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**Distribution and Retail strategies
of Italian fashion brands
in China:
Florentia Village case study**

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前言

这篇论文的题目是意大利企业在中国奢侈品市场的主要分销和零售策略，主题是关于 Florentia Village "佛罗伦萨小镇" 的，它是在中国正宗的意大利风格开放第一奢侈品购物的广场，尤其是卖意大利高端标签。

这篇论文分为三章：

第一章主要分析中国奢侈品市场和中产阶级消费增长的主要消费趋势。

今天的中国市场价值 170 亿欧元，增长率为 25%，是继美国和日本之后的第三世界奢侈品市场。新兴的中产阶级是一个在中国奢侈品消费的主要驱动力。

据 CLSA (Credit Lyonnais Security Asia) 进行的一项调查显示，随着中产阶级奢侈品的主要消费群体不断扩大，将使奢侈品市场成为第一个主要消费市场，在 2020 年之前，消费需求将达到全球销售额的 44%。中产阶级更复杂和西化，有更高的收入来支持他们的国际化和复杂的生活方式。

奢侈品消费目前主要来自个人生活用品，如服装、饰品、箱包、化妆品、香水、手表和珠宝等著名品牌。个人奢侈品的消费上升也与礼品文化有关，特别是在商业环境中，公司的供应商、雇主习惯于这种行为，以此来简化自己的工作晋级和改善 "关系"。

今天的中国消费者高度唯物主义可以被视为导致中国的经济发展阶段从 1978 开始，并标志着中国特色社会主义的思想从共产主义制度的重要转变。中国消费者买奢侈品的主要目的，不但是为了满足自己的欲望，而且显示自己的社会地位。

儒学在中国形成中国消费者要符合社会的集体主义态度，也形成面子的观念，这是说影响人们在社会中有的地位。

政府最近推动中国经济在世界的发展，此举在很大的程度上影响着消费的增长。随着中国城市公民收入的增加，人们能够消费更多。按照 2009 GfK 中国研究的报告，从中国城市消费者的生活方式经历来看，从“生存”的生活心态到“享受生活”心态的变化，其中 54% 的人追求更有趣的生活方式。

由于消费者已经改变了他们的生活方式以及，他们的社会地位，并渐渐地了解大众产品的使用，所以他们开始更加有选择地消费。一般来说，中国消费者的消费对象

是从大众产品转向优质产品。外国品牌仍然在高端市场中占据领导地位，特别是在护肤、汽车、运动服装和时装等高端细分市场。

从现在的城市家庭收入来看，年收入在 9000 到 16000 美元之间的中产阶级占主导地位，占有所有城市家庭中的 54%。然而，收入在 16000 至 34000 美元之间的上层中产阶级家庭只占 14%。

中国的新兴中产阶级分为不同的几代人，其中最重要的是以 2 代的“G2”命名。这些 G2 的消费者通常是 20 岁左右的青少年，出生在 20 世纪 80 年代繁荣时期，此时正是中国向世界开放，呈现最显著的发展时期。根据 研究的数据调查报告，这一代人一定更喜欢消费，特别是买西方的产品。因为西方品牌的质量更高。一般来说，与大众品牌相比，他们更喜欢小众的品牌。

上层中产阶级的富有的消费者年龄群体主要在 20-60 岁之间。他们一般集中在大城市，比方说 北京、广州、上海。大部分的上层中产阶层是企业家、高层管理人员和企业主等这些体面的职业。另外，上层中产阶层的消费者是更精明的买家，因此他们通常更有能力购买国际著名和高超工艺的品牌，这又成为作为购买奢侈品最重要的原因之一。

第二章分析中国奢侈品市场上的企业采用分销策略和零售策略，主要关注时尚行业的零售业态。

近二十年以来，中国发生了经济、政治和社会的巨大变化，经济从中央计划体制转变为一个更加市场化的倾向。近十年来这一事件带来了实质性的发展，尤其是体现在分配制度的结构中。

