. 4

Gen Z consumers make their first luxury purchase at 20 years old, and the strongest reasons pushing them to buy luxury are self-reward and the “pursuit of fashion”, for which they rank the highest. Self-reward remains the top reason for all three groups of consumers analyzed (Gen Z, Millennials, the elder generations), while gift-giving decreases dramatically compared to the analysis made in the pre-pandemic period, but this is not surprising considering the government's effort in the anti-corruption campaign (see subparagraph 1.5.2.). The demonstration of social status is the least influential reason, whereas previously it was among the most important. (See Figure 2.4).

Figure 2.4 – Reasons for purchasing luxury (percentage of response by age group)

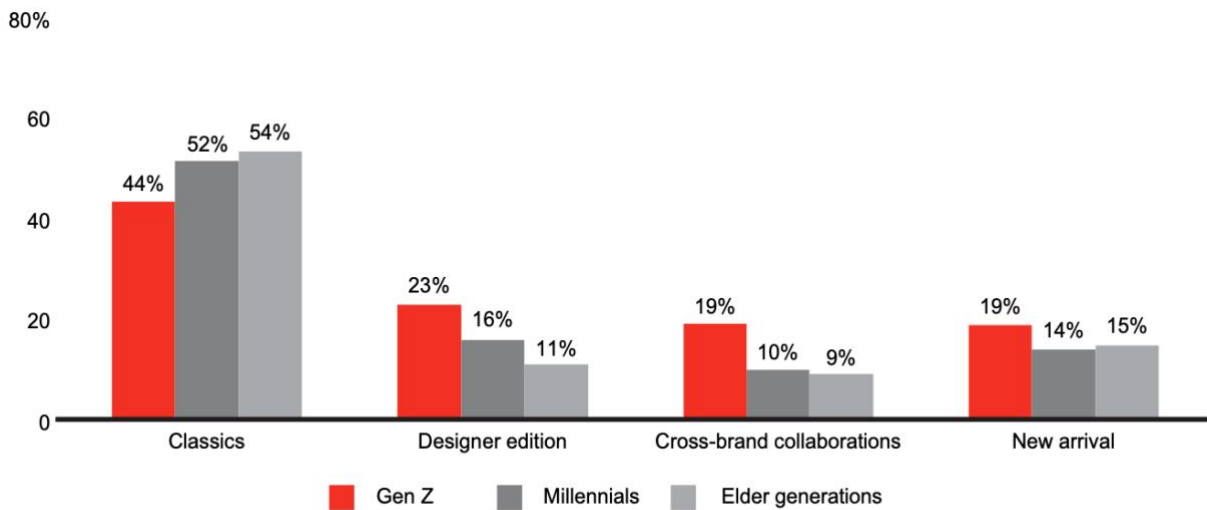


Note: This question also offered the options of following peers, fitting into social network, and other, but were chosen by few respondents

Source: 2020 Tmall luxury consumers survey; Bain analysis

Considering the type of luxury purchased in the two years prior to the survey, all three groups expressed a preference for classics. The other options were designer edition, cross-brand collaborations, and new arrival; for these three Gen Z showed greater interest compared to the other groups (see Figure 2.5). As a matter of fact, they are also attracted to seasonal trends and less concerned about resale value.

Figure 2.5 – Types of luxury purchased in the previous two years (percentage of response by age group)



Notes: This question also offered the option of other, which was chosen by few respondents; classics include classic editions and their modified version; cross-brand collaborations refers to cross-brand codesign

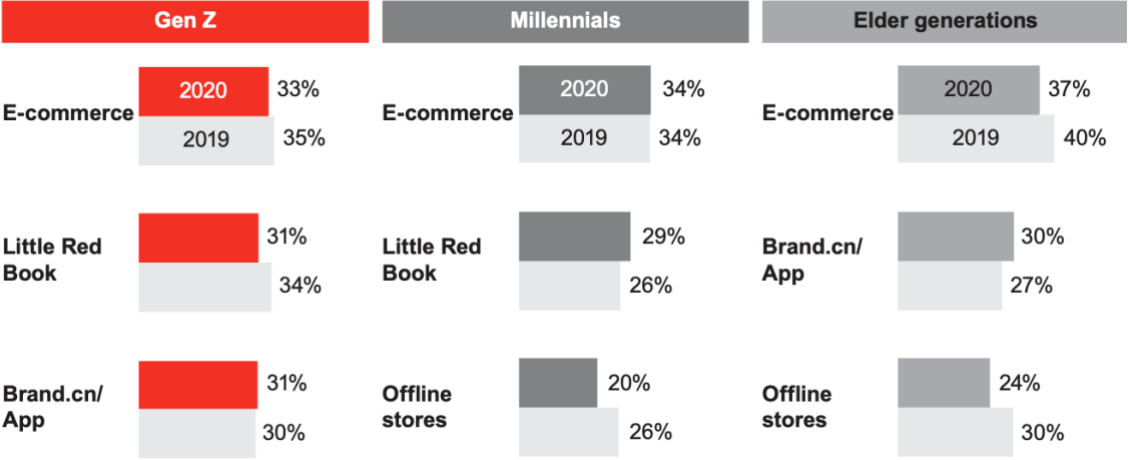
Source: 2020 Tmall luxury consumers survey; Bain analysis

As Gen Z is the fastest growing group, and considering the preferences expressed, many luxury brands have opted for cross-brand collaborations, limited editions, customized products etc., exerting a strong power of attraction on those consumers. As an example, in 2017 Louis Vuitton collaborated with skater label Supreme, which was expected to be sold out in two weeks but instead sold out in three days in Beijing.⁴⁰ In 2020, as part of the fifth edition of Dior Lady Art – a collaborative project with various artists from all over the world – Dior collaborated with the artist Song Dong, who revisited the iconic Lady Dior bag of the French luxury fashion house.

According to iResearch analysis of China mobile internet traffic in July 2020, Gen Z consumers spend an average of five hours a day on mobile devices. They gather information in a different way with respect to Millennials and to the elder generations, in fact their top three sources of information are all online and include e-commerce (comprising both horizontal marketplaces such as Tmall/JD, and vertical marketplaces such as Farfetch), Little Red Book, and Brand Chinese websites or apps; while for the other two age groups offline stores are still in the ranking (see Figure 2.6).

⁴⁰ Luan L., Kim A., Zipser D., Su M.Y., Lo A., Chen C., Zhang C., *cit.*, p.10

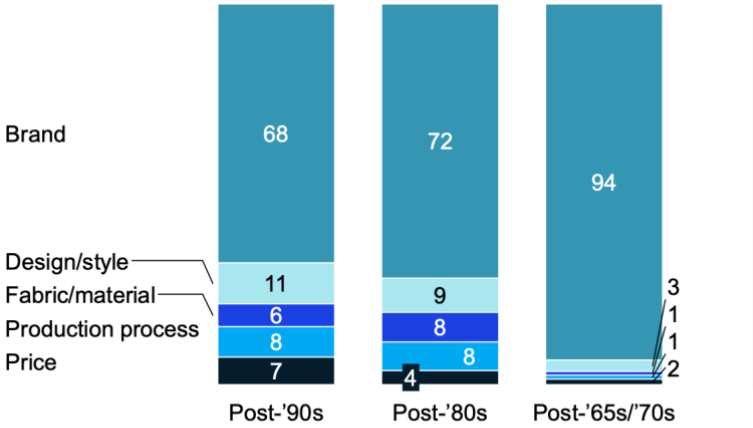
Figure 2.6 – Top 3 information sources for luxury goods in 2019 and 2020 (percentage of response by age group)



Source: 2020 Tmall luxury consumer survey; Bain analysis

While in the past Chinese consumers used to value brands more than products, China Luxury Report 2019 by McKinsey & Company reveals that the post-'90s generation is beginning to consider design, material, production process, and price as factors contributing to their luxury purchases. Brand is still the most important factor for all three consumer groups, but for the younger generations its role is fading, while for the post-'65s/'70s generation it still represents the number one factor (see Figure 2.7).

Figure 2.7 – Top reasons for last luxury purchase by generation (% of respondents who selected reason as no. 1 contributing factor)



Participants ranked these 5 reasons as a contributing factor for their most recent purchase

Note: Figures may not sum to 100%, because of rounding.

Source: China Luxury Report 2019

Behind this change is the sophistication of younger generations, fostered also by social influence. They are more likely to appreciate nuanced elements, not just the brand itself. Moreover, knowledge of these elements allows them to stand out from peers. However, the relevance of these additional factors is still limited, it is not possible to state that the Chinese market is sophisticated enough to accept niche brands, the process has in fact just begun. Loyalty keeps representing a challenge for luxury brands, especially with regard to younger generations. Brand loyalty tends to be higher for the elder generations, while younger people also shop outside their favorite brands following their desire to experience novelty.⁴¹ This search for newness pushes luxury brands to constantly renew their products, also through collaborations as stated before.

2.2.1.2 Second segmentation: post-'90s light/medium- spending consumers and heavy-spending consumers

For the second segmentation of the new Chinese luxury consumers, TMI and BCG report published in 2021, and mentioned in the first chapter, can be used for reference. It proposes as main findings the rise of younger consumers (the post-'90s generation, light/medium-spending consumers, that represents 45% of total luxury consumer base), and the renewed importance of heavy-spending consumers occupying an 11% share of consumers but contributing 40% of sales.⁴²

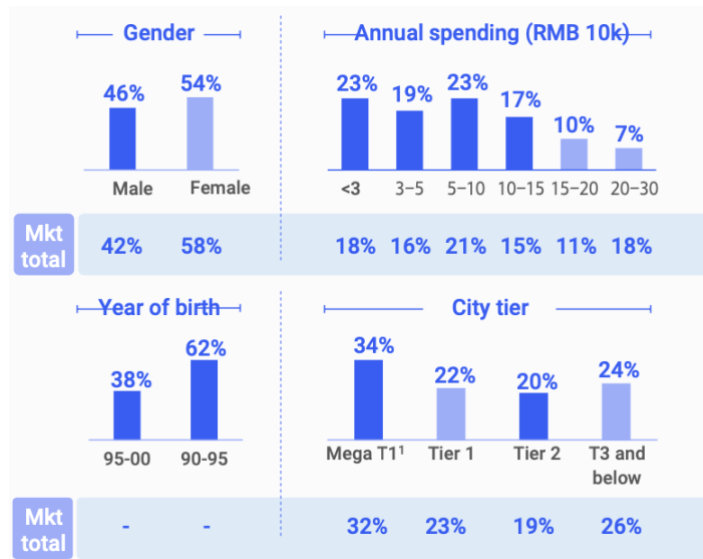
The post-'90s generation has grown up in a time of economic prosperity and digitalization, therefore their mindset, along with habits and purchasing needs, are different from the previous generation of Chinese luxury consumers. From the survey data, this group of consumers is mainly composed of women (54%), 62% were born in 1990-1995 (the rest in 1995-2000), 65% of them do not exceed RMB 10,000 of annual spending (*see Figure 2.8*). They are highly sophisticated and digital savvy, looking for personal experiences in shopping and heavily influenced by peers and KOLs (Key Opinion Leaders, a sort of Chinese influencers) in their purchases.⁴³

⁴¹ Luan L., Kim A., Zipser D., Su M.Y., Lo A., Chen C., Zhang C., *ibidem*.

⁴² Yang V., An L., Huang S., Ji Z., Yin F., Yan R., Xie G., Zhao E., Luo D., Shu A., *A New Generation of Chinese Consumers Reshaping The Luxury Market: 2021 Tencent X BCG China Digital Luxury Report*, 2021, p. 1

⁴³ Yang V., An L., Huang S., Ji Z., Yin F., Yan R., Xie G., Zhao E., Luo D., Shu A., *ivi.*, p. 24

Figure 2.8 – Demographics of post-'90s light and medium-spending consumers

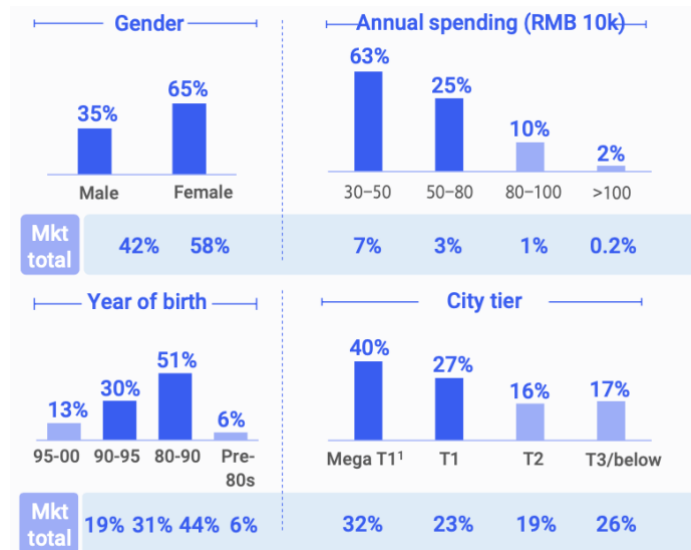


Source: 2021 TMI X BCG Luxury Consumer Survey

The research also finds out that in the period taken into consideration, 17% of the consumer base is represented by newcomers, who contributed 12% of sales. 59% of them are post-'90s consumers, classified mainly as medium and light-spending consumers, therefore they belong to the category just analyzed.

Considering the heavy-spending consumers, they are mainly female (65%), 88% of this category have an annual spending of RMB 30,000/50,000, half of them were born in 1980s/1990s, and mainly come from high-tier cities (see Figure 2.9). They have specific preferences and a distinct personal style based on a deep knowledge of the brands they purchase. They are deeply interested in the culture and heritage of brands; therefore, they look for first-hand brand information and professional fashion insights from vertical media, rather than influencer recommendations. They score higher than the other groups in brand loyalty, they often look for extensive connection and in-depth interactions with brands, attaching great value to the brand services (the more exclusive and personalized, the greater the willingness to spend on that brand). Perceiving an improvement in the services, 72% of them stated they will continue to shop in Mainland China after the pandemic.

Figure 2.9 – Demographics of heavy-spending consumers



Source: 2021 TMI X BCG Luxury Consumer Survey

According to the report, considering the period 2019-2021 and the luxury penetration by category, the ready-to-wear category has risen, helping post-'90s consumers express themselves and being wardrobe staples of heavy-spending consumers, while the other categories have experienced a decrease. Considering footwear, the change is structural, seeing post-'90s light-spending male consumers increasing the sales of casual footwear at the expense of leather shoes. Handbags do not seem to attract post-'90s male light-spending consumers, but rather female consumers and especially pre-'90s heavy-spending consumers. Lastly, the accessories category is more focused on stylish, easy-to-match accessories, rather than small leather categories, catching the interest of post-'90s shoppers.

2.3 Chinese digital development

Following the outbreak of the Covid-19 pandemic, the trend of digitalization has further accelerated, with people spending more time on the screen.

Even if offline stores continue to represent the primary channel for brand building and purchase conversion, much of the activities connected to marketing and consumer engagement have moved online to meet the needs of new consumers.

Digitalization has become the center of the operating model of many luxury brands that have started to allocate greater resources on the development of online channels.⁴⁴

E-commerce has increasingly penetrated the lives of Chinese people. As a matter of fact, due to the pandemic, the profile of Chinese e-commerce users changed. The elder generations have begun to approach e-commerce and so have consumers from tier 3, tier 4, and tier 5 cities. Digitalization has made shopping more accessible to a wider portion of consumers, who meanwhile are becoming more sophisticated across channels and platforms.

2.3.1 E-commerce development

To understand the huge transformation that has occurred in e-commerce fostered by the pandemic, it is necessary to take an overview on the development of e-commerce throughout the years in China.

The Chinese government has constantly given incredible support to e-commerce, for instance by promulgating norms and policies that created a favorable environment for its development. China's e-commerce development can be summarized in four phases: germination phase, construction phase, evolution phase, and mature phase.

The germination or initial phase (1997-1999) saw the foundation of the most important e-commerce B2B platform – Alibaba – in 1999. B2B refers to business conducted between companies, rather than between a company and an individual consumer.⁴⁵ In this phase, the development of e-commerce was limited by the small number of Internet users, poor logistics and distribution networks, and a lack of confidence in online payment systems and long-distance purchasing.⁴⁶

In the construction stage (2000-2007), online shopping gained increased acceptance, leading to the development of C2C transactions (involving customers who trade with each other, typically online). In fact, e-commerce expanded from enterprise services to personal services and in May 2003 Alibaba Group founded Taobao, its C2C business model. In October 2004, Alibaba launched Alipay service to promote safe online payments in the attempt to solve the

⁴⁴ Xie J., Youn C., *How the Luxury Fashion Brands Adjust to Deal with the COVID-19*, in *International Journal of Costume and Fashion*, Vol. 20 No. 2, 2020

⁴⁵ Chen J., *Business-to-Business (B2B)*, in Investopedia, 2020, <https://www.investopedia.com/terms/b/btob.asp>

⁴⁶ Yue H.F., *National report on e-commerce development in China*, 2017, p. 1

lack of confidence expressed by consumers.⁴⁷ According to statistics released by the China Internet Network Information Center (CNNIC), by December 2007 the number of Internet users in China amounted to 210 million people, out of which 22.1% were using online shopping sites.⁴⁸ The issuing of the first e-commerce development plan at the national policy level (called “E-commerce development five-year plan”) in 2007 marks the transition to the next phase, the evolution phase.