从 2014 年起，中国政府让外国投资企业申请中国批发许可证，这反而使外国企业为了进行经营批发，更加强了与中国企业建立合资企业的做法。

分配制度分为间接、直接和网上的渠道。间接渠道的特征是制造商和最终消费者阶段之间存在一个或多个中间商。有关意大利公司进入中国市场的中间人有以下几种：

- 1、销售代理
- 2、国内外经销商
- 3、 制造商
- 4、仓储式超市
- 5、外商投资商业企业

直接渠道意味着在目的地市场中，制造商与最终消费者之间不存在中间人。由于网络的频繁使用，网络渠道得到了迅猛的发展，其传播已成为企业和小规模公司普遍采用的一种营销手段。在线渠道利用电子商务作为一种工具，可以促进不同用户之间的直接联系。比方说在线渠道可以促进制造商和消费者、零售商和消费者或消费者自己所有之间的关系。

第二部分分析中国零售市场的零售业态及其零售业态的分类。分发格式基于杂货店和非杂货店的区别。中国杂货店的分布主要包括：超市、大卖场和便利店，而非杂货配送包括：百货商店和其他零售业态经营服装业。

第二部分是描述服装行业零售业态，以及销售点对品牌尤其是意大利制造业品牌提升的重要性。时装行业使用的主要零售业态有：

- 1、旗舰店
- 2、单一品牌销售点
- 3、购物中心

最后一章介绍佛罗伦萨小镇的案例研究。佛罗伦萨小镇是中国首座纯正意大利名品奥特莱斯的殿堂，以意大利经典建筑风格为设计灵感，通过广场、游廊、喷泉、纪念性建筑物等意大利经典元素的应用，将古罗马、文艺复兴时期的佛罗伦萨一一呈现。本章还通过分析佛罗伦萨小镇在中国兴建的 6 家包括天津、上海、广州、香港、武汉和成都在内的主要建筑设计特点和零售策略。

此外，本章说明佛罗伦萨小镇会员俱乐部所具有的特点以及提供的优惠活动，会员可以参加跟意大利有关系的许多活动从而收到高端的礼品。最后分析佛罗伦萨小镇采用的交流策略，以及最后的策略在电子商务网上的销售情况。

CHAPTER 1. LUXURY MARKET IN CHINA

1.1. CHINA: A NEW LEADING LUXURY MARKET

1.1.1. CHINA'S ECONOMIC OUTLOOK

China is at a new starting point, from 2000 to 2012 has seen remarkable growth rates, surpassing Japan and ranking second only to the United States, in GDP world rank. In 2012, that particular year, China per capita GDP reached 6,194 Yuan, ranking first among the other BRIC countries India, Russia and Brazil (Statista, 2017).

Research undertaken by McKinsey suggests that, barring major world economic shocks, China's GDP is still forecast to grow at an annual rate of some 7.9 percent over the next ten years compared with 2.8 percent in the United States and 1.7 percent in Germany, and as a result it is foreseen to continue to rank second by 2020 (Exhibit 1 & 2).

The difference is that consumption, rather than investment, will be the China economic driving force. It will account for 43 percent of total GDP growth by 2020, compared with a forecast contribution from investment of 38 percent.

Exhibit 1. China's GDP growth rate (McKinsey, 2011)

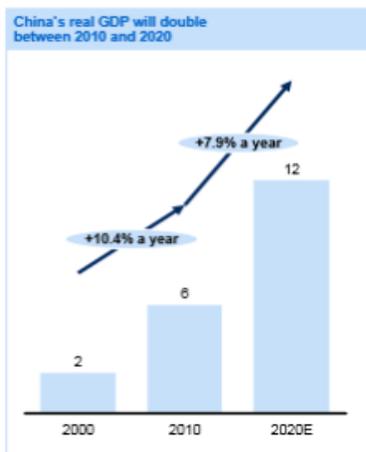
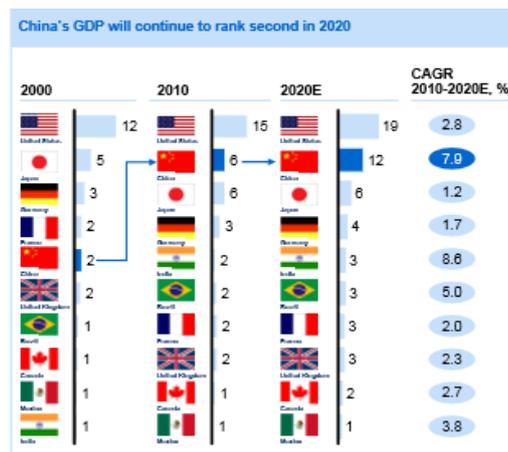


Exhibit 2. China's GDP continuing to rank second in 2020 (McKinsey, 2011)



If China manage to maintain the current level of growth, by 2020, Chinese GDP will account for 19 percent of world economic output, compared with 9 percent in 2010. However, GDP per capita will remain relatively low for some time to come. It is forecast to be the equivalent

of \$9,000 across the total population, compared with \$57,000 in the United States in 2020 (Atsmon & Magni, 2012).