In the third phase, also known as the standardization stage (2009-2015), 3G was officially commercialized and the e-commerce market reached its full development, thanks also to several e-commerce regulatory policies launched by the government in those years. In 2008 Taobao Mall (currently known as Tmall) was created as an independent platform of Taobao Marketplace, founded back in 2003.

Finally, in the mature or globalization stage (2016-nowadays) many regions of China started to develop cross-border e-commerce (defined as international e-commerce, literally “selling across a border using e-commerce”⁴⁹), with once again the support of the government. E-commerce has evolved rapidly, driven by high Internet penetration, growing consumer confidence in online purchases, development of e-commerce platforms and of reliable payment solutions such as Alipay and WeChat Pay.⁵⁰ The amount of online payment transactions grew greatly with the pandemic and with it the effort to protect personal information security. In March 2021, the Cyberspace Administration of China issued Provisions on the “Scope of Necessary Personal Information for Common Types of Mobile Internet Applications”, stating the necessary personal information for online payment applications (that make possible to the apps to provide their basic functions) and their scope, which varies depending on the specific app.⁵¹

In the last years, the e-commerce ecosystem has been dominated by mobile phones, which have surpassed all the other devices used to access the Internet (such as desktop PC, laptop,

⁴⁷ Kahn, B. E., *The Shopping Revolution, Updated and Expanded Edition: How Retailers Succeed in an Era of Endless Disruption Accelerated by COVID-19*, Wharton School Press, 2021

⁴⁸ Yue H.F., *National report on e-commerce development in China*, 2017, p. 1.

⁴⁹ International Trade Administration, *eCommerce Definitions*, <https://www.trade.gov/ecommerce-definitions>

⁵⁰ GlobalData, *Chinese e-commerce market to reach US\$3.3 trillion in 2025, says GlobalData*, 2021, <https://www.globaldata.com/chinese-e-commerce-market-reach-us3-3-trillion-2025-says-globaldata/>

⁵¹ CNNIC, *The 48th Statistical Report on China’s Internet Development*, 2021, p. 30

TV, tablet PC), and reached over 1.65 billion mobile phone subscriptions as of February 2022.

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According to 48th “Statistical Report on China’s Internet Development”, by June 2021, Chinese netizens had reached 1011 million (up 21.75 from December 2020), Internet penetration had attained 71.6% (up 1.2 from December 2020), and the number of mobile Internet users had increased by 20.92 million reaching 1.007 billion.⁵³ To grow has also been the number of Internet applications and their users. For instance, up to June 2021 users of online shopping applications increased by 3.8% from December 2020, and users of livestreaming applications by 3.4%.

2.3.2 E-commerce platforms

2.3.2.1 Taobao and Tmall

The two most important e-commerce platforms in China are Taobao and Tmall, both owned by Alibaba, as mentioned before.

After the foundation, Taobao expanded greatly, having increasing users, thus becoming the largest online shopping retail platform in the country.

In Taobao most of the merchants are individuals and small businesses that offer a wide range of products. The platform enables individuals, retailers, and wholesalers to sell directly to buyers.

To establish trust between sellers and buyers in 2004 Alibaba launched Alipay, the mobile payment solution now used in all the platforms owned by the group, enabling consumers to conclude the transactions safely and within 10 seconds. To contribute to the success of Alipay has been the low penetration of credit cards in China along with the increasing use of mobile phones and once again the Covid-19 pandemic that encouraged the use of mobile and online payments to avoid the spread of infections.⁵⁴

Commercials of luxury brands can be found on Taobao, but they are more common in other platforms like Tmall and in some apps that will be introduced in the next paragraph. In 2012, Taobao was divided into Taobao market, Taobao Mall and Yitao search. Taobao Mall was

⁵² Slotta D., *China: mobile phone subscriptions by month 2020-2022*, in Statista, 2022, <https://www.statista.com/statistics/278204/china-mobile-users-by-month/>

⁵³ CNNIC, *The 48th Statistical Report on China’s Internet Development*, 2021, p. 14

⁵⁴ Daxue Consulting, *Guide to Chinese e-commerce platforms: which platform is the best for your brands*, 2021, <https://daxueconsulting.com/guide-to-e-commerce-platforms-in-china/>

renamed as Tmall (天猫 tiān māo). While Taobao is the biggest C2C e-commerce platform, Tmall is the biggest B2C e-commerce platform.

As of 2013, Tmall has become a shopping platform hosting more than 50,000 merchants, more than 70,000 brands and 400 million buyers.⁵⁵ Being a B2C model, it allows manufacturers to trade products directly with consumers, under the payment of a certain membership fee. Moreover, the platform also charges annual service fees, and commissions based on the category. Contrary to Taobao, Tmall is exclusively conceived for professionals, this is the reason why stricter rules for the entrance and permanence are applied. As a result, consumers feel more confident in buying on this platform.

Thanks to its features, it conquered the bigger B2C e-commerce market share in the country. Tmall uses algorithms in order to personalize its page based on the consumer's previous shopping experiences and choices and it meets growing consumer demand for high-quality products and unique shopping experiences. It is a platform for consumers in China and abroad to purchase both domestic and international branded products. According to Analysys, in the years ended March 31, 2021, Tmall was the leading third-party online and mobile commerce platform for brands and retailers worldwide.⁵⁶

Tmall has three different segments: Tmall Global, Tmall Luxury Pavillion, and Tmall Luxury Soho; trying to satisfy the different needs of companies and consumers.

In 2014, Alibaba launched Tmall Global, expanding its business from the domestic market to the global one. It represents a cross-border marketplace that allows brands to sell in China without undergoing strict product registrations. Throughout the years, it has also been used by brands to understand the reaction of the market to specific products before moving to other options (such as going offline and opening physical retail).

In the following years, Tmall Global was improved with the introduction in 2017 of Tmall Luxury Pavilion. It is an invite-only service for selected luxury brands, offering an exclusive shopping experience. Since its launch, the number of brands on the platform has increased greatly, reaching 200 luxury brand flagships and, according to statistics provided by Tmall to local Chinese media, sales rose 159% year-on-year in the period January-March 2021.⁵⁷

⁵⁵ GMA Marketing to China, *The Best E-commerce Marketplace in China is ...*, 2013, <https://marketingtochina.com/best-e-commerce-website-china/>

⁵⁶ Alibaba Group, *Our Business*, <https://www.alibabagroup.com/en/about/businesses>

⁵⁷ Hall C., *Luxury Sales on Tmall Rise 159% in Q1*, in *The Business of Fashion*, 2021, <https://www.businessoffashion.com/news/china/luxury-sales-on-tmall-rise-159-in-q1/>

In 2020 Luxury Soho was added, conceived for maximizing the lifecycle of products on Pavilion and help brands move surplus stock, placing full price products together with discounted products of the same brand. It is considered the outlet version of Luxury Pavilion.⁵⁸

2.3.2.2 JD.com

The second largest e-commerce B2C platform in China is Jingdong (JD), which before the establishment of Tmall was the biggest platform of this category in the country. The main difference between the two lies in the logistics aspect, as JD provides in-house delivery, while Tmall requires sellers to take care of it. JD guarantees fast delivery relying on a strong logistic network able to reach also rural and remote areas.

Given the success of Tmall, in 2014 JD established a partnership with Tencent – the giant Internet company owner of WeChat – to offer better targeted e-commerce services to users and try to compete with Alibaba’s platform.

JD.com enjoys an excellent reputation among Chinese consumers in terms of real and official products thanks to its strict policies against counterfeiting.

It was founded in 1998 under the name of Jingdong Mall as an online shop for technology products. As a result, the platform has for a long time been considered an “electronics retailer”, having little to do with the luxury world.

However, encouraged by the pandemic, JD is trying to focus more on luxury. It has established partnerships with more than 200 luxury brands, including Prada, Miu Miu, and Salvatore Ferragamo. On November 1st, 2020, in the first 30 minutes of the Singles’ Day, 127 brands (including Salvatore Ferragamo, Ralph Lauren, and Tod’s) recorded a 10-fold year-on-year sales growth.⁵⁹ In 2021, JD.com collaborated with Louis Vuitton, proposing a new model, through which consumers can type “LV” in the search bar and are redirected from the platform to the brand’s official Mini Program.⁶⁰ Besides Louis Vuitton, other brands like

⁵⁸ Williams G. A., *Navigating Tmall: A Guide For Luxury*, in Jing Daily, 2020, <https://jingdaily.com/navigating-tmall-a-guide-for-luxury/>

⁵⁹ Zhang H., *Luxury Brands Choose JD.com to Expand Online Opportunities*, in JD.com, 2020, <https://jdcorporateblog.com/luxury-brands-choose-jd-com-to-expand-online-opportunities/>

⁶⁰ Liu L., *How JD.com sold Western luxury brands to China’s Gen Z: think AR, VR content and exclusive tie-ups with Louis Vuitton, Givenchy, Berluti, Guerlain and Sephora*, in SCMP, 2021, <https://www.scmp.com/magazines/style/luxury/article/3147497/how-jdcom-sold-western-luxury-brands-chinas-gen-z-think-ar>

Givenchy and Dior followed the example, helping the platform to strengthen its position in the luxury sector.

2.3.3 Social commerce

Another phenomenon fostered by the pandemic is social commerce: the meeting point between social media and e-commerce. In other words, social media offers e-commerce experiences within their platform, with the entire shopping journey (from discovery to purchase) happening on the social media platform. The Western platforms, even if they integrate some of the features characterizing this new way of shopping, are not as developed as the Chinese ones, which are multifunctional, easy to use, and have a broader purpose.

Between 2018 and 2021, in China the social commerce market grew 90%, being now worth \$350 billion.⁶¹

2.3.3.1 WeChat

The first social media platform that has to be mentioned is WeChat (known as 微信 Wēi xìn in China), having, according to Tencent's unaudited financial results, 1,268.2 million monthly active users in Q4 2021.⁶² It was founded by Tencent in 2011 and conceived as a free application for instant messaging, allowing users to send texts, voice messages, pictures, files, and do audio and video calls. However, it cannot be compared to Western WhatsApp, since WeChat allows also to play games, scan QR codes, send money, pay (through WeChat Pay), and shop.

WeChat represents the main platform for consumer engagement. It offers a lot of tools to luxury brands. To sell products, the first option available is WeChat stores, mobile websites hosted in the platform and connected to an official account. Being accessible only through a WeChat official account, other alternatives have been developed, such as Mini-Programs, which are mini-apps functioning inside WeChat, allowing users to access them without having to leave WeChat. On a Mini Program, consumers can look for information about brands and products and even check out through WeChat Pay.

⁶¹ Henriques D., *Guide to Social Commerce in China, 2022*, in Sekkei Studio, 2021, <https://www.sekkeistudio.com/blog/social-commerce-china-2022/>

⁶² CIW Team, *Tencent highlights for Q4 2021; WeChat MAU 1.27 billion, 2022*, <https://www.chinainternetwatch.com/31054/tencent-quarterly/>

In 2019, WeChat added the WeChat Good Product Circle, a new feature allowing users to save products found on Mini-Programs on a shopping list, recommend products and see recommendations of other users.

Since the outbreaks of the pandemic, luxury brands have also increased advertising on WeChat moments (a feature that involves ads made visible to users when they scroll through their feeds).

Another important function is the instant chat, allowing brands to offer personalized services to customers, an aspect that, as seen before, is of utmost importance for Chinese consumers.

2.3.3.2 Xiaohongshu

The second important social media is Xiaohongshu (小红书 xiǎo hóng shū), known abroad as Little Red Book or Red. Founded in 2012, it is described as a lifestyle sharing platform, often compared to the Western Instagram. It is a cross border e-commerce and social media platform, trading luxury and fashion goods and allowing shoppers to share contents and reviews in the social community.⁶³ By enabling customers to share their opinions, Xiaohongshu has become increasingly popular, as netizens give great value to discovering products and making purchase decisions based on the recommendations coming from other users. It fosters word of mouth, creating strong engagement rates.

For brands the app is useful to be discovered and therefore attract new consumers. Although users can buy products directly within the app, purchases do not usually take place on Xiaohongshu; the social media is used mainly to create brand awareness and increase sales on other platforms. For instance, lucky draw posts are popular to attract new followers, and the prize can be a gift card to use on WeChat Mini-Programs, therefore connecting the two channels and increasing sales on the second.

It reached over 100 million monthly active users, 90% of whom are female, 46% are under 24 years old, and are mainly based in tier 1 and tier 2 cities, with strong purchasing power.⁶⁴ Since nearly half of Red's users belong to the Gen Z group, this social platform is widely used by luxury brands.

⁶³ Rmmd P., *Impact of Xiaohongshu on Its User Based and Society: A Review*, Volume 2 Issue 11, in IRE Journals, 2019, p. 285

⁶⁴ Chen T., *Little Red Book (Xiaohongshu) Marketing – A Complete Guide*, 2021, in WalktheChat, <https://walkthechat.com/xiaohongshu-little-red-book-fostering-e-commerce-via-word-mouth/#>

Similar to Instagram, its design is composed of pictures with captions, and users engage via likes, shares, comments etc. The content is algorithm-driven, thus is based on the user's browsing habits.

In June 2021, clothing was among the top industries for the amount of promotional content posted on Xiaohongshu in 30 days, second only to skincare.⁶⁵

Many luxury brands present on this platform often hold live streaming events and make use of influencers to promote their products and allow more consumers to get to know them.

2.3.3.3 Douyin

The third social media luxury brands make use of to promote their products is Douyin (抖音 dǒu

Yīn, carrying the meaning of "shaking sound"), which is the Chinese version of TikTok. It was launched in 2016 by ByteDance as a short video and music video sharing mobile application, allowing users to produce quick video clips from 15 second to one minute in length.⁶⁶ It is a funny and informal way of sharing contents, particularly appreciated by young consumers.

Brands can create their own accounts, sponsor their products with visual contents, create advertisements and clickable content to access the brand's e-commerce.

According to QuestMobile "2020 China Mobile Internet Annual Report Part One", based on data collected during January-December 2020, Douyin's users are mainly post-'90s (35%) and post-'80s (29,6%), from tier 3 and tier 4 cities.

In January 2021, Douyin released Douyin Pay, giving users the possibility to choose this payment option besides Alipay and WeChat Pay, already available within the app. A few months later, in March, Douyin launched flagship stores, offering the opportunity to sell on the app, providing customers with a seamless and trustworthy shopping experience, and trying to compete with platforms like JD.com and Tmall.⁶⁷

⁶⁵ Chen T., *Little Red Book (Xiaohongshu) Marketing – A Complete Guide*, 2021, in WalktheChat, <https://walkthechat.com/xiaohongshu-little-red-book-fostering-e-commerce-via-word-mouth/#>

⁶⁶ Lu X., Lu Z.C., *Fifteen Seconds of Fame: A Qualitative Study of Douyin, a Short Video Sharing Mobile Application in China*, in Meiselwitz G. (eds) *Social Computing and social media, Design, Human Behavior and Analytics*, HCII 2019, lecture Notes in Computer Science, vol 11578, Springer, Cham, p. 2

⁶⁷ Biondi A., *Can Douyin's brand flagships lure luxury?*, in Vogue Business, 2021, <https://www.voguebusiness.com/consumers/can-douyin-flagship-stores-lure-luxury>

Douyin has also emerged as a crucial platform for livestreaming. In 2021, during the Singles' Day, livestream views on the platform reached 39.5 billion.⁶⁸

2.3.3.4 Weibo

The last social media that can be mentioned as significant for luxury brands promotion is Weibo (微博 wēi bó, meaning “microblog”), considered the equivalent of Twitter, but rather being the merger of Twitter, Instagram, and Facebook. It allows users to create content, as well as buy, sell, and advertise products. Users can share posts and stories (15-second images or videos that disappear after 24 hours), and thanks to the extensive use of hashtag contents go easily viral. The app also offers an instant messaging function.

Weibo is mostly used for the latest news and trends from brands and celebrities; for this reason, regular updates from brands increase consumer engagement.

According to the joint report by BCG and Tencent, published in June 2019, Weibo is the second most used social platform during the phase of discovery and research of Chinese consumers.⁶⁹ From the first half of the 2020 fiscal year to the first half of 2021, social traffic of luxury-related content on the social platform has attained 168.2 billion, with a 70.3% year-on-year increase.⁷⁰ Among the main reasons behind its success are live streams and the strong network of celebrities and KOLs owned by Weibo.

2.3.4 Celebrities and KOLs

The role of celebrities and KOLs is of utmost importance in the marketing strategies of luxury brands, as Chinese luxury consumers are heavily influenced by them. The difference between the two lies in the fact that KOLs are seen as experts of a particular field and of the products they sponsor.

According to the report by BCG and Tencent mentioned above, more than 70% of consumers, especially those aged below 30, are influenced by KOLs.⁷¹ KOLs are able to have an impact on the thoughts and actions of others by expressing their point of view.