China future level of growth will depend on several factors: rising urbanization, government measures to improve social security and encourage private consumption, and financial sector and industrial reforms that will lead to the creation of service sector employment and increase incomes.

The current rate of urbanization is likely to be upheld. By 2020, some 850 million people, representing about 60 percent of the total population, will be living in urban areas, up from about 650 million in 2010. Around 20 percent of these 850 million will be first-generation migrants from rural areas. The process of urbanization is an important factor, since it is responsible to be the fuel of growth of the consumer market by widening the affordability and availability of goods (Atsmon & Magni, 2012).

Aggressive measures to boost private consumption are a key factor of the latest five-year plan drawn up by the government, with the main aim to rebalance the economy and secure more sustainable growth. At 46 percent of GDP, China's national savings are 26 percentage points higher than the global average, largely due to the household sector, with consumption correspondingly low (International Monetary Fund, 2017). The historic deficit in consumption has been largely attributed to three causes: the high rate of saving owing to people's concerns about the social safety net, low household incomes, and the structural focus on investment. The Chinese government has started to take some initial steps with the launch of a set of policies, in order to remove these constraints in the short and long term.

Concerns about how to pay for health care and retirement have thus far accounted for high personal savings. But the government is committed to extending social security by, for example, increasing retirement pension coverage in urban areas by 40 percent from 250 million people to 350 million by 2015. Regarding investments, continued industrial and financial reform could increase investment-related sources of income, while the developing service sector will create more jobs and higher incomes. Both developments will certainly be necessary to promote private consumption, an important fuel to China economy (Atsmon & Magni, 2012).

The expansion of China's economy will be mainly concentrated in its emerging cities: 14 of which will appear on the list of the world's top 25 cities in terms of absolute GDP growth for the next decade. By 2020, the GDP of some city clusters will be similar to that of some developed markets currently. The GDP of the Chengdu cluster, a region of 29 cities in western China, will be comparable to that of Austria in 2010, while the GDP of the Shandong

cluster will equal South Korea's present GDP. By 2020, GDP growth in the Shandong will balance that of Belgium.

Urban Chinese are currently earning more than ever before. Annual income rose 8.8 percent in 2009 to CNY 17,175 (USD 2,515) from 2008. This rapid growth is unique; developed markets like the US have seen household incomes rise by only 5 percent in the last decade, according to the Economist Intelligence Unit.

Despite the economic downtrend over the last two years, which brought China to take some relevant measures: depreciate currency, gyrate the stock market; urban Chinese consumers remain confident about their personal future finances. When asked about their expectations regarding future income, 55% of consumers were confident their incomes would increase significantly over the next 5 years, a mere 2 percentage-point drop from 2012. By comparison, only 32% of Americans and 30% of UK consumers agreed with the same statement in 2011.

According to McKinsey survey, the percentage of consumer who are strongly confident about own household increase are mostly localized in China inland cities, such as Kunming, Nanning, Xiamen-Fuzhou, Chang-Zhutan, Hefei, Chongqing and Yangzi Mid-low reach.

Regional differences in consumer confidence have widened. Whereas, confidence has slightly decreased in the Liao Central South city-cluster, and is now as low as 35%, confidence rose to 62% in the Nanjing city-cluster (Zipser, Chen & Gong, 2016).

In general, continued confidence is not stopping consumers from following their spending habits.

1.1.2. LUXURY MARKET IN CHINA: POSITIVE AND NEGATIVE DRIVERS

With a value of 17 billion euro and a growth rate of 25%, the Chinese market today represents the third world luxury market after the United States and Japan (Bain & Company, 2011).

However, during the past three years (2014-2016) the recent events of Brexit, the US presidential election and terrorism have all led to significant uncertainty and lower consumer confidence, hindering sales of personal luxury goods. As a result, the Americas and Asia (excluding Japan), the two major luxury markets, both contracted by 3% in 2016, while Europe declined 1%, primarily due to a decline in tourism.