⁶⁸ Insider Intelligence, *Douyin users in China – stats and forecast (2021-2025)*, 2022, <https://www.insiderintelligence.com/charts/douyin-users-china-stats/>

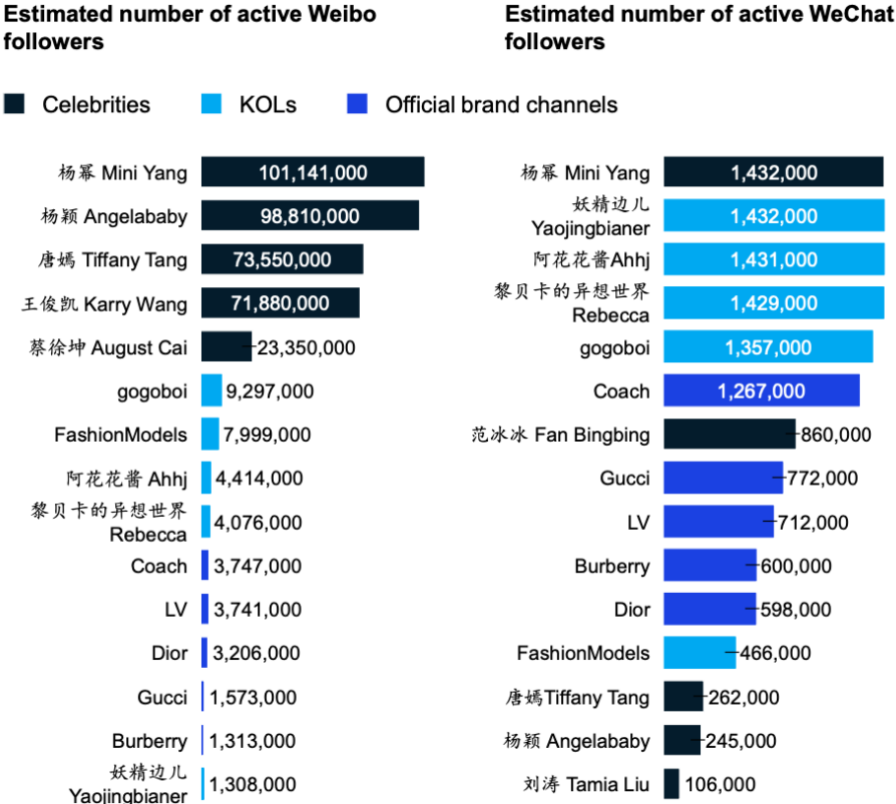
⁶⁹ Seara J., Wang A., De Bellefonds N., Willersdorf S., Hu R., Bai S., Jiang A., Huang S., *China Luxury Digital Playbook*, 2019, p. 19

⁷⁰ Wu W., *How Weibo Is Fueling Social Capital For Luxury Brands In China*, in *Jing Daily*, 2021, <https://jingdaily.com/weibo-panel-luxury-brand-influence/>

⁷¹ Seara J., Wang A., Abtan O., De Bellefonds N., Willersdorf S., Hu R., Bai S., Jiang A., Huang S., *cit.*, p. 21

Celebrities and KOLs have more followers than the luxury brands official accounts, as shown in the figure below. This is the reason why brands rely on them to raise the brand awareness, promote products, and consequently increase sales. They work mainly in social networks like WeChat and Weibo, as these apps allow them to create more personal content if compared to others.

Figure 2.10 – Estimated number of active Weibo and WeChat followers of celebrities, KOLs, and brand official accounts



Source: press search, by Mckinsey (report 2019)

Their role is relevant for all industries but is especially crucial for the fashion industry and for luxury brands, being an essential part of the social media marketing plan. Moreover, as luxury consumers have become more impulsive, as mentioned in the previous chapter, word-of-mouth and by extension KOLs have become more important. Their performance is judged on the basis of the number of likes, comments, and shares they are able to generate, in other words on the basis of the engagement they create.

2.3.5 Livestreaming

With the outbreak of the pandemic, KOLs started to participate in live streams, a tool that has emerged as a way to show products in real time, allowing users to take active part asking questions and submitting comments.

Most platforms have developed the livestreaming function after the outbreak of the pandemic. For instance, WeChat allows official accounts to do live streams and program them by sending in advance invitations to users. Douyin, as mentioned before, has emerged as one of the main platforms for live streams, reaching in 2020 RMB 170 billion (\$26.4 billion) in gross merchandise value.⁷²

The first luxury brand to create interactive content using livestreaming in China has been Louis Vuitton, that in March 2020 showcased the summer 2020 collection on Xiaohongshu, presented by fashion blogger Yvonne Ching and special guest celebrity Zhong Chuxi.⁷³ Louis Vuitton has also been the first Western luxury brand to launch an official account on Xiaohongshu in 2019.

The first part of the live show saw Yvonne Ching trying on the brand's clothes, while in the second part an interview with the celebrity took place. Zhong Chuxi answered live questions from viewers and gave advice on how to wear those clothes. Throughout the livestream, the host reminded viewers of the possibility to buy items from the collection directly from the platform. The one-hour-long livestream resulted in over 152,000 pageviews and a great number of comments.⁷⁴

Another example can be mentioned, the one of Bottega Veneta that in August 2020 partnered with Li Jiaqi, a livestreaming KOL, managing to sell 230 mini pouch bags in just 10 seconds.⁷⁵ Livestreams have become highly relevant for Chinese luxury consumers, with 73% of them being aware of livestreams sessions for shopping offered by online shopping platforms or physical stores. Moreover, among those aware of this, more than 60% have purchased luxury

⁷² Biondi A., *Can Douyin's brand flagships lure luxury?*, in Vogue Business, 2021, <https://www.voguebusiness.com/consumers/can-douyin-flagship-stores-lure-luxury>

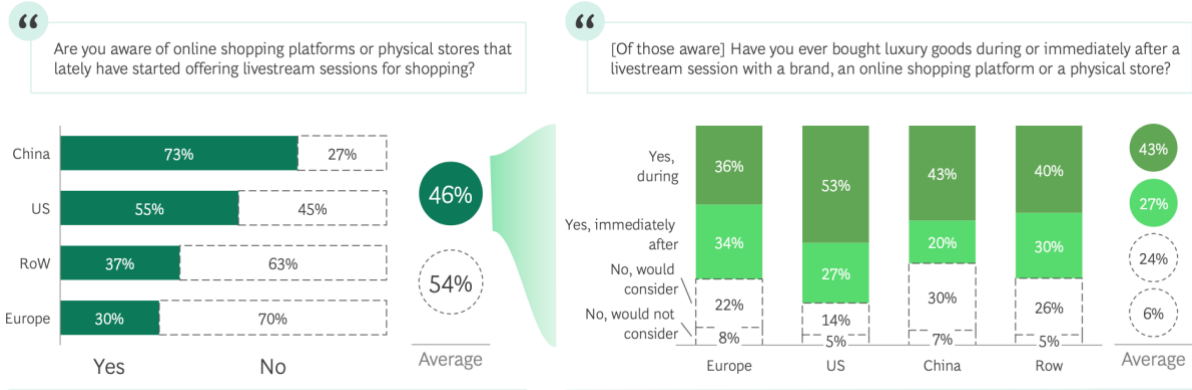
⁷³ Zhang T., *Louis Vuitton Trials Livestreaming With China's Xiaohongshu*, in WWD, 2020, <https://wwd.com/business-news/technology/louis-vuitton-trials-live-streaming-with-china-xiaohongshu-1203545595/>

⁷⁴ Zheng R., *Louis Vuitton's Debut Livestream on Little Red Book*, in Jing Daily, 2020, <https://jingdaily.com/louis-vuittons-debut-livestream-on-littlered-book/>

⁷⁵ Jing Daily, *Livestreaming: The Sales Driver That Hard Luxury Brands Are Missing in China*, 2022, <https://jingdaily.com/livestreaming-the-sales-driver-that-hard-luxury-brands-are-missing-in-china/>

goods during or immediately after the livestream session; and among those who have not, 30% declared they would consider doing it (see Figure 2.11).

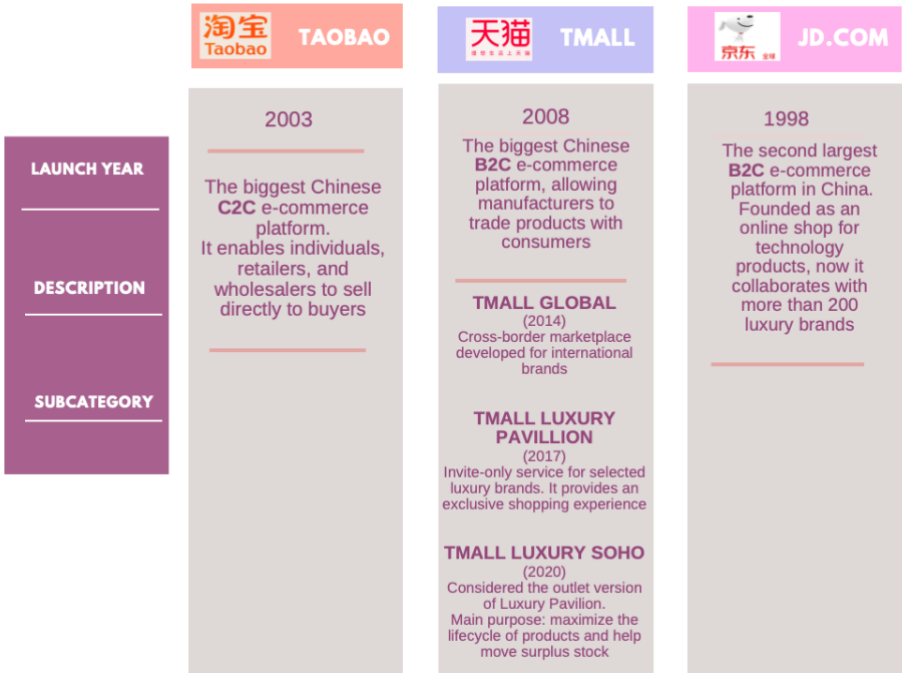
Figure 2.11 – Virtual livestreams popularity and conversion



Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr 21 (12K respondents in 12 countries), Expert interviews, BCG estimates





The following figures provide a summary of the main platforms analyzed – both e-commerce and social commerce platforms.

Figure 2.12 – Chinese e-commerce platforms



Source: own elaboration

Figure 2.13 – Chinese social-commerce platforms

	 WECHAT	 XIAOHONGSHU	 DOUYIN	 WEIBO
LAUNCH YEAR	2011	2012	2016	2009
DESCRIPTION	Main platform for consumer engagement. Founded as a free application for instant messaging, now it offers several tools for brands, such as WeChat stores, Mini-Programs, WeChat Good Product Circle	A lifestyle sharing platform, allowing shoppers to share contents and reviews in the social community. It has high engagement rates	Short video and music video sharing mobile application. It is especially popular for livestreaming	It is mainly used for discovery, research, and for the latest news and trends from brands and celebrities. Strong network of celebrities and KOLs

Source: own elaboration

2.4 Marketing strategies

In recent years, Chinese consumers use both online and offline sources to look for information on luxury, spending weekly from three to five hours on research.

According to a McKinsey survey in 2019, despite the use of both offline and online channels to gather information, 92% of purchases are still made offline. Traditional ads have lost ground (now accounting just for 39%), while official brand channels offline, word of mouth and e-commerce are the preferred options (see Figure 2.14).

Figure 2.14 – Information and channel preference of Chinese luxury consumers



Source: China Luxury Report 2019

Digital channels are impactful sources of information, but do not compete with in-person experiences at brand stores, mentioned by 90% of survey respondents as the most impactful when it comes to making a purchase decision. Among in-person experiences at brand stores, suggestions and WeChat messages from sales assistants, and in-person try-on are some of the aspects preferred by consumers.⁷⁶

The importance of sales assistants is rising among Chinese consumers, as they provide them with an exclusive luxury experience. As a result, day-to-day communication with sales assistants is desired by 29% of Gen Z, and by 28% of the luxury shoppers aged over 25, interaction consists of product enquiries, pre-order, styling advice, after-sales services, and about 60% of Chinese consumers of all ages have contact with sales assistants from their favorite brands at least every two weeks, mainly through WeChat.⁷⁷ This constant interaction is linked, once again, to the importance attached to “guanxi”, the personal connections involving mutual favors. In other words, the interaction established between sales assistants and customers help build loyalty and increase the chance of re-purchase.

When making the purchase decision, post-1980s/1990s consumers are faster than the post-1965s/1970s consumers. 60% of the first group make the decision in less than a week, while 57% of the second group need from one to two weeks.⁷⁸ This is also due to the fact that the younger group arrives in store with hours of online information gathering.

⁷⁶ Luan L., Kim A., Zipser D., Su M.Y., Lo A., Chen C., Zhang C., *cit.*, p. 14

⁷⁷ Wouters I., Sham K., *The New Faces of Chinese Luxury Shoppers*, in Oliver Wyman, 2021, p. 8

⁷⁸ Luan L., Kim A., Zipser D., Su M.Y., Lo A., Chen C., Zhang C., *cit.*, p. 19

Finally, taking a look at offline channels used to make luxury purchases, Chinese consumers shop across different types of bricks-and-mortar, among which premium department stores score the highest (especially for the elder generations), followed by brand stores. Duty-free stores lost the predominant position they had in the McKinsey report of 2017 analyzed in the previous chapter.

In recent times, the emphasis on online channels has become stronger, making it unavoidable for luxury brands to establish a presence online.

The pioneer was Burberry, that adopting an ambitious digital strategy, was the first brand to open its own flagship store on Tmall. In 2019 it entered into an exclusive partnership with Tencent to develop social retail in China. The purpose has been to combine social media and retail, in order to create digital and physical spaces for consumers to interact and shop. Behind this idea is the awareness of the increasing use of social media by luxury consumers in the country and the importance for the retail environment to keep up with this. Tencent offered its technology to provide more efficient online-to-offline connections, more personalized engagement and shopping experiences, differentiated content and value-added services.⁷⁹ In July 2020 the collaboration resulted in the opening of the Social Retail store in Shenzhen, where the social and physical worlds blend perfectly, with interactive digital windows, and unique experiences for the customers. As an example, through WeChat Mini-Program, customers can gain access to personalized content (for instance, through the scanning of QR codes, they can unlock additional and exclusive content) and share their experiences online. Each customer is given a playful animal character that keeps evolving as the customer engagement in-store and online increases, and thanks to Burberry social currency feature, customers can access rewards such as exclusive café menu items at Thomas's Café and mini-program content.⁸⁰

Burberry declared that to face the challenges imposed by the Covid-19 pandemic, such as lockdowns and stores shut temporarily, they moved their shows and presentations online, launched digital events, and created virtual conversations (by chat or video calls) with sales

⁷⁹ Burberry, *Burberry and Tencent Enter into Exclusive Partnership to Develop Social Retail in China*, 2019, <https://www.burberryplc.com/en/news/corporate/2019/burberry-and-tencent-enter-into-exclusive-partnership-to-develop.html>

⁸⁰ Burberry, *Burberry annual report 2020/21*, 2021, p. 30

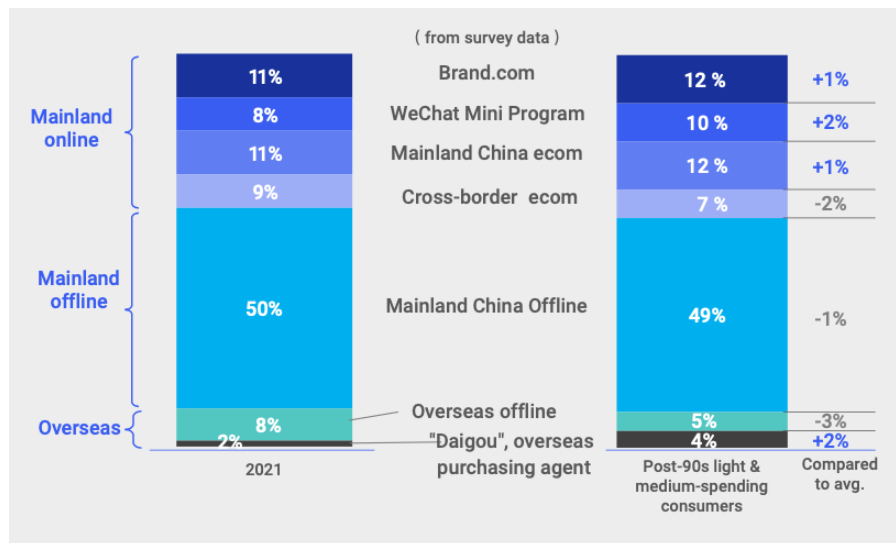
associates. As a result, the third quarter of the fiscal year 2020/2021 saw a triple-digit-full-price growth in Mainland China.⁸¹

Before the pandemic some luxury brands were already present in some Chinese platforms, but it is undeniable that it is with the outbreak of Covid-19 that more brands decided to make this move.

According to the statistics provided by Tmall to the Global Times, luxury brands opened on average one flagship store every week on Tmall in 2020, and sales on Luxury Pavilion rose 159% year-on-year from January to March 2021.⁸²

The pandemic has brought some changes, in fact, with respect to the McKinsey & Company report in 2019 stating that almost all purchases were made offline (see Figure 2.14 for reference), the 2021 TMI and BCG report reveals that 39% of mainland China last luxury purchases is made online, especially thanks to post-'90s light and medium-spending consumers. Online channels include: brand.com, mainland China e-commerce, cross-border e-commerce, and WeChat Mini Program (see Figure 2.15).