Analyzing more specifically the case of Chinese luxury market, at current exchange rates, China contracted to €17 billion in 2016, representing a 2% decline. Growth rates had historically been strong in China, 19% from 2007 through 2014; but since 2014, China has

seen a more modest performance. However, in 2016, at constant exchange rates, the market grew 4%, the first sign of a revitalization in three years (D'Arpizio, Levato & Zito, 2016) .

China former slowdown was partly due to a weaker economic growth in China, as well as the growing trend of Chinese consumers travel abroad to buy luxury goods. Moreover, the recent ban on spending public funds on luxury items for gifting that took effect on 1 October 2012 ¹ might also have a negative impact on luxury sales in China. On one hand the main product categories such as cosmetics and personal care, women's wear and menswear witnessed an important growth, up by 15%, 15%, and 12%, respectively. While on the other hand, watches and jewelry categories registered a deceleration, the former recorded -5% growth, and the latter registered 5% growth in 2012 (Bain & Company, 2012).

Factors responsible of the Chinese luxury market downtrend are mainly two:

1. The increase of overseas consumption of luxury goods by the Chinese consumers
2. Growth of online luxury retailing

1. The increase of overseas consumption of luxury goods by the Chinese consumers

In 2012, Bain & Company estimated an overseas consumption (including Hong Kong and Macao) equal to 60% of the total Chinese luxury spending.

The rising motivation for Chinese consumers to buy luxury goods abroad rather than in their home country is partially due to the growing ease of travelling abroad, and the more accessible price of luxury goods sold abroad. The more simplified procedures for issuing visa to Chinese tourists has led to a huge jump in the number of Chinese outbound tourists in recent years. China National Tourism Administration claimed that the total number of Chinese outbound tourists exceeded increased by 15% in 2012. According to a report by KPMG, a majority of travelling Chinese consumers would purchase luxury items during their overseas trips (KPMG, 2013).

The thick price gap between luxury goods sold in China and in overseas countries has also generated a massive luxury consumption outflow. The growth rates were 27 percent in 2014 and approximately five percent in 2015. High import duties and consumption tax levied on luxury goods imports have soared the prices of luxury goods in China ; and at that time weak Euro against RMB has further thickened the price gap. Besides, increasing rental and labor costs and a relatively inefficient distribution and logistics systems are some of the other

¹ In July 2012, the State Council, as part of the anti-corruption campaign, promulgated the "Regulations on the Affairs and Administration of the Government Agencies" effective 1 October 2012. According to the regulations, government agencies are prohibited from purchasing luxury goods.

factors that are attributable to the high prices of luxury goods in China. Therefore, 88.9% of Chinese consumers claim that lower prices, and a 83.5% say that guarantee of authenticity, are the two main factors leading them to prefer shopping overseas (ChinaDaily, 2015). As a consequence, in order to put a remedy to this tendency, many luxury brands such as Salvatore Ferragamo, Furla and Louis Vuitton, decided to deal with this new threats with the opening of new duty free shops in the main Chinese airports (Vianelli, De Luca & Pegan, 2012).

2. Growth of online luxury retailing

As China's online retail market is getting more mature, Chinese consumers are starting to become even more confident and interested in this new means of purchasing luxury goods. McKinsey & Company's study also indicated that a small but growing number of Chinese shoppers are purchasing luxury goods on foreign online platforms. The survey pointed out that among the surveyed respondents who made purchases of luxury items at least once online in the past year rose from 2% in 2010 to 8% in 2012, and the amount they spent online increased from 1% to 3% of the total expenditure (Atsmon, Ducarne & Magni, 2012). A growing number of Chinese consumers in fact usually rely on foreign luxury online platforms like Yoox.com and Neiman Marcus, since they offer free international shipping to China.