Figure 2.15 – Channels of most recent purchase



Source: 2021 TMI x BCG Luxury Consumers Survey; BCG analysis

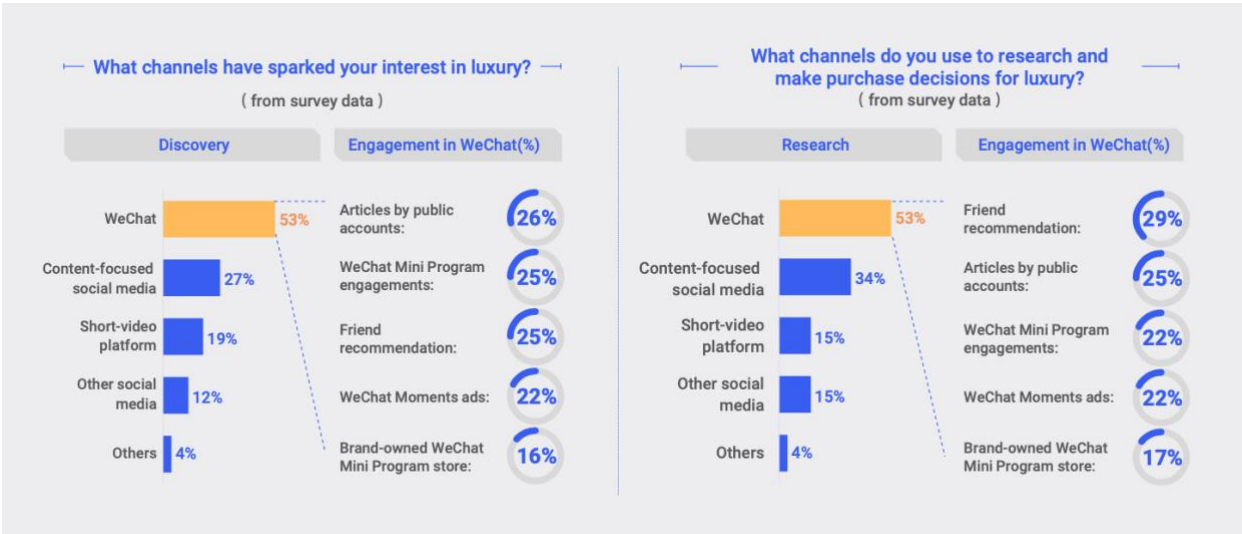
⁸¹ Burberry, *Burberry annual report 2020/21*, 2021, *ivi.*, p. 32

⁸² Global Times, *Luxury sales on Tmall rise 159 percent Q1*, 2021,

<https://www.globaltimes.cn/page/202104/1220617.shtml>

WeChat represents the channel that most attracts the interest of post-'90s light and medium-spending consumers for luxury. It is also the channel most used to discover and research luxury, thanks to its functions (WeChat Mini Program and WeChat Moments ads, brand-owned WeChat Mini Program store), to articles, and friend recommendations. Apart from WeChat, that ranks the highest in the classification, other channels catch this category of consumers' interest, such as social media and short-video platforms. (See figure 2.16)

Figure 2.16 – Channels for discovery and research for post-'90s light and medium-spending consumers



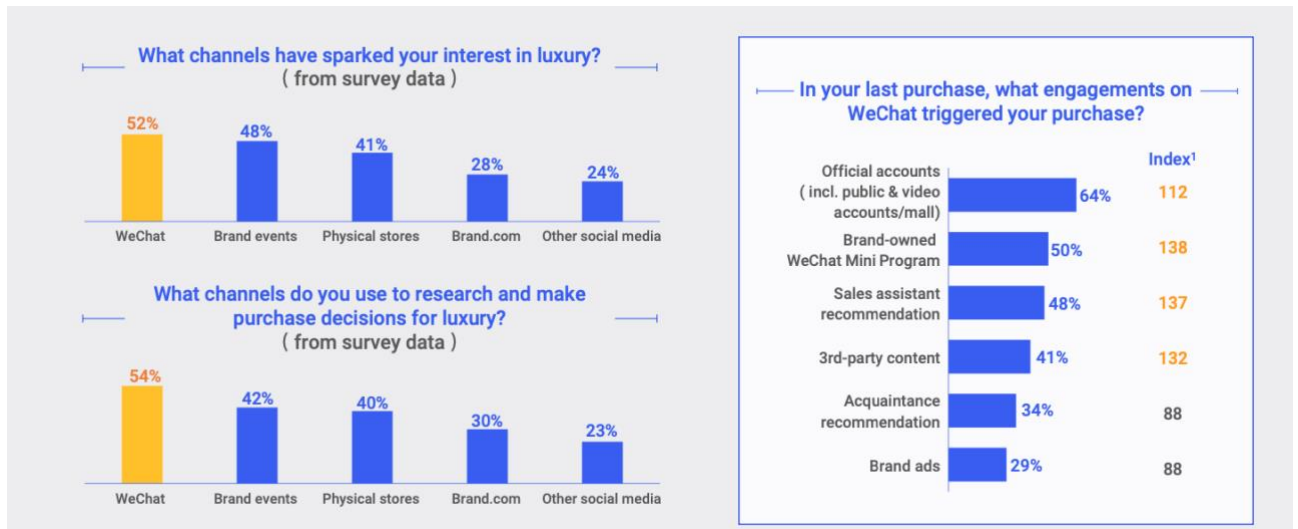
Source: 2021 TMI x BCG Luxury Consumer Survey; BCG analysis

Among different types of content, post-'90s light and medium-spending consumers declare that to capture their interests are (in order of importance attached): brand service or experience (such as pop-up stores, exhibitions, fashion shows), celebrity marketing (celebrity try-ons, influencer reviews), creative content (interactive ads, red envelope covers, AR), traditional ads (brand and product ads), creative events (online flash sales, theme-based events), and informational articles (brand culture, product concept).

The importance attached to WeChat as a channel to research and make purchase decisions for luxury involves also the second segment of consumers (heavy spending). Official accounts on the social media, WeChat Mini Program, and recommendations from sales assistants are the top three effective levers attracting consumers' interests and stimulating purchases. Apart

from WeChat, the report reveals that for heavy-spending consumers brand events and physical stores are considered the most relevant channels (see Figure 2.17).

Figure 2.17 – Channels for discovery and research for heavy-spending consumers

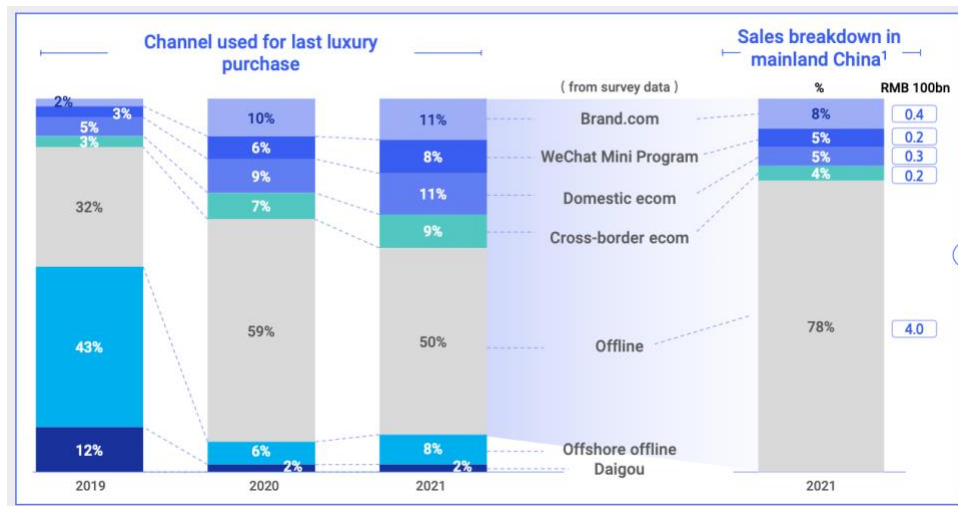


Source: 2021 TMI x BCG Luxury Consumer Survey; BCG analysis

What the pandemic emphasized was the importance of having an online presence, of communicating with consumers and offering unique shopping experiences. This also means to make use of different channels to satisfy the consumers' needs.⁸³ Even if online became fundamental, the importance of offline stores remained strong, with Chinese consumers attaching great value to in-store shopping experiences. Offline remains the preferential channel, contributing to the largest share of sales in mainland China (78%). (See figure 2.18)

⁸³ He, Y., Zou D., Jin, L., *Exploiting the goldmine: a lifestyle analysis of affluent Chinese consumers*, Journal of Consumer Marketing, Vol. 27 No. 7, 2020

Figure 2.18 – Channel used for last luxury purchase and sales breakdown in mainland China

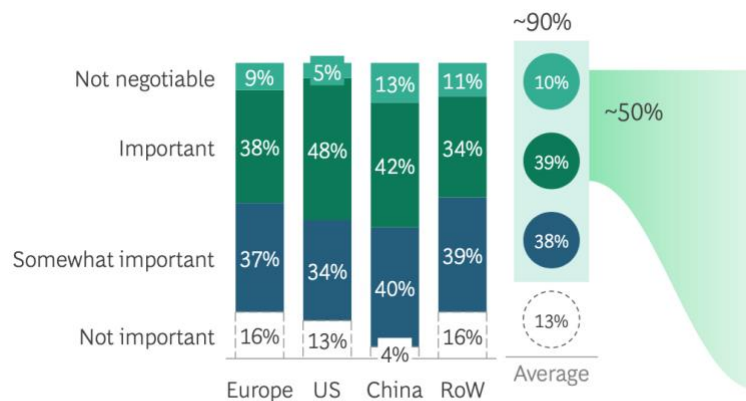


Source: 2021 TMI x BCG Luxury Consumer Survey; BCG analysis

It is therefore possible to conclude that for luxury brands in the Chinese market the best choice is to use different channels. Chinese luxury consumers are digital, highly sophisticated, and looking for elevated shopping experiences. The use of different channels can enable brands to interact dynamically with consumers, trying to satisfy their needs.

As shown in the figure below, Chinese consumers are the group caring the most about the combination of more channels.

Figure 2.19 – How important is that a brand uses different channels?



Note: Europe includes Italy, France, Germany and UK; RoW includes Japan, South Korea, UAE, KSA, Russia and Brazil.

Source: BCG-Altgamma True-Luxury Global Consumer Insight Survey Mar/Apr 21 (12K respondents in 12 countries), Expert interviews, BCG estimates

However, a distinction has to be made between multi-channel and omni-channel, with the former involving a presence on different channels that work separately, while in the latter channels work together. The aim is to provide a seamless experience throughout the consumer's shopping journey.

Understanding the opportunity arising from the combination of online and offline is essential for luxury brands in China nowadays if they want to succeed in the long term.

2.5 Trends

2.5.1 Daigou phenomenon

As anticipated in the previous chapter, the *daigou* phenomenon has been enhanced by the growing importance of e-commerce for Chinese consumers. After the outbreak of the pandemic, *daigou* agents have found a better digital environment, with more platforms to use for communication and selling activities.

With cross-border e-commerce constantly increasing, a significant part of this shopping is done through *daigou* merchants, convincing the Chinese government of the need of a crackdown on them, by subjecting them to fines and even imprisonment for tax evasion.

With the promulgation of a new e-commerce policy, from January 1, 2019, *daigou* merchants are obliged to register as businesses and therefore to pay taxes. In this way, their competitiveness decreases (in favor of foreign retailers and e-commerce platforms) and the government is able to collect more taxes from imports associated with cross-border e-commerce.⁸⁴

Moreover, thanks to improved aspects such as product quality and user experience, consumers have more confidence in cross-border websites and apps, thus further weakening the business of *daigou*.

Apart from the crackdown established by the government, Covid-19 has also affected the *daigou* industry. Travel restrictions and shipping delays have made it more difficult to carry out the usual activities.

However, after a first moment of stalemate, with China's early recovery from the pandemic, demand for *daigou* services has come back. According to CLA's survey, over half of

⁸⁴ Wong K.H.F., *China's Crackdown on Daigou, New Cross-Border e-Commerce Policies*, in China Briefing, 2019, <https://www.china-briefing.com/news/chinas-crackdown-daigou-cross-border-e-commerce-policies/>

respondents stated that *daigou* business decreased by 15% from the pre-pandemic period, but at the same time 32% of them expect to spend more on it.⁸⁵ To explain the success of *daigou* merchants is also the relationship they establish with consumers; the time spent communicating and the recommendations on products are just some of the aspects contributing to the good reputation they enjoy among Chinese consumers.

2.5.2 Counterfeiting

Along with the *daigou* phenomenon, also counterfeiting has been enhanced by the Covid-19 pandemic. The greater reliance on digital platforms made counterfeits grow at an unprecedented rate.

The new e-commerce law includes online counterfeiting, offering better protection to luxury brands and their business on e-commerce platforms such as Taobao, Alibaba, and JD.com and for the first time requiring e-commerce platforms to commit to removing sellers of counterfeit goods, in this way protecting the consumers' security.

Apart from the effort required by the government, also Chinese e-commerce giants have taken active part in tackling fake products.

Back in 2013, Alibaba established a collaboration with the International Anticounterfeiting Coalition Inc. (IACC) – a non-profit organization based in Washington DC and devoted exclusively to the fight against counterfeiting – which led to the IACC MarketSafe Program that covers all Alibaba e-commerce platforms and helps remove infringing sellers.⁸⁶ However, Alibaba was not considered reliable, it was accused several times of knowingly encouraging and profiting from counterfeits on its e-commerce platforms.

In 2015, Kering sued Alibaba and its payment system Alipay over alleged sales of counterfeits on its platforms. The lawsuit has been settled with the agreement to cooperate in protection of intellectual property and take joint enforcement actions online and offline against infringers.

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⁸⁵ Daxue Consulting, *The Chinese Daigou industry explained | The future of surrogate shopping in China*, 2021, <https://daxueconsulting.com/daigou-in-china/>

⁸⁶ IACC, *IACC MarketSafe® – A Partnership with The Alibaba Group*, <https://www.iacc.org/online-initiatives/marketsafe>

⁸⁷ Kering, *Kering and Alibaba Group agree to cooperate in protection of intellectual property and joint enforcement*, 2017, <https://www.kering.com/en/news/alibaba-group-agree-cooperate-in-protection-intellectual-property-joint-enforcement>

Apart from Kering, other luxury brands members to the IACC raised concerns about counterfeiting on the part of Alibaba, leading the organization to the decision of suspending Alibaba's membership.

To redeem its reputation, in 2017, Alibaba created the Alibaba Anti-Counterfeiting Alliance (AACA), an alliance established between the e-commerce giant and international companies achieving great results in the fight against fakes. After the introduction of this alliance, many luxury brands started to trust Alibaba.

Recently Alibaba has updated its AI platform, that is now able to identify counterfeit logos in 30-50 milliseconds, on the basis of a database covering more than 1 million logos and 500 luxury products categories, containing data from 13.7 billion picture samples.⁸⁸

2.5.3 Sustainability

It is believed that the pandemic has also changed Chinese consumers' attitude towards the environment. According to Jonathan Siboni – CEO of data intelligence company Luxury Insight – the crisis brought by Covid-19 “is also seen as an environmental crisis in China”, adding that “post-crisis there is a reconsideration of the human relationship with nature and a push for a better model of coexistence with the environment where consumers want brands to take responsibility and real action”.⁸⁹

This attention to the sustainable matter began before the pandemic since high levels of pollution expose Chinese people to more serious environmental issues than other citizens in the world. Covid-19 has just enhanced their concern and has made Chinese people reconsider their relationship with the natural world fostering a greater sense of responsibility towards the environment.

Chinese luxury consumers of all age groups have started to place more value on sustainability and the importance attached to the topic has pushed most brands to undertake sustainable initiatives, often moving from safe choices to more active approaches. In other words, being Chinese consumers quite receptive to sustainability related initiatives, luxury brands are encouraged to take concrete actions.

⁸⁸ Global Times, *Alibaba's AI platform recognizes counterfeit luxury products sold online amid booming industry in China*, 2021, <https://www.globaltimes.cn/page/202105/1223967.shtml>

⁸⁹ Biondi A., *How brands should approach sustainability in China*, in Vogue Business, 2021, <https://www.voguebusiness.com/consumers/how-brands-should-approach-sustainability-in-china>

Actions range from the use of recycled packaging by Gucci to Prada Re-Nylon pop-up store in Beijing (that in late 2020 displayed short videos showing the techniques used for the production of recycled nylon) to Hugo Boss Responsible Workshop Program (a WeChat activation including games with the aim of educating consumers about the brand's responsible collection).⁹⁰

The pandemic fostered a shift in Chinese consumers' perception of sustainability, and, once again, it is younger consumers who are driving this change. As stated in a report published by the China Chain Store & Franchise Association, to show the most interest in sustainable choices of consumption are people aged between 20 and 29, while older consumers are less concerned about environmental issues.⁹¹

Chinese consumers are increasingly aware of their environmental footprint and according to a 2020 survey by Statista, after the Covid-19 pandemic some changes took place in their shopping behavior, with 56% of respondents stating they were more inclined to buy sustainably sourced products.⁹² Moreover, Chinese people are optimistic about the results of this approach to sustainability, believing in a positive evolution of their society and in a better environment for future generations. The majority of them believe that climate change is reversible, therefore concrete actions have to be taken.

This new approach is reflected by social media, with the number of posts about sustainability on Xiaohongshu tripling in 2021⁹³, and many bloggers gaining hundreds of thousands of followers by sharing sustainability lifestyles. Being Chinese consumers digitally active, communicating on social media and through KOLs has become crucial, as well as digital initiatives (for instance on WeChat Mini-Program and mini games) to involve consumers.

⁹⁰ Biondi A., *How brands should approach sustainability in China*, in Vogue Business, 2021,

<https://www.voguebusiness.com/consumers/how-brands-should-approach-sustainability-in-china>

⁹¹ Twigg M., *Chinese Gen Z will drive sustainability conversation in fashion, say experts, as Covid-19 heightens a sense of responsibility towards the natural world*, in SCMP, 2022, <https://www.scmp.com/lifestyle/fashion-beauty/article/3165410/chinese-gen-z-will-drive-sustainability-conversation>

⁹² Ma Y., *Shopping habit changes due to COVID-19 in China 2020*, in Statista, 2021,

<https://www.statista.com/statistics/1235615/china-change-in-shopping-behavior-due-to-covid-19/>

⁹³ Twigg M., *Chinese Gen Z will drive sustainability conversation in fashion, say experts, as Covid-19 heightens a sense of responsibility towards the natural world*, in SCMP, 2022, , <https://www.scmp.com/lifestyle/fashion-beauty/article/3165410/chinese-gen-z-will-drive-sustainability-conversation>

<https://www.scmp.com/lifestyle/fashion-beauty/article/3165410/chinese-gen-z-will-drive-sustainability-conversation>

The Chinese government's role has also emerged. Back in 2016 a Sustainable Development Goals 2030 agenda was released, highlighting sustainable production and consumption.⁹⁴ In 2021, the China National Textile and Apparel Council released two reports promoting technological innovation and support for sustainability activities.

Thanks to customer approval and government policies, brands are encouraged to adopt new sustainable practices. Many brands have reduced waste in the design process (with slow fashion approaches), paid more attention to traditional handicrafts, and replaced some raw materials, trying to use recycled materials or develop new organic materials.⁹⁵

2.5.4 Digital fashion shows

In 2020, due to the outbreak of the pandemic in China, the Shanghai Fashion Week was held digitally, becoming the first fashion-week event in the world to be fully digital.⁹⁶ The event was organized on Tmall and it was accessible by everyone owning a customer account on the platform. Customers could assist to several livestreaming and online events with designers explaining the collections, and they could also immediately access the items for purchase. The "See Now, Buy Now" format was used, allowing viewers to buy products from the current collection or pre-order those of new incoming collections. The event's streams reached more than 11 million views and RMB 20 million in gross merchandise volume.⁹⁷

The trend has not stopped even after some reopening and return to the physical format. For instance, Prada's SS22 ready-to-wear collection of September 2021 was proposed with two live runway shows happening simultaneously in the Deposito of the Fondazione Prada in Milan and in Bund 1 in Shanghai, combining physical and digital experience.⁹⁸ The two shows were in dialogue, giving guests the possibility to see what was happening on the other continent. However, although digital tools such as live streaming and online showrooms have proved successful in increasing remote participation, some technical problems may arise (such as low

⁹⁴ Wang J., *Are Chinese consumers ready for sustainable fashion?*, in Vogue Business, 2021, <https://www.voguebusiness.com/sustainability/are-chinese-consumers-ready-for-sustainable-fashion>

⁹⁵ Wang J., *In China, sustainability is bubbling up*, in Vogue Business, 2022, <https://www.voguebusiness.com/consumers/in-china-sustainability-is-bubbling-up>

⁹⁶ Alizila Staff, *What Shanghai's First Digital Fashion Week Meant for Brands and Designers*, 2020, <https://www.alizila.com/what-shanghais-first-digital-fashion-week-meant-for-brands-and-designers/>

⁹⁷ Biondi A., *The future of fashion week? Look to Shanghai*, in Vogue Business, 2020, <https://www.voguebusiness.com/technology/shanghai-fashion-week-spring-summer-21>

⁹⁸ Prada Group, *Prada SS22 Womenswear: The Show Space*, 2021, <https://www.pradagroup.com/en/news-media/news-section/prada-womenswear-ss2022-show-space.html>

resolution of videos not allowing to fully understand and appreciate the quality and details of products). Moreover, physical events create an immersive atmosphere that cannot be experienced through a screen, therefore for many brands it is still important to maintain offline shows.

2.6 Future perspectives

Bain & Company reports released between 2021 and 2022 all confirm the expectation that China will experience more moderate growth with respect to the previous two years of significant growth. Among the other predictions is the rise of the middle class, enhanced also by the “common prosperity” strategy fostered by the government. The strategy aims at equalizing wealth across society, reducing the gap between rural and urban areas which is considered to threaten social stability.⁹⁹ However, it is believed that the strategy will not impact the luxury market.

Repatriation of consumption is expected to continue until restrictions impede travel outside China, and these restrictions are likely to remain in place through at least 2022, while sporadic outbreaks of Covid-19 continue to appear across the country. Despite this, the report suggests that brands should anticipate the implications on pricing harmonization related to the reopening of international travel, which along with the continuous repatriation of spending will probably lead to Chinese consumers’ personal luxury purchases recovering to pre-Covid levels between the end of 2022 and the first half of 2023.¹⁰⁰ Chinese consumers are likely to be cautious about traveling outside the country even when the borders are reopened, but sooner or later they will start to travel again, so Western luxury brands in China will need to convince them of the benefits of shopping at home.

Several growth engines are expected to characterize China’s luxury market by 2025. Firstly, Chinese consumers will represent a dominating nationality for the luxury sector putting China on the path to become the biggest luxury market. The protagonist will continue to be

⁹⁹ Ip C., *China’s luxury goods market: how big is it, and what impact has the coronavirus pandemic had?*, 2021, <https://www.scmp.com/economy/china-economy/article/3154985/chinas-luxury-goods-market-how-big-it-and-what-impact-has>

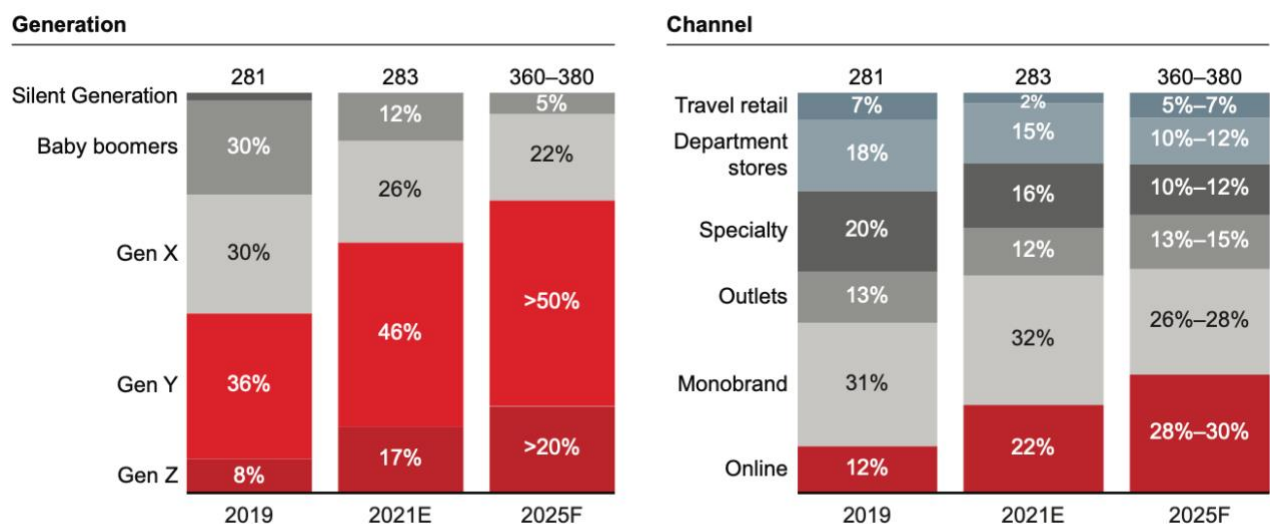
¹⁰⁰ Lannes B., Xing W., *A year of Contrasts for China’s Growing Personal Luxury Market*, in Bain & Company, 2022, p. 10

Millennials and Gen Z consumers, who are predicted to represent 70% of global purchases by 2025.¹⁰¹

Moreover, the leading channel for luxury purchases is expected to be online, thanks to the huge development fostered by the pandemic. As a result, for luxury brands it will be increasingly fundamental to leverage online channels to create a premium experience able to meet the requirements of consumers.

The figure below represents the predictions about Chinese luxury consumers and the channel for purchases.

Figure 2.20 – Share of global personal luxury goods market (€ billions | 2019-25F)



Notes: Segments may not add up to 100% due to rounding; F indicates forecasted growth; generations by range of birth year: Silent Generation, 1928-45; baby boomers, 1946-64; Generation X, 1965-80; Generation Y, 1981-1995; Generation Z, 1996-2015

Source: Bain & Company, From Surging Recovery to Elegant Advance: The Evolving Future of Luxury

Domestic duty-free channel is expected to develop as well, following the example of Hainan duty-free shopping, with the aim of enhancing repatriation and compete with other holiday destinations.¹⁰²

¹⁰¹ D'Arpizio C., Levato F., Gault C., De Montgolfier J., Jaroudi L., *From Surging Recovery to Elegant Advance: The Evolving Future of Luxury*, in Bain & Company, 2022, <https://www.bain.com/insights/from-surging-recovery-to-elegant-advance-the-evolving-future-of-luxury/>

¹⁰² Lannes B., Zhang C., *China's Unstoppable 2020 Luxury Market*, in Bain & Company, 2020, p. 14

Western luxury brands have to pay attention to the way they communicate with Chinese consumers, since, given the importance and the influence of social media, initiatives launched on social platforms usually go viral in an extremely short time. As an example, Gucci social influence has been enhanced thanks to Gucci's limited Doraemon cover digital red envelopes launched during Chinese New Year via the main social platforms (WeChat, Weibo, Xiaohongshu, Douyin) and opened more than 30 million times. The downside is that at the same time it is easy to create a scandal, as happened in 2018 with Dolce & Gabbana and their social campaign in which a Chinese woman tries to eat pizza with chopsticks. In addition, considering the importance of Chinese government, taking a position can be dangerous, incurring sanctions and boycotts (for instance Burberry statement against abuses in Xinjiang along with the suspension of its approval of cotton sourced from the region caused it the loss of its Chinese brand ambassador and several boycotts).

China represents a crucial market for many Western luxury brands, which need to consider several aspects and be able to adapt their marketing strategy to succeed in the country in the long term.

CHAPTER 3. A MONCLER CASE STUDY

3.1 History of the brand

Moncler, abbreviation of Monestier-de-Clermont, is a luxury brand founded in 1952 by René Ramillon and André Vincent in a mountain village near Grenoble. The brand started by producing outdoor equipment such as tents and quilted sleeping bags, highly valued by consumers. Then the first jackets were released, conceived to protect workers subjected to low temperatures. The first to realize the potential underlying Moncler's products was Lionel Terray, a French mountaineer, to whom a capsule collection was dedicated, named "Moncler pour Lionel Terray". Moncler's down jackets were used in the Italian expedition to K2, which saw Achille Compagnoni and Lino Lacedelli conquering the world's second highest summit in 1954. One year later, the jackets were also worn by French expeditors who reached the summit of Makalù, on the border between Nepal and Tibet. In the following years the products were tested in multiple expeditions and gradually improved. In 1964 Moncler was the supplier for the expeditions in Alaska led by Lionel Terray and in 1968 the brand became the official supplier for the French downhill skiing team at the Grenoble Winter Olympics.¹⁰³ After this last event, Moncler adopted the logo that is still in use nowadays, which consists of a stylized letter "M" and a cockerel, which is a national symbol of France. The palette of colors used – blue, white, and red – also refers to France and specifically to its flag and symbolizes power, authority, passion, and loyalty. The figure is placed in a rounded shape comprising the brand name.

In the 1980s the brand made its great entrance into the city. At the time the designer was Chantal Thomass, who revisited the look of the classic down jacket, replacing the zips with buttons and introducing new fabrics, bringing it closer to the current trends and making it popular especially among the younger generations. It was particularly appreciated by the teens of Milan's upper class, who used to meet in "Il Panino", a snack bar in Milan, from which derives the name "I Paninari" used to describe those teenagers. They used to wear Timberland boots on their feet, cuffed jeans, and the puffy Moncler jacket in bold colors. From a localized phenomenon, it expanded on a national level. However, it lasted a few years and then

¹⁰³ Moncler Group, *History*, <https://www.monclergroup.com/en/brands/moncler/history>

gradually weakened, since the jacket was designed for the snow, it was heavy and not water-resistant therefore not adapted for those young people riding a Vespa in the rain.¹⁰⁴

The brand's notoriety started to wane until 2003 when, near bankruptcy, it was acquired by Remo Ruffini, the current president and CEO. His idea was to relaunch Moncler starting from the roots and developing a strategy of global expansion in the luxury sector. Ruffini implemented a repositioning process with the aim to create a unique, innovative product faithful to the brand's DNA. Moncler products became increasingly exclusive, evolving from lines intended for sports purposes to products wearable by people of all ages, identities, and cultures. The jackets, still representing the brand's identifying item, are gradually being joined by complementary products.¹⁰⁵

In 2006 the Haute Couture Moncler Gamme Rouge collection was released, designed by Alessandra Facchinetti and later by Giambattista Valli. In 2009 the Moncler Gamme Bleu men's line conceived in collaboration with Thom Browne was launched, while a year later in 2010 Moncler Grenoble collections arrived in New York. This last is based on the brand history to which a touch of contemporary is added, therefore technical ski garments are supplemented by some related to "après ski".

In 2013 Ruffini took the company public: on December 16th Moncler was floated on the Italian Stock Exchange of Milan, with shares priced at €10.2 and rising over 40% the first day, marking the most successful European story in recent years.¹⁰⁶

After the Fall/Winter 2018, Moncler decided to close Gamme Rouge and Gamme Bleu collections and introduced the Moncler Genius project: *One House Different Voices*. It consists of collaborations with artists and stylists from all over the world, thus leveraging creativity and innovation coming from different voices and visions while remaining faithful to the brand's heritage.

In December 2020, Moncler acquired Stone Island that became officially part of the group in March 2021. In addition, in 2021 the company completed the project of internalization of the e-commerce, that will be further analyzed below, and launched the fragrances Moncler Pour Femme and Moncler Pour Homme, making its debut in the perfumery segment.

¹⁰⁴ Carlotta Marelli, *The story of a French jacket embraced in Milan that went global*, in Elle DECOR, 2021, <https://www.elledecor.com/it/best-of/a35128805/moncler-history/>

¹⁰⁵ Moncler Group, *Consolidated Non-Financial Statement 2021, 2022*, p. 23

¹⁰⁶ Moncler Group, *History*, <https://www.monclergroup.com/en/brands/moncler/history>,

3.2 Entry and presence in China

Moncler entered China in 2009, when the first shops were inaugurated in Hong Kong and in Shanghai. After these first openings, others followed in Beijing, Harbin, Shenyang, Wuxi, Hangzhou, Nanjing, Changchun, Tianjin, Chengdu, Shenzhen, Zhengzhou, Chongqing, Wuhan, Dalian, and Qingdao. The presence of the company also reached Macau and Taiwan with openings in Taipei and Taichung.

In 2011 Moncler opened a 516 square meters boutique in The Village in Beijing, designed respecting the values of the brand and its heritage, therefore French woodwork carved with floral motifs in relief are associated with contemporary elements such as the glass of the counters and the pierre bleu used for the walls and the floor. The opening is considered an important stage in Moncler's world-wide distribution strategy and in the development of the brand's image in Asia.

In 2012 Moncler announced the launch in China of a virtual shop managed by the Italian group YOOX Net-a-Porter, with the website operational throughout China and available in Chinese. It offered the men's, women's and accessories' lines, as well as the collections of Moncler Grenoble, Moncler Gamme Bleu and Moncler Gamme Rouge, and the one designed by the Japanese Chitose Abe (Moncler S). With China, the e-commerce site of the company reached 29 countries, offering a unique experience of virtual shopping, tailored for Chinese consumers, with customer care in China, delivery in more than 400 cities, purchases available in the local currency, and size conversion.¹⁰⁷

At the end of 2012, there were 11 Moncler stores in China, with further openings planned.