Despite the huge growth potential of the online luxury market, selling authentic luxury products through online platforms is not easy, since China's online retailing market is still not very well-regulated. Problems such as online fraud, counterfeited luxury products, and transaction security remain some major concerns. Supportive government policies to set out a fair and secure business environment for online retailing are necessary. At the same time, brands and online luxury retailers should also be more perseverant in building the reputation of their online platforms. For example, secoo.com, a B2C platform selling luxury products, not only provides luxury products appraisal and evaluation services to ensure the products sold via its online platform are authentic, but also provides other value-added services such as handbag cleaning and product repair services for their customers. The violation of intellectual property rights, is a relevant issue which has also impacted several sectors of the Made in Italy currently present in China. Many flagship products of the most famous Italian brands are often counterfeited and sold as authentic luxury products in the Chinese open markets, causing a substantial economic damage to this companies and ruining the brand image of the made in Italy products in the world. Other than the application of supportive government policies in the country, a few companies themselves are trying to defeat this important issue through the release in the market of products made of a special material, which are more

difficult to replicate and therefore, less likely to be counterfeited (Vianelli, De Luca & Pegan, 2012) .

Despite the above mentioned factors responsible of the decrease of luxury goods consumption, other factors instead are positively contributing to the expansion of Chinese luxury market.

1. Growth of household disposable income in China.

According to the National Bureau of Statistics of China (NBS, 2012), growth of household disposable income has been most outstanding in the highest income segment, followed by the high income and upper middle income segment, all registering, from 2000 to 2011, double-digit compound annual growth rates of 14.5%, 12.8% and 12.1%, respectively. These groups of individuals often have an insatiable appetite for luxury goods, so as a result they are considered to be passionate consumers. It is also expected that household income will continue to rise as the Chinese government will double the per capita household income by 2020, in order to give a further boost to domestic consumption.

2. The number of wealthy individuals, composed especially by the middle class, is soaring at a rapid pace and so is the number of luxury sales.

According to Hurun Wealthy Report 2012, there were 1,020,000 wealthy individuals in China with personal wealth of 10 million Yuan or over by the end of 2011, up by 6.25%. The number of individuals with personal wealth of more than 100 million Yuan reached 63,500 in 2011, increased by 5.8%. In 2011, most part of wealthy individuals were located in Beijing, followed by Guangdong, Shanghai, Zhejiang, Jiangsu and Fujian. 84% of the wealthy individuals live in the coastal areas in China, while less than 20% of the wealthy individuals live in the Northeast, Southwest, Central and Northwest China.

On the other hand, the burgeoning middle class is one of the major forces driving luxury consumption in China. According to a survey undertaken by CLSA (Credit Lyonnais Securities Asia), the growing expansion of the middle class, main consumers of luxury goods, is going to turn the luxury market into the first one with a demand for consumption covering 44% of global sales before 2020. The middle class, which is more sophisticated and westernized, has higher income to support their international and sophisticated life style.

3. Increase of the number of credit card users:

According to China Banking Association, in 2011, China's credit card transactions reached 7.75 trillion Yuan, up 48%; the number of credit cards issued was 285 million, up by 24.3% .

MasterCard forecasted the number of credit cards in China to reach 900 million by 2020 (Fung Business Intelligence centre, 2013) . The rapid expansion of the credit card market is another determinant factor that will drive luxury sales in the country.

1.1.3. LUXURY SPENDING TRENDS IN CHINA

Consumption of luxury goods currently comes especially from personal goods such as clothing, accessories, bags, cosmetics, perfumes, watches and jewelry of well-known brands. In the luxury fashion and accessories market, China is the only country in the world where ready-to-wear products for men register higher sales than women' wear. This peculiar trend depends mainly on the financial autonomy and control on own budgets men have, whereas women in China with an active business life and independent budget, who could afford this kind of products are much fewer (Chevalier & Lu, 2009). As a main consequence, a growing number of Chinese consumers appears to pay more attention to own personal look and to be more interested in buying branded products as well. Many are the Made in Italy haute couture brands distinguishing themselves especially for dressing the Chinese male consumer of the élite class, such as Ermenegildo Zegna which was the first one stepping into the Chinese market in 1991, by opening its own boutique and becoming best-selling men's luxury apparel brand in China.

The rising consume of personal luxury goods is also connected with the culture of gift, especially in a business context, where company suppliers, employers are used to this behavior, as a way to simplify own carrier advancement and improve the *guanxi*. According to CLSA statistic data, 20% of the Chinese consumers purchase luxury goods such as apparel, bags, watches and jewelry for making gifts, particularly during important holiday celebrations, like the Chinese Spring festival (Vianelli, De Luca & Pegan, 2012) .

Beyond personal luxury goods, Chinese consumers increased their spending in categories such as luxury cars, fine food, luxury hospitality and designer furniture. The ownership of luxury cars, to a larger extent, has seen an important shift as a major symbol of wealth. This recent trend has led to more intense competition among the luxury car brands already occupying a great share like Land Rover, Jaguar, BMW, and the newcomers including Aston Martin, Lamborghini Spyker and Porsche (Statista, 2013) . While on the other hand, are holding steady categories like fine art, private jets, yachts and luxury cruises, and declining fine wines and spirits; despite their attractiveness, those categories are considered to be more

marginal, because too much expensive for mostly half of the Chinese consumers (D'Arpizio, Levato & Zito, 2016). In China as in the rest of the world, consumers demand of those super luxury products seem addressable just to niche markets.

According to the NBS, at the end of 2012, China's urban population stood at 712 million, with urbanization rate reaching 52.6%. The government is making efforts to further push forward urbanization. It is expected that the urbanization rate will be above 60% by 2020.

The Chinese government has been concentrating on promoting the development of small and medium-sized cities and towns in recent years. McKinsey & Company anticipated that smaller cities with population less than 1.5 million will be the major force driving China's economy growth in the next two decades and they can form strong clusters with huge economic potential (McKinsey & Company, 2013). The rising consumption in these cities will surely push up the demand for luxury goods. As a result, many luxury companies have already stepped into those cities. As an example, fashion luxury companies such as, Gucci, Burberry, Ermenegildo Zegna and Prada have opened stores in Taiyuan; Gucci and Burberry have stepped into Zhengzhou in Central China. China is experiencing an increase in the number of credit card users as well.

1.2. CULTURE ROLE IN CHINESE MARKET

1.2.1. MATERIALISM AND SOCIAL STATUS

The socio-economic development in China had a profound impact on the luxury consumption in the country. The modern and at the same time traditional values coexist together, and give the proper explanation of the luxury consumer behavior which characterize the Chinese consumer.

Chinese consumer today present an high degree of materialism that can be partially regarded as a consequent stage of China's economic development² starting in 1978, and marking the important shift from a communist system to an ideology of socialism with Chinese characteristics.

With China being in a process of modernization, its current stage of economic development implies that the primary goal for China is the economic growth. This focus on economic growth is advocated from the highest place as Deng Xiaoping in 1985 declared that "China has no alternative but to follow this economic growth road; it is the only road to prosperity".

² China's economic development starting with the actualization of the "four modernizations" reform in 1978.

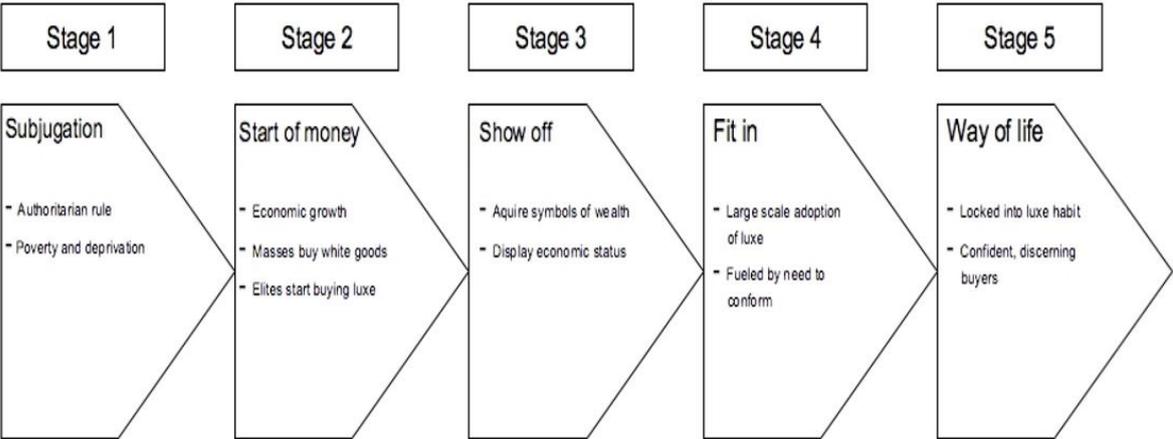
This statement reveals that in contrast to earlier times, wealth and financial success were from that moment on, something to actually strive for in modern China.