In 2017 Moncler opened a new flagship store in Canton Road, located at Hong Kong's most prestigious shopping mall in Harbour City. To celebrate this new opening, over 10,000 Mr. Moncler – the iconic character about 50 cm tall symbol of the brand and for the occasion all clad in silver, including beard and glasses – were placed in five symbolic cities around the world (Tokyo, St. Moritz, Melbourne, Berlin and Los Angeles), as well as at four strategic points of Hong Kong, as part of a collection conceived to enhance the sense of universality.¹⁰⁸ The collection is made of silver puffer jackets with patches bearing the names of these cities. Moreover, for the occasion Craig Costello – a talented and visionary street artist – customized

¹⁰⁷ Muret D., *Moncler passe par l'e-commerce pour accélérer en Chine*, in Fashion Network, 2012, <https://fr.fashionnetwork.com/news/moncler-passe-par-l-e-commerce-pour-accelerer-en-chine,279699.html>

¹⁰⁸ Rocca F., *Moncler, destinazione Hong Kong*, in Vanity Fair, 2017, <https://www.vanityfair.it/fashion/news-fashion/2017/11/17/moncler-store-hong-kong-performance-craig-costello-mr-moncler>

350 Mr. Moncler which, once the performance was over, became the gifts of those present at it.¹⁰⁹

In 2018 Asia and the Rest of the World revenues increased by 24%, with Mainland China continuing to drive growth in the region.¹¹⁰ 2018 is identified as a turning point with local Chinese purchasing power increasing greatly with respect to overseas Chinese tourists.¹¹¹

3.2.1 Positioning in China

With the acquisition in 2003 by Remo Ruffini, a repositioning process has begun, making the company and its products increasingly unique and exclusive. Two key principles are followed: “to become a global Brand with no filters with the market and to continuously evolve while remaining true to itself”¹¹². Throughout the years the company has followed this positioning strategy in all the markets in which it is present, with the aim of standing out from its competitors.

In an email interview with Remo Ruffini, China Daily collected some information on the brand positioning in China trying to understand how the brand distinguishes itself from other puffer jacket makers in the country.

When asked to answer the question about the presence of competitors in the country and whether the entry of Canada Goose could pose a challenge to the brand, Ruffini answered he was not afraid of Canada Goose or any other competitors in the market. He added he believes in the quality and uniqueness of Moncler’s products that constitute the main competitive advantage all over the world, China included.¹¹³ The CEO declared that the strategy of the brand is worldwide, applied to all countries similarly. However, despite being a global brand with a global strategy, it is undeniable that the brand positioning is different in China with respect to other countries, especially in Europe. For instance, the history and prestige of Moncler are perceived differently in Italy. It is sufficient to take into consideration Milan’s upper-class teenagers – the so-called “Paninari” – wearing Moncler’s puffer jacket in the

¹⁰⁹ Ruggeri A., *Craig Costello invade Hong Kong con Moncler*, in Esquire, 2017, <https://www.esquire.com/it/>

¹¹⁰ Ansa, *Moncler fa il pieno di utili nel 2018 (+33%) a 332,4 milioni*, in Fashion Network, 2019, <https://it.fashionnetwork.com/news/Moncler-fa-il-pieno-di-utili-nel-2018-a-332-4-milioni,1074058.html>

¹¹¹ Pan Y., *Moncler’s “Genius” Project Paid off in 2018. What’s Next?*, in Jing Daily, 2019, <https://jingdaily.com/moncler-genius-2018/>

¹¹² Moncler Group, *Annual Report 2020*, 2021, p. 29

¹¹³ Junqian X., *A vision of the future, available now*, 2018, in China Daily, <https://www.chinadaily.com.cn/a/201809/28/WS5bad86aca310eff30327ff11.html>

1980s, a phenomenon that China has not experienced. In China the position is given by belonging to the luxury category, and, as mentioned several times in this paper, Chinese consumers find in the prestige of the brand a great reason to purchase its products.

In recent times, Moncler's positioning in the market has been strengthened by the Winter Olympics of 2022, that turned out to be an accelerator of the population's interest for winter sports. This interest has been fostered also by Xi Jinping, who expressed the desire to see the number of Chinese snow sports enthusiasts growing from 10 million to over 300 million by 2025 and issued the Snow Sports Development Program (2016-2025) – a plan at national level intended to support the industry of winter sports with the construction of infrastructure, the manufacture of snow equipment, and the support to tourism and winter sports education.¹¹⁴ In this situation, Moncler has stood out as one of the most legitimate brands to communicate on this topic and for the Olympics the company planned a series of pop-up presented from January to February 2022 increasing the visibility of its Grenoble ski collection that has enjoyed incredible popularity among Chinese consumers.

3.3 Marketing strategy

With the aim of satisfying the widest possible portion of consumers, Moncler focuses on clear and distinctive consumer segments trying to engage them in a precise way and to respond properly to their specific needs.

However, Moncler has declared that with the pandemic there has been an interesting growth in the younger generations in the Chinese market and the company has been able to attract new customers, especially in terms of Generation Z and Millennials.¹¹⁵

According to Moncler's classification, three segments are identified, the first includes the Gen Z consumer (20-30 years old), described as that consumer that "lives, breathes and shapes youth culture & modern luxury", then the second consists of Millennials (30-50 years old) who "consumes and aspires for a luxurious lifestyle", while the last category is made of Active Millennials (30-40 years old) who "seeks high style with technical performance".¹¹⁶

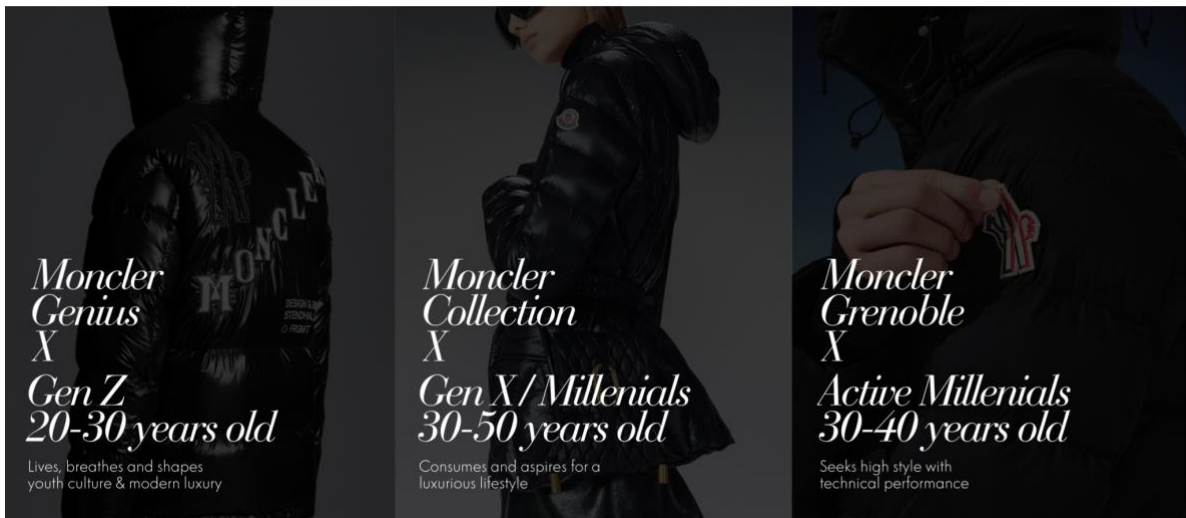
To target these different categories, different collections are proposed. Moncler Genius for Gen Z, Moncler Collection for Millennials and Moncler Grenoble for Active Millennials.

¹¹⁴ Bi R., A., *Are the Winter Olympics Luxury's Golden Ticket?*, 2022, in Jing Daily, <https://jingdaily.com/winter-sports-fashion-olympics-dior-moncler/>

¹¹⁵ Moncler Group, *Full Year 2021 Financial Results Conference Call*, 2022, p. 18

¹¹⁶ Moncler Group, *Capital Markets Day 2022*, 2022

Figure 3.1 – Different collections for different customer categories



Source: Moncler Group, Capital Markets Day 2022

As a matter of fact, Moncler collections are divided into three dimensions: the first (Moncler Genius) was launched in 2018 and proposes different interpretations and visions, generating new creative energy, while being consistent to the DNA of the brand.

Moncler Collections encompasses the Moncler Men's, Women's and Enfant Collections, conceived as a fusion of research, innovation and luxury. The third – Moncler Grenoble – is characterized by high technical and innovative content, conceived for consumers interested in sports performance as well as design and innovation. Moncler Grenoble collections are split into High Performance (for consumers seeking maximum performance from the products), Performance & Style (for sporty consumers with an interest in creativity), and Après-Ski (for a target looking for stylish yet sporty clothes). The team of stylists is divided by collection and works under the supervision of Remo Ruffini.¹¹⁷

With the purpose of unleashing “the extraordinary in EVERYbody”, Moncler's collections can be better defined through the following figure.

¹¹⁷ Moncler Group, *Collections*, <https://www.monclergroup.com/en/brands/moncler>

Figure 3.2 – Moncler Brand Architecture



Source: Moncler Group, Capital Markets Day 2022

Special attention must be devoted to the Moncler Genius collection, that has revolutionized the company's marketing with individual monthly launches of unique designers, a peculiar approach when compared to the seasonal launches that characterize the industry. Defined as a new concept of luxury, Moncler Genius allows fashion, art, culture, and entertainment to meet and the consumer to live an experience that goes beyond the purchase of an item.

In 2021, Moncler Genius project reached a worldwide dimension by means of an immersive digital experience called MONDOGENIUS, conceived as a journey through five cities – Milan, Shanghai, New York, Tokyo, Seoul – and the creative visions of 11 designers. This gave birth to a show that was launched live from Milan by Alicia Keys – the 15-time GRAMMY Award winner, singer, songwriter, and producer – and also from Shanghai where the singer and actress Victoria Song was interacting live with Alicia Keys. The show was livestreamed on a dedicated microsite <https://mondogenius.moncler.com> and on more than 30 global platforms (including Instagram, Facebook, TikTok, YouTube, LinkedIn, Twitter, WeChat, Weibo and Douyin, as well as e-tailer and media sites), obtaining outstanding engagement results, with 510 million video views, a reach of 4.3 billion, and also creating a new community of Millennials and Gen Z attracted by the merger of heritage and innovation.¹¹⁸ The event was particularly successful

¹¹⁸ Moncler Group, *Relazione Finanziaria Annuale 2021, 2022*, p. 18

in China, where 30% of the views were made. In particular, the platform Weibo totaled 74 million views, representing a record for the brand in the country.¹¹⁹

As part of the MONDOGENIUS experience, in 2022 Moncler established a collaboration with the Chinese designer Dingyun Zhang, resulting in a capsule collection consisting of huge down jackets in the form of coats, waistcoats, and micro-jackets, as well as masks and balaclavas. All the items are inspired by the sea and the invertebrate organisms that inhabit it, are made of shiny super-lightweight nylon and the looks are completed with colored leggings and furry boots.¹²⁰ In addition to volumes and layers, the artist makes use of gaps and perforated materials, together with adjustable knot buttons that recall the Chinese tradition.

Throughout the years the company has developed a digital communication strategy for the brand in China making its digital presence unique by implementing a personalized strategy for each customer segment. For Moncler, it is important to have a presence on all the most important platforms at local level, each channel has its own characteristics, and the content is developed according to its target audience, based on the desire to “send the right message, to the right target audience, at the right time”.¹²¹

With the pandemic, Moncler has been investing greatly on Chinese platforms. Even before the pandemic outbreak, the company was interested in the digital development, with Remo Ruffini stating that “at Moncler, every project, from the definition of collections to product development and event concept definition, should be digital-first and, therefore, must be inspired and designed to fit digital platforms perfectly, as [digital] is the first touchpoint for customers, to then be spread across all other channels.”¹²² The pandemic has accelerated the process that was already ongoing, the company was investing in digital but rapidly increased its effort. As an example, in July 2020 a new function was implemented, named “Digital, Engagement and Transformation”, with the aim of implementing the brand strategy across all

¹¹⁹ Maguire L., *Fashion month social strategies: What worked*, 2021, in Vogue Business, <https://www.voguebusiness.com/fashion/fashion-month-social-strategies-what-worked>

¹²⁰ Muret D., *Moncler lancia una collezione con l'ingegnoso designer DingYun Zhang*, 2022, in Fashion Network, <https://it.fashionnetwork.com/news/Moncler-lancia-una-collezione-con-l-ingegnoso-designer-dingyun-zhang,1376791.html>

¹²¹ Junqian X., *A vision of the future, available now*, 2018, in China Daily, <https://www.chinadaily.com.cn/a/201809/28/WS5bad86aca310eff30327ff11.html>

¹²² Einsele M., *Moncler CEO Remo Ruffini Talks Digital Domination In China*, 2020, in Jing Daily, <https://jingdaily.com/moncler-ceo-remo-ruffini-talks-digital-domination-in-china/>, 10 May 2022

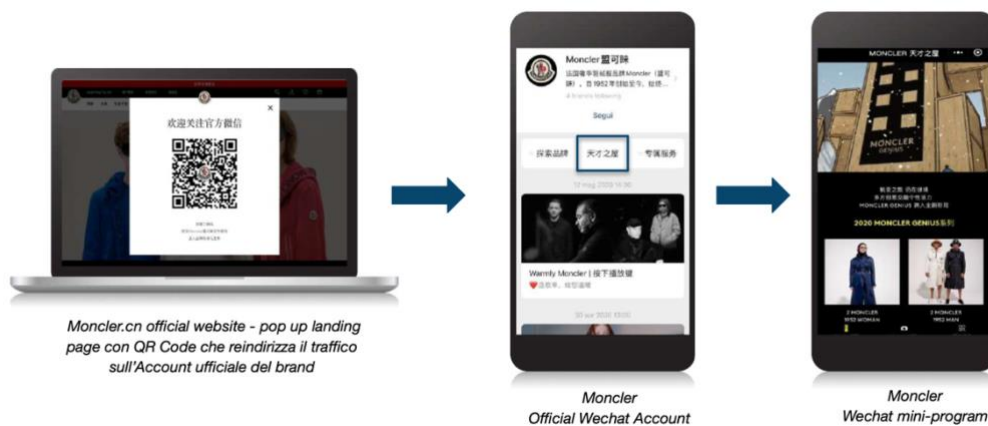
digital channels, offering innovative experiences to customers, driving the digital transformation, and spreading the digital culture inside the company.¹²³

Moncler’s approach involves the definition of a strategy for China that is consistent with the modus operandi of the brand in other markets but tailored based on a deep knowledge of local customs and trends.

The company is present on WeChat with 496 thousand followers, Weibo with 431 thousand followers, Douyin with 32 thousand followers and Xiaohongshu with 27 thousand followers.¹²⁴ It entered WeChat and Weibo in 2013, while the other two platforms in 2020.

WeChat is among the most relevant for the company because it is directly connected to its Chinese e-commerce site.

Figure 3.3 – Moncler.com and Moncler WeChat



Source:

https://promositalia.camcom.it/kdocs/1992087/betelli_webinar_promos_em_3010_compressed.pdf

Firmly convinced of the great opportunity offered by Tencent’s app, Moncler launched its first WeChat store on the Mini Program platform in 2017, to which Chinese consumers reacted very positively.

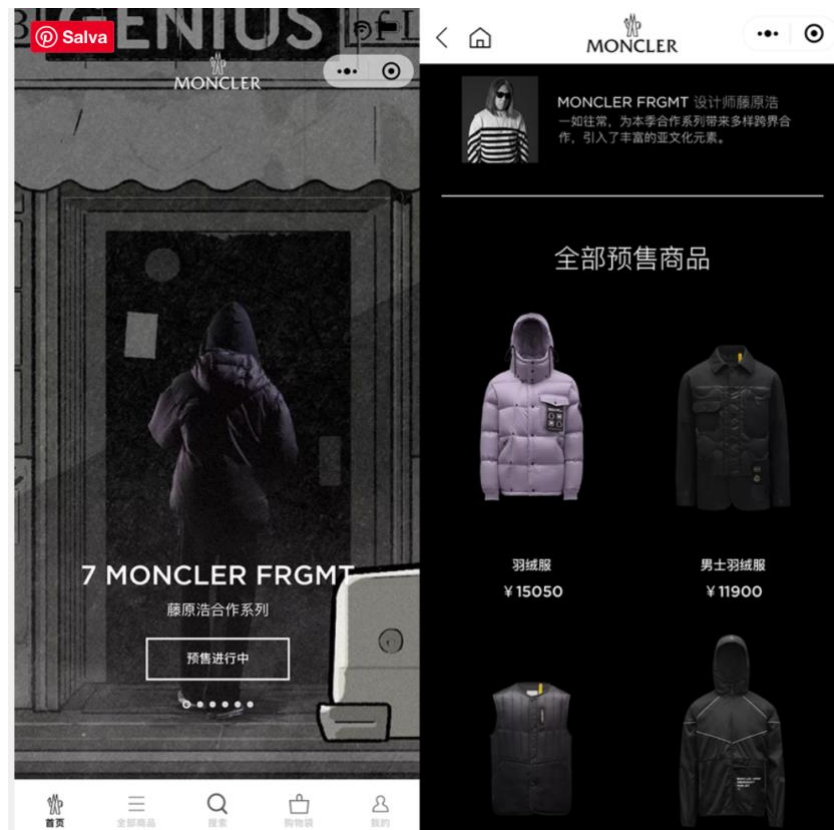
One of the most successful collection drops is the 7 MONCLER FRGMT HIROSHI FUJIWARA of 2021. The collection was released first on the brand’s WeChat Mini Program on July 5, and then offline on July 8. Two SKUs (Stock Keeping Unit) sold out within three minutes, and five

¹²³ Moncler Group, *Management Report at 31 December 2020, 2021, cit.*, p. 23

¹²⁴ Moncler Group, *Dichiarazione consolidata non finanziaria 2020, 2021*, p. 140

sold out in 12 hours. Hiroshima Fujiwara – a famous Japanese streetwear designer, particularly appreciated in China – partnered with Moncler to deliver a wide range of products dominated by the color black.¹²⁵

Figure 3.4 – Homepage of Moncler’s drop of 7 MONCLER FRGMT HIROSHI FUJIWARA of 2021 in WeChat Mini Program



Source: WeChat Mini Program

A year before, Moncler hosted a livestream on Weibo for the launch of 7 MONCLER FRGMT HIROSHI FUJIWARA 2020 collection. The livestream resulted in 32 million views in one day.¹²⁶ Weibo was also the platform used by the former editor-in-chief Angelica Cheung to show appreciation for the Moncler Genius project, writing about the show on her Weibo account and complimenting the brand for the stimuli provided in the inspirational project. In addition,

¹²⁵ Wu W., *With An Eye To The Future, Moncler Is Winning The Long Game In China*, 2021, in Jing Daily, <https://jingdaily.com/moncler-hiroshi-fujiwara-genius-china/>

¹²⁶ Wu W., *With An Eye To The Future, Moncler Is Winning The Long Game In China*, 2021, in Jing Daily, <https://jingdaily.com/moncler-hiroshi-fujiwara-genius-china/>

the Chinese actress and model Crystal Zhang attended the show in Milan and images of her were published on Moncler's Weibo account.¹²⁷

Apart from Weibo and WeChat where the brand has the largest communities to whom it communicates the collections, events, product editorials and collaborations, the brand is present on Xiaohongshu that is specially dedicated to a more "fashion" community, therefore on this platform it publishes contents more oriented to the latest collection launches. Xiaohongshu is also used to increase the KOL visibility and to drive to stores. Collaborations with celebrities and KOLs are important for the brand, especially for their ability to have an immediate and positive impact on sales and for allowing the company to engage with consumers more closely.