In line with country socio economic development, new values emerge, one of those is the materialism, concept which describes the importance most part of Chinese people started to attribute from that moment on, to the act of acquiring and consuming material goods. The Chinese focus on materialistic achievement, resulted in a new behavior of Chinese consumers of buying luxury goods, not only to fulfill own desires, but also and above all as a public expression and demonstration of the own social status, gained after China economic and financial development. Many are the luxury goods that can be considered an expression of the social status, one of the most emblematic example of luxury goods in China is probably the car. A car is not merely considered by Chinese as a means of transportation, but more importantly as a symbol of success and high social status.

Indeed, materialism and the importance of displaying social status represents the main factors explaining the Chinese hunger for luxury goods.

Chadha and Husband (2010) have developed a model, which explains the spread of luxury culture in East Asia, according to the different levels of economic development. They put forward that the spread of the luxury culture in East Asia in general has followed a five-stage process, as shown in the following figure:

Figure 1. "The spread of luxury model" (Chadha & Husband, 2010)



The picture gives evidence of the five different stages of luxury consumption a country usually goes through. Chadha and Husband have found that China is at the show off stage

where acquisitions of symbols of wealth are important, and the display of economic status is emphasized (Chadha & Husband, 2010). However, at the current economic situation just a limited segment of the Chinese consumer can be considered being in the show off stage, indeed a larger part of Chinese segment has only reached stage 2, where people with more modest income have started to afford a few luxury products; and a even more extended part of Chinese people are still at stage 1, experiencing poverty and deprivation.

1.2.2. CONFUCIANISM

In the analysis of Chinese luxury consumer behavior a focus on Confucianism is necessary, in order to understand how its related features of collectivism and concept of face influenced values, lifestyle and consumption patterns of Chinese people.

Traditional Chinese cultural values are based on notions of interpersonal relationship and social orientation, which finds its roots in the work of Confucius. In fact, any path to understanding Chinese people's behavior must pass through a description of Confucian values. Confucianism is a philosophy of great conservatism, where emphasis is placed on preserving social harmony and status quo. Social hierarchy is an important element in reinforcing this stability, in which everybody has a specific status in society and that one person should always be guided by one status (Li, 1998) .

Confucius stressed the necessity of a structure based on hierarchical relationships between categories of people, who are expected to follow their sense of duty and behave towards each other in ways appropriate to their relationship. The central social relationships are those between father and son, ruler and subject, husband and wife, older and younger brother, and between friends. If everyone held to the expectations associated with their status, social stability and harmony would be maintained (Stockman, 2013).

Confucianism also promotes the Chinese people's group conformity. Since considerable importance is placed upon behaving according to the prescription in society, Chinese individuals are experiencing strong social pressures to adapt with the group. Failure to conform to the group's norms of appearance or behavior could generate a frightening feeling of shame, and the Chinese people usually try to avoid that possibility risk. As will be subsequently explained, this necessity of conformity has also evident implications in Chinese consumer behavior.

As already mentioned, Confucianism has shaped the basis for Chinese collectivism, and the concept of face as well, which regulates a person relative position in the social network and the degree to which is judged by others. Collectivism and concept of face, this two elements, will be subsequently both analyzed as relevant factors influencing Chinese consumer behavior.

1.2.3. COLLECTIVISM

When it comes to luxury consumption, Chinese culture of collectivism play an important role in Chinese society. People dominated by the collective self are very concerned about how they appear to others and concerned with the public meaning of their possessions.

Collectivism refers to the extent to which individuals are integrated into groups and form their judgments based on group norms (Hofstede, Geert & Bond, 1988).

Members of collectivism acknowledge their interdependent natures and obligations to the group; they usually place relatively greater importance on the group's needs and norms.

Chinese people, as typical collectivists, are often motivated by norms and duties imposed by the in-group, and try to emphasize their connectedness with in-group. For all those reasons, they are easily affected by consensus or public voice, and care a lot about other people's opinion about them.

As a result, collectivism can explain quite a few of the tendencies in the luxury consumption of the Chinese consumers.

The most practical influence of the collective mentality on luxury consumption is that if a luxury brand has high, positive brand awareness, it will create a push effect within the wider collective. This psychological phenomenon can be described as the "Bandwagon Effect", and it consists of an increase in demand of a product because of its growing popularity. The main purpose is to engage in a sort of imitation consumption, so that a person will be able to identify with the reference group and expect the reference group to evaluate one in a positive way.

It is also claimed that Chinese consumers chose the brand according to its name and its popularity and , no matter how little they actually know the product, the main goal is to show off and receive public recognition. This is how classy luxury brands such as Louis Vuitton and Rolex has gained success in the Asian market.

It is clear that the collective self-esteem dominates in Chinese luxury consumption and that it can lead to conspicuous consumption. In fact, people dominated by the collective self are very concerned about other people judgments and with the public meaning of their possessions.

Besides, they tend to place great emphasis on material possessions and on displaying them. This is an explanation of Chinese huge appetite for luxury brands, and why they are so likely to engage in conspicuous consumption. The popularity of luxury brands, however, is not only due to materialistic values, but is also due to collectivistic values: if a member of one's reference group purchase luxury brands, all the others will do the same, as a mean to establish a connection and to homologate with the reference group.

1.2.4. CONCEPT OF FACE AND FACE SAVING

Confucianism and face are closely connected as they both relate to prestige and dignity. A vast amount of literature has addressed the concept of face and described it as an important phenomenon within Chinese society. While the concept of face is a universal human nature and a concept that exists in all cultures, face can be considered particularly important in the Chinese culture.

Face revolves around the notion of gaining and maintaining the respect of others and can be described as “an individual's public or social image gained by performing on or more specific social roles that are well recognized by others” (Luo, 2000).

Chinese people make two types of distinction of face: *lian* and *mianzi*. The first one refers to the moral integrity of an individual's character. An individual's *lian* can be preserved by having faithful observance of rituals or social norms, while instead losing it makes the individual no more part of the community itself.

The second one, *mianzi*, involves the gaining of material prestige or reputation as a personal effort, usually achieved through success and ostentation. *Mianzi* can be lost or gained as far as those achievements are reached or not by the individual. The standards and requirements are determined by the social expectations of the group, and as a consequence, that makes individuals very dependent on the evaluation made by the others.

The recognition, acceptance and enhancement of one's self-worth depend to a high degree on the possess or not of face. Chinese individuals seem to be very careful about the importance of maintaining a high degree of moral control, particularly in public contexts. In China, as a matter of fact, face not only stands for gaining prestige for oneself, but more importantly for the interest of family, relatives and friends, in order to make them be perceived in the same positive way by the community.

Chinese are very conscious not to let others lose face, as they expect the same regard in return.

Face is an intangible form of social currency and it influences how Chinese people perceive themselves, relate to others and communicate with others (Gao & Ting Toomey, 1998).

The concern for not losing one's face and at the same time saving other people's face is a key component of the Chinese cultural value, "losing face socially" is comparable to the physical mutilation of one's eyes, nose, or mouth! Saving face is very important to the Chinese, as it means that a person is more concerned with other people's perception of him/herself and with maintenance of his/her own status. As such "face" is likely to influence Chinese consumers' buying decisions. Comparative studies in Confucian and Western societies have shown that personal taste and family face, result in different practices in luxury consumption in these cultures.

It can therefore be argued that the perceived conspicuousness and the social dimension of luxury products, mentioned earlier, influence the decision-making process of Chinese luxury consumers. In contrast to this, Western luxury consumers might be more likely to assess luxury products according to the perceived hedonism of a product. The face saving mentality of the Chinese also leads to imitation behavior in consumption, and this again demonstrates that the bandwagon effect is prevalent in a Chinese consumption context. This might be an explanation of why certain luxury brands are desired, while their competitors are not well accepted by the Chinese consumers.

It is stated that people in Confucian cultures are always under pressure to conform to the expectations of others, in order to preserve own face.

It is evident that the concept of face is an important factor leading the Chinese to engage in luxury consumption. The Chinese are under great pressure to live up to the expectations of the group and it is important to the Chinese how others view them. Therefore, saving face in front of the group is important to them.

If the group prescribes consumption of luxury brands then the members of the group have to follow this norm, and display them in an ostentatiously manner in order to save face. The Chinese luxury consumers engage in conspicuous consumption not just because they want to, but also because they have to. The importance of face leads the Chinese to conform to the norms of the group and in order to maintain or enhance their face they have to engage in the consumption of luxury products. Thus, there is no doubt that the concept of face contributes to a high degree of conspicuous consumption in the Chinese luxury consumer behavior and to the huge