Douyin is used for the branding and is dedicated to Gen Z with short videos made by local creators. It is especially used by young Chinese consumers in the pre-purchase phase, to look for information and reviews of products in an enjoyable way. For Moncler, it satisfies the purpose of reaching young consumers and increasing brand awareness and visibility among them.

Even if the brand is still not officially present on Tmall, the Genius project was launched on the platform in October 2018 with the opening of a three-week online pop-up store on Tmall Luxury Pavilion. According to what has been stated in several conference calls the Tmall launch is under discussion and is likely to take place in 2022.

Along with online initiatives, Moncler develops projects also to engage with Chinese consumers offline. As a matter of fact, the importance of the offline channel and its integration with the online must not be forgotten. Nowadays customers are looking for omnichannel experiences allowing them to have direct contact with the brand at every moment of their journey.

For instance, in October 2020 it launched the Moncler Young Icons collection, exclusively for China. The project took place at the Shanghai Reel Square and aimed at exploring audio-visual installations in an immersive space experience while fostering a dialogue between contemporary art and fashion. The installation was created by the Los Angeles-based multi-media artist Reif Anadol and drove social traffic on Weibo thanks to shared images from the

¹²⁷ Gaskin S., *Moncler Advances its "Genius" Strategy in China*, 2018, in Jing Daily, <https://jingdaily.com/moncler-advances-its-genius-strategy-in-china/>

event, therefore creating a connection between the two channels – offline and online. Regarding the social aspect, the company released a campaign video of 45 seconds starring three Gen-Z talents, namely the actor Shi Pengyuan, the dancer Su Lianya, and the model Yang Yingge, obtaining over 5 million views on Weibo in one week.¹²⁸

Another example is the Fujiwara 2020 Collection that was livestreamed on Weibo with the participation of the singer and actress Song Qian (who tried on different styles showing the versatility of the collection and driving sales especially from the female audience), the streetwear KOL Li Chen who acted as a TV show host, and the stand-up comedian Pang Bo. The livestream was hosted in two different places: a pop-up ramen noodle stand and a futuristic stage set. At the same time, offline initiatives were carried out, with a food truck driving around Shanghai malls with the purpose of increasing traffic in its stores. At the Fragment Truck it was possible for visitors to register their WeChat and receive in return gifts. The event lasted three days – from June 30 to July 2 – until the date of the global release of the collection. The project was successful with 31.6 million views on Weibo, overcoming Chanel's and Gucci's livestream record on the platform (23 million and 25 million respectively). Among the reasons behind this incredible success is the hyper-local strategy adopted by Moncler, involving a local network of celebrities, as well as e-tailers, partners, and wholesalers.

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3.4 Distribution strategy

Moncler is present in all the most important markets, through the retail channel, consisting of directly operated mono-brand shops (Directly Operated Store, DOS), through the online shop, the wholesale channel represented by multi-brand shops, shop-in-shops (wholesale outlets) in luxury department stores and in the major airports, as well as online sites specialized in the sale of luxury goods (e-tailers).¹³⁰ Moncler's strategy focuses on the control of distribution, whether retail, wholesale or digital. In its distribution model, Moncler looks for selectivity, quality, and sustainability in the choice of partners. The company places great emphasis on

¹²⁸ Wu W., *How Moncler Won The Luxury Gen-Z Market In China*, 2020, in Jing Daily, <https://jingdaily.com/moncler-china-initiative-edward-lai/>

¹²⁹ Zheng R., *How Moncler Found the Perfect Recipe for China's Post-COVID-19 Market*, 2020, in Jing Daily, <https://jingdaily.com/how-moncler-found-the-perfect-recipe-for-chinas-post-covid-19-market/>

¹³⁰ Moncler Group, *Consolidated Non-Financial Statement 2018, 2019*, p. 26

the fact that its products are designed, manufactured and distributed following a business model characterized by direct control of all phases during which the greatest value is created. The majority of Moncler's revenues come from the retail channel, consisting of DOS and online. As of 31 December 2021, Moncler had 64 shop-in-shops (+1 compared to one year before) and 237 DOS (+18 compared to one year before). Included in the new openings are the most important ones of Milan Galleria and Chengdu Swire.¹³¹ The store in Chengdu has emerged as very digital and connected to consumers. In fact, thanks to the collaboration with the emerging Chinese artist Gan Jian, the store presents spaces contaminated by art creating an audiovisual artwork and being able to reach especially the younger generations.

Moreover, in 2021 Moncler signed a deal with Group 66, planning 4 openings in the following 2 years: Wuhan, Shenyang Forum 66, Dalian Olympia 66, and Plaza 66 in Shanghai.¹³²

Moncler plans the new openings following a very selective distribution strategy that has always characterized its *modus operandi*, in which what matters is not the number of stores that the company is able to open, but rather the location of these stores.

Therefore, apart from the new openings, the plan for 2022 is to upgrade the stores already present in the country, with projects of relocations and expansions to increase respectively their visibility and size.

As mentioned before for the boutique in The Village in Beijing, the store concept and architecture are distinctive features of the brand. Refined in 2009 after the first opening in Paris, Milan, Hong Kong and London, the aesthetic choices for the stores are precise. Moncler's boutiques are in the most elegant city centers, are designed by the architectural firm Gilles & Boissier creating a warm Haute Montagne atmosphere that is coherent with the brand's history. As an example, for the flagship store inaugurated in Hong Kong in 2017, the exterior, in harmony with the interior design, is decorated with white Calacatta marble and burnished brass. It has two large windows, one overlooking Canton Road and the other facing the interior of the mall. The ceilings and furnishings are embellished with fine woods and beige leather, creating a pleasant contrast with the white Calacatta and black Marquina used for the floors. The elements are simple but refined, characteristics that once again contribute to the

¹³¹ Moncler Group, *Annual Report 2021, 2022*, p. 2

¹³² Moncler Group, *First Half 2021 Financial Results Conference Call*, 2021, p. 24

creation of a warm and elegant atmosphere, matching the Maison's stylistic codes and heritage.¹³³

Since 2020, Moncler has reconsidered its wholesale distribution policy, adopting a selective distribution system intended to ensure compliance with strict qualitative and quantitative criteria and to preserve a positioning consistent with the company. Therefore, to join and to remain within Moncler's distribution network all distributors have to be consistent with the image, prestige and reputation of the brand and to offer a high level of customer service. Moncler states specific criteria for its distributors, including where Moncler products are to be placed, how they are to be displayed, and the type of packaging, as well as the personnel skills, and the other brands sold by those distributors.

Moncler also regularly conducts audits of its business partners in accordance with the ISO 9000 standard, that are carried out by Moncler personnel and by independent third parties to verify the management of the brand and the compliance with the company's criteria.¹³⁴

Moncler's distribution logistics supplies around 75 countries in which the company is present, as well as the different sales channels in each of them. It stated that implementing a strategy of integrated development of its distribution channels is crucial for a sustainable growth.¹³⁵

3.5 Covid-19 impact

Since the outbreak of the pandemic, Moncler has faced several challenges, trying to turn them into opportunities. Among these are the well-known widespread lockdown and travel restrictions. China has been defined as a focus, and especially because of travel restrictions, the attention has moved on locals, resulting in the double-digits growth of local clientele. Considering Moncler's stores in the country, some short opening hours or temporary closures were applied, and 3 stores were permanently closed.¹³⁶ The logistics system has also faced many challenges, from continuous changes in the supply locations and transport modes (related to the reduced air traffic) to the increase of maritime traffic volumes and to the

¹³³ Moncler Group, *Moncler apre un nuovo flagship store in Asia Pacific ad Hong Kong harbour city, canton road*, 2017

¹³⁴ Moncler Group, *Client Experience 2.0*, <https://www.monclergroup.com/en/sustainability/be-fair/client-experience-2-0>

¹³⁵ Moncler Group, *Annual Report 2021*, 2021, cit, p. 15

¹³⁶ Moncler Group, *Nine Months 2021 Interim Management Statement*, 2021, p. 6

acceleration in e-commerce development.¹³⁷ Together with the internalization of the e-commerce and the integration of Stone Island, Moncler has set itself the goal of rethinking its logistics system to better respond to external conditions and internal requirements, especially to meet the increasing need to provide an omnichannel service to customers.

Needless to say, with the pandemic the company found itself obliged to postpone what did not constitute a priority to focus rather on essential projects. As declared by the company, the main interest has been to protect people and reinforce the brand and the community, relying on a sense of belonging and on a business model that is defined “flexible, agile, and most important, reactive”¹³⁸. Although in the first part of 2020 revenues declined by 11% at constant exchange rates, Q4 revenues increased by 8% driven by China and the growing investment on online. The strong recovery in the last quarter of the year saw accelerations in all regions. Asia as a whole rose by 36% in that period (with full year at +2%), in particular thanks to the outstanding performance of Mainland China (+60%), followed by Korea and Japan.

Since the emergence of Covid-19 pandemic, Moncler has pointed out some key challenges and trends that were already present, but that experienced a significant acceleration with the pandemic. First of all, as mentioned before, Moncler has been focusing on the so-called “new locals”, meaning those Chinese that before the pandemic used to travel and buy abroad and that are now making purchases inside the country. The company perceived the importance of investing in them and thanks to clienteling action (for instance private appointments and distance sales) it was able to reactivate almost 40% of them during 2020.

Among the most relevant aspects is the e-commerce acceleration. The company strongly believes that to increasingly involve the community an omnichannel approach sustained by the digital is fundamental. The Omnichannel New Experience (ONE) project developed by the company involves the internalization of Moncler’s e-commerce channel, that started in 2019 in Korea, was extended in 2020 in the United States and Canada and was completed during 2021 – in May with EMEA, followed by Japan in July and China in October. The internalization of its e-commerce website is a step that is considered fundamental for enhancing the digital culture and being ready for future challenges in a world that is increasingly digital.

¹³⁷ Moncler Group, *Logistics System*, <https://www.monclergroup.com/en/sustainability/act-on-climate-change/logistics-system>

¹³⁸ Moncler Group, *Full Year 2020 Results Conference Call*, 2021

In the first half of 2021, Asia – which includes Asia Pacific (APAC), Japan and Korea – has emerged as the best performing area. In particular, Mainland China almost doubled with respect to 2019.¹³⁹ In the first 9 months of 2021, Asia generated €468 million, contributing 46% of total revenues. In Q3 there was a rise of 24% driven by China, and the same did Korea, while the rest of APAC and Japan suffered from COVID restrictions. Looking specifically at China, Moncler experienced an outstanding acceleration back to pre-Covid times, with Q3 stronger than the two quarters before, that had already delivered good results, and Q4 with a revenue growth close to triple digits. The company has been able to compensate the lack of Chinese consumers in other continents like Europe and America with the local market, therefore compared to 2019, now the Chinese cluster is totally developed in China, while before it was for at least a half spread all over the world.¹⁴⁰

3.6 Digitalization

With the pandemic, Moncler has further accelerated its digital transformation following an increasingly integrated digital vision intended to personalize the customer experience. The company firmly believes that digital is a fundamental tool for brand communication and to allow the business to grow on a global level. For this purpose, 5 strategic pillars are identified, constituting the Moncler Digital Hub. They are D-Commerce, D-Marketing, D-Experience, D-Intelligence and D-Strategy & Culture.

D-commerce deals with the management of buying and merchandising, with the aim of achieving online sales objectives and a sustainable business growth.

D-Marketing is responsible for creating tailored content for all the touch points of the consumer's journey. With the pandemic, D-Marketing has dedicated particular attention to the online and omnichannel services.

D-Intelligence is committed to the improvement of the performance and growth opportunities through an analysis of quantitative and qualitative data. In 2020 all key company's internal data sources have been integrated developing the Big Data project having as aim the creation of a unique and complete view of the brand.

¹³⁹ Moncler Group, *First Half 2021 Financial Results Conference Call*, 2021, cit, p. 8

¹⁴⁰ Moncler Group, *Nine Months 2021 Interim Management Statement*, 2021, cit, p. 20

D-Experience is designed to take care of the exchanges with consumers, by simplifying these interactions on all channels, offering an enjoyable experience. With the pandemic, moncler.com has been optimized and specific customer-centric omnichannel features have been developed.

Finally, the last pillar, D-Strategy & Culture, is in charge of the development of digital business value and the dissemination of a digital culture within Moncler. The pandemic has enhanced this pillar making it crucial for creating the basis for a new digital transformation.¹⁴¹

Moreover, with the Covid-19 pandemic, Moncler has devoted great energies on a series of campaigns that detached from the traditional brand campaigns to better respond to the delicate situation. As a result, #WarmlyMoncler and #MonclerVoices campaigns were launched, with the former showcasing a retrospective of some of the most loved campaigns of Moncler, and the latter conceived as shot-at-home social media initiatives carried out by the brand's creative family and friends showing what Moncler means to them.¹⁴² All this was made to increase interaction and engagement with the community in a sensitive way.

Generally speaking, all Moncler's marketing initiatives throughout the phases of the value chain aim to guarantee coherence between the company's values, the product it delivers and how it is communicated to consumers. Engaging directly with customers throughout every touchpoint of their journey is a cornerstone of Moncler's approach, as well as responsibly conducting marketing and communication initiatives, being careful about "how, what, and with whom it communicates"¹⁴³.

The digital channel is intended to provide customers with a unique omnichannel experience, involving them in every step and responding accurately to their needs.

The ONE project mentioned before provides an experience of omnichannel services: *Click and Reserve*, *Click from Store*, *Return in Store*, *Exchange in Store*, *Pick Up in Store* and *Book an Appointment*. Thanks to these services customers can move freely through the different channels and have a flexible, seamless experience. They can reserve an item online and then go in store to try and eventually buy it (*Click and Reserve*), order in store and receive the item comfortably at home (*Click from Store*), return or exchange the item in store even for purchases made online (*Return & Exchange in Store*), buy online and collect in store (*Pick Up*

¹⁴¹ Moncler Group, *Management Report at 31 December 2020, 2021*, pp. 23-24

¹⁴² Moncler Group, *Annual Report 2020, cit.*, p. 33

¹⁴³ Moncler Group, *Transparent and responsible communication*, <https://www.monclergroup.com/en/sustainability/be-fair/transparent-and-responsible-communications>

in Store), book an appointment with a Client Advisor in store (*Book an Appointment*). Furthermore, customers can also buy from home with the support of sales personnel (*Distance Sale*).¹⁴⁴ In 2020 this last option has developed significantly, allowing Client Advisors to use the app to conduct remote purchases by checking product availability, reserving products, allowing customers to pay wherever they are and receive products wherever they prefer.

3.7 Counterfeiting

Moncler was not spared from one of the phenomena analyzed in this paper and involving all international brands in the Chinese market: counterfeiting.

In December 2014 Moncler sued a Chinese company – Beijing Nuoyakate Garment Co., Ltd. – that was producing and selling down jackets with the brand’s logo, under the name “Monckner”, and making use of a website known as “monckner.com”. One year later, Moncler won the legal battle against this company, obtaining RMB 3 million (around €420,000) of damages as awarded by the Intellectual Property (IP) Court in Beijing. According to China’s new trademark law of 2014, this amount was the maximum payable in the event that judges did not have sufficient evidence to establish the damage suffered. In fact, even though Moncler provided sufficient evidence of counterfeiting, it was not able to provide direct evidence of the loss suffered; moreover, Nuoyakate did not disclose the profit obtained from the sales of clothes that infringed Moncler’s trademarks.¹⁴⁵ As stated by Moncler it was “a groundbreaking case, believed to be the first judgment under China’s new Trademark Law to grant maximum statutory damages.”¹⁴⁶

Another victory is that of 2016, when Moncler obtained the transfer of 50 domain names registered by three residents in China and used to sell counterfeits. This practice of registration of a domain name containing a famous trademark to force the owner of the brand to buy it back at a higher price is known as cybersquatting and to fight against it the UDRP (Uniform Domain-Name Dispute-Resolution) procedure is used. The World Intellectual

¹⁴⁴ Moncler Group, *Client Experience 2.0*, <https://www.monclergroup.com/en/sustainability/be-fair/client-experience-2-0>

¹⁴⁵ Mayer Brown JSM, *IP & TMT Quarterly Review*, 2015, pp. 2-3

¹⁴⁶ Turra A., *Moncler Wins Civil Case Against Chinese Counterfeiters*, 2015, in WWD, <https://wwd.com/business-news/legal/moncler-wins-legal-battle-against-chinese-copmany-counterfeit-10279900/>

Property Organization in Geneva ordered the transfer of these domains that had been registered in December 2015 by three Chinese individuals – probably operating as one party – that associated Moncler with words like “outlet” and “sale” attracting the attention of consumers and directing them to websites similar to the official one, where deceived by authentic images, users bought counterfeited products instead.¹⁴⁷

Being synonymous with luxury products, throughout the years the brand has devoted significant resources to protect its intellectual property rights and consequently increasing consumers’ confidence in the authenticity and quality of its products. For these reasons, Moncler has established a specialist internal Intellectual Property and Brand Protection (BP) Department to protect intangible assets, both online and offline, in over 100 countries. The fight in physical markets includes initiatives such as filing customs declarations to stop non-authentic goods, monitoring critical markets, seizing counterfeit merchandise from manufacturers and retailers. In addition, the local authorities in the various countries receive specific training in order to better combat illicit trade.¹⁴⁸ Despite the pandemic, in 2021 Moncler was able to carry out 30 trainings directed at customs officers and enforcement authorities.¹⁴⁹

Moncler brand protection includes also the digital environment, where the company constantly monitors major e-commerce platforms, social networks, search engines and websites which sell counterfeit products or violate the IP of the brand. Enforcement in the digital world aims at closing unauthorized online sites and removing advertisements from social networks.

Moreover, from 2009 Moncler started to adopt an anti-counterfeiting system for all its products with tools that guarantee the authenticity of those items via advanced technology. It is therefore possible to register and check Moncler products on code.moncler.com by scanning the NFC (Near Field Communication) tag on the label.

Moncler has also a site dedicated to brand protection, where frequent updates are made to disclose its incredible commitment to this matter (brand-protection.moncler.com).

In 2018 the constant fight against counterfeiting resulted in the seizure of more than 75,000 products and 284,000 fake production accessories (logos, labels, buttons, zips, etc.). In the

¹⁴⁷ Moncler, *Latest news*, https://brand-protection.moncler.com/#_latest_news

¹⁴⁸ Moncler, *Anti-counterfeiting Label*, https://brand-protection.moncler.com/#_anti_counterfeiting_label

¹⁴⁹ Moncler Group, *Relazione Finanziaria Annuale 2021, 2022, cit.*, p. 23

digital sphere, Moncler closed more than 98,300 auctions for the sale of counterfeit products and almost 3,000 sites.¹⁵⁰ The activities carried out in China deserve a distinct mention, as Moncler obtained a significant success when the Beijing High Court awarded Moncler RMB 850,000 of compensation by confirming the crime of counterfeiting in three civil lawsuits against the 3.3 Mall and two sellers who were carrying out illicit business in the country.¹⁵¹ Given the importance of the digital channel and the further development of the online due to the pandemic outbreak, increasing attention is paid to monitoring online counterfeits. Incredible data are in fact also associated with 2021, when nearly 61,000 auctions of counterfeit items were closed, 440 sites were blocked, around 23,000 links to sites selling fake products were deleted from major search engines and almost 67,000 posts, ads and accounts promoting counterfeit products via social networks were removed.¹⁵²

3.8 Sustainability

Believing that the quality of products is made of technical characteristics but also of a responsible production respecting human rights and the environment, Moncler's commitment to sustainability is one of the cornerstones of its strategy.

Some of the main steps include the introduction in 2019 of a BIO-based and carbon neutral down jacket made with plant-based fabrics, in particular the fabric along with the lining, buttons and zips derived from castor beans. In that year Moncler also joined the Fashion Pact, a coalition of leading global fashion and textile companies, which along with suppliers and distributors, is committed to three main objectives: combating climate change, protecting the oceans, and safeguarding biodiversity.¹⁵³

It has increasingly strengthened its commitment to long term and sustainable growth on the basis of the 2020-2025 Sustainability Plan consisting of five strategic priorities: climate action, circular economy, fair sourcing, enhancing diversity, and giving back to local communities. Extended also to the acquired Stone Island, the plan includes the recycling of production waste, the widespread use of sustainable nylon while eliminating single-use plastics, the traceability of raw materials and close cooperation with production partners to further improve social and

¹⁵⁰ Moncler Group, *Annual Report 2018, 2019*, p.35

¹⁵¹ Moncler Group, *Annual Report 2018, 2019*, *ibidem*.

¹⁵² Moncler Group, *Management Report at 31 December 2021, 2022*, p.21

¹⁵³ Moncler Group, *Annual Report 2020, 2021*, p. 42

environmental standards throughout the supply chain. The plan also aims at enhancing diversity and promoting an increasingly inclusive culture, while supporting local communities with social projects and protecting 150,000 of the most vulnerable children and their families from the cold.¹⁵⁴

In order to reach these goals, different bodies cooperate. The Sustainability Unit plans the sustainability strategy which is presented in the Sustainability Plan that is submitted to Moncler Strategic Committee and then assessed by the Control, Risks and Sustainability Committee, that, once verified its consistency with the brand's strategy, expresses its opinion to the Board of Directors for the final approval.¹⁵⁵ The Unit is also responsible for the preparation of the Consolidated Non-Financial Statement, for the promotion of a dialogue with stakeholders, and – jointly with the Investor Relations division – for handling the enquiries coming from sustainability rating agencies and socially responsible investors (SRI).¹⁵⁶ Sustainability is promoted internally thanks to the presence of “ambassadors” chosen from each department with the function of promoting sustainability initiatives and awareness of social and environmental issues in the department they work. The Control, Risks, and Sustainability Committee consists of three non-executive and independent Directors who have to monitor sustainability issues, examine the Sustainability Plan and review the Consolidated Non-Financial Statement.

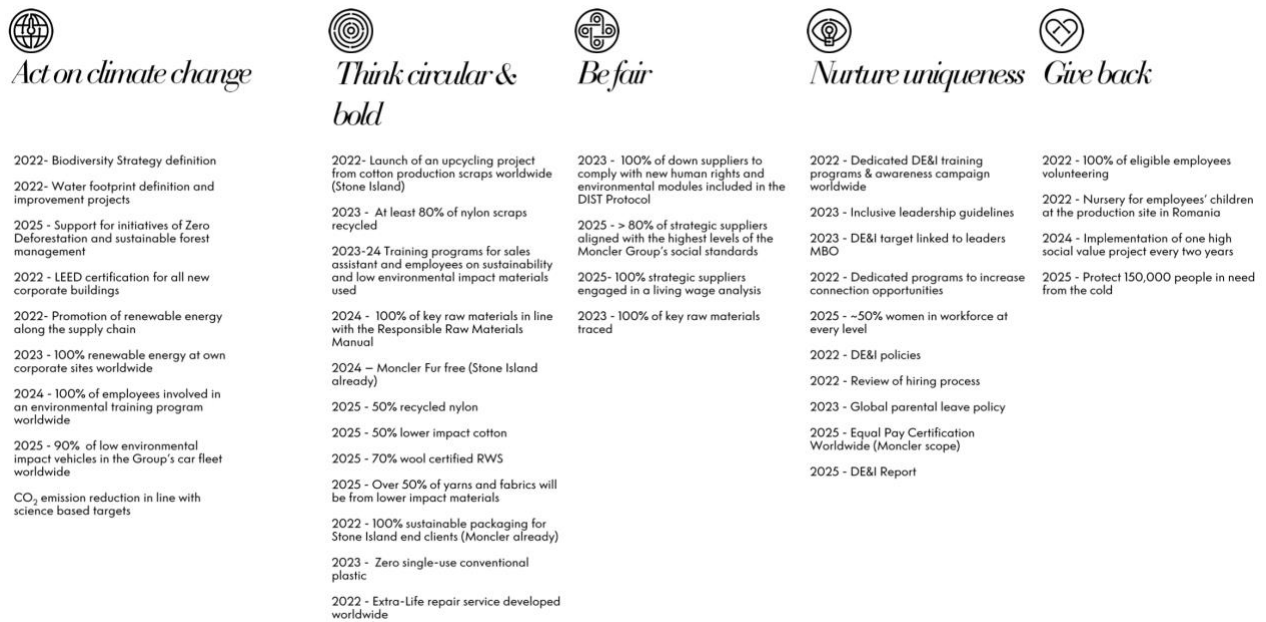
The following figure shows the main areas of the 2020-2025 Strategic Sustainability Plan with the main objectives to achieve.

¹⁵⁴ Moncler Group, *Sustainability Plan*,
<https://www.monclergroup.com/en/sustainability/strategy/sustainability-plan>

¹⁵⁵ Moncler Group, *Sustainability Plan*,
<https://www.monclergroup.com/en/sustainability/strategy/sustainability-plan>

¹⁵⁶ Moncler Group, *Annual Report 2021, 2022, cit.*, p. 65

Figure 3.5 – 2020-2025 Strategic Sustainability Plan



Source: Moncler Group, Capital Markets Day 2022

As part of the plan, Moncler launched two “Born to Protect” collections, the first of 2021 consisting of jackets for men, women, and kids made with sustainable materials. The second collection dates 2022 and extends to include clothing and accessories for Men, Women and Enfant, more precisely a range of products made from lower-impact materials such as recycled nylon, polyester, organic cotton, wool and down.

With regard to the Chinese context, the Moncler Genius project – that was widely appreciated in the country especially by young Chinese consumers – comprises sustainable looks conceived by the creative minds of the different designers. 30% of the Moncler Genius collection is made entirely of sustainable fabrics under the label “Moncler Born to Protect”. It is in fact the younger generation that expresses the greatest interest for the topic, increasingly asking for a sustainable fashion, from raw material to finished products, throughout the whole production line.

In the country, another important collaboration in the sustainable field is the one with Fujiwara mentioned before. The outcome of this collaboration is sustainably-led garments, such as puffer jackets made from organic cotton or quilted jackets made of recycled fabrics.

¹⁵⁷ Wu W., *With An Eye To The Future, Moncler Is Winning The Long Game In China*, 2021, in Jing Daily, <https://jingdaily.com/moncler-hiroshi-fujiwara-genius-china/>

For all the projects and initiatives carried out by the company, in 2021 Moncler has been confirmed for the third year in a row in the Dow Jones Sustainability Indices World and Europe, with the highest score (89/100) of the “Textiles, Apparel & Luxury Goods” industry according to the S&P Global Corporate Sustainability Assessment 2021. Moncler also received the Gold Award from S&P Global and for the first time took part in the CDP Climate Change questionnaire (that rates companies on a scale from A to E) obtaining A¹⁵⁸.

Considering the great interest in sustainability, Moncler is integrating it across the whole organization and the full value chain, making it a core component of its business model.

¹⁵⁸ Moncler Group, *Annual Report 2021*, cit., p. 65

Conclusion

The outbreak of Covid-19 pandemic has given rise to an exceptional situation, affecting all economies worldwide. The pandemic has introduced significant challenges in the luxury fashion sector: from store closures, to travel restrictions, to event cancellations, to a push towards digitalization and to the increasing sophisticated demand from consumers. Luxury fashion brands have faced these challenges and have been forced to find a way out.

What has emerged is that despite an initial period of difficulty, China recovered to pre-pandemic levels of economic activity faster than other countries, allowing luxury brands to overcome initial obstacles and invest again in the development of their businesses in the country. The rapid recovery allowed the consumer demand for luxury to increase, while other countries were still coping with the consequences of widespread lockdowns.

The two most important changes fostered by the pandemic are the generational shift of Chinese consumers, with the growing importance of Gen Z and Millennials, and the digital development contributing to the enhanced relevance of online channels.

With regard to the first change, Gen Z and Millennials have emerged as the most important customers to target, with the former being the group that is growing the fastest and the latter accounting for more than 70% of Tmall's luxury fashion consumers.

Being these consumers digitally savvy, the second change – the growing importance of online – appears unavoidable. In fact, these two groups of consumers represent the majority of users of the main platforms used by luxury brands in the country. The analysis carried out of the main e-commerce and social-commerce platforms highlights their main features showing how it has become necessary for luxury brands to be present in these to succeed in the digital age.

Even though the investment on online channels by luxury fashion brands started before the pandemic, it is definitely with it that this commitment has experienced a substantial increase.

As analyzed, from e-commerce platforms like Taobao, Tmall, JD.com, to social-commerce platforms such as WeChat, Xiaohongshu, Douyin and Weibo, there are several platforms that luxury companies should master to properly reach their target consumers. I believe that the company used in the last chapter as case study perfectly exemplifies the analysis carried out.

Moncler has in fact experienced a remarkable growth in the younger generations, to whom it dedicates specific collections trying to answer to their peculiar interests and needs. With the pandemic the company has devoted greater efforts in its digital development in China and has

increased its presence on the main local platforms, for example by entering Douyin and Xiaohongshu in 2020.

Despite the growing importance of online channels, the thesis highlights also the role of the offline experience for Chinese consumers who appreciate in-store shopping experiences especially thanks to the presence of sales assistants, with whom they establish interactions outside the store as well, with constant communication, mainly through WeChat.

Generally speaking, in recent years there has been an increase in the channels used by luxury brands in China, going towards an omnichannel approach. Following an omnichannel strategy, brands are able to leverage online and offline touchpoints, providing a seamless shopping experience, in which all channels are fully integrated, allowing consumers to freely switch between them.

The pandemic has also accelerated some trends that already existed – like the daigou phenomenon and the practice of counterfeiting – and speeded up some more recent – such as the attention to sustainability and the practice of online fashion shows. The first two phenomena have for long characterized the luxury fashion industry, but with the pandemic and in particular with the expansion of e-commerce in China they have further developed. Daigou merchants now have more channels to use for their business, both for selling but also for implementing a relationship of trust with consumers through frequent communication via online platforms. The same applies to counterfeiting, a practice enhanced by the widespread use of digital platforms, among which even the most popular such as Alibaba have been accused of supporting counterfeits.

With the pandemic, Chinese consumers have reconsidered their relationship with nature, being increasingly afraid of the consequences of the high levels of pollution affecting the country. From this concern arises a sense of responsibility towards the environment and a greater interest in sustainability. As a result, many luxury brands have increased their efforts on the matter using sustainable materials in their collections or setting concrete goals to reduce their environmental impact. Moncler represents again a great example of this commitment since it has made of sustainability one of the cornerstones of its strategy, trying to integrate it at all levels, from the choice of partners to the use of sustainable materials, to initiatives to act on climate change, promote a safe workplace or even protect people in need

from the cold. The company's commitment is clearly stated in the 2020-2025 Sustainability Plan which sets out concrete objectives to achieve by a predetermined deadline.

Digital fashion shows have also been a novelty. Unable to organize physical events, many brands started to hold digital shows, attracting many customers who could watch the show using their mobile devices and experimenting with new ways to interact with them.

To conclude, in my opinion, the analysis carried out becomes particularly relevant if the prospects of China's luxury fashion market are taken into consideration. According to Bain & Company, sales of luxury goods in mainland China are more than double in 2021 compared to 2019, accentuated as highlighted throughout the thesis by the repatriation of luxury spending that saw Chinese consumers making purchases domestically instead of abroad, mainly because of travel restrictions. Thanks to the average increase of disposable income of Chinese consumers and to the flourishing economy of the country, regardless of future international travel patterns, China's share of the global luxury market is expected to continue to grow, with the country being predicted to become the world's largest luxury goods market by 2025. Luxury brands are asked to redefine their strategy to meet the new customer demands, especially the younger generations – Gen Z and Millennials – who are set to become the main customers for luxury purchases, accounting for more than two-thirds of global purchases.¹⁵⁹

¹⁵⁹ D'arpizio C., Levato F., Prete F., Gault C., De Montgolfier J., *The Future of Luxury: Bouncing Back from Covid-19*, in Bain & Company, 2021, <https://www.bain.com/insights/the-future-of-luxury-bouncing-back-from-covid-19/>

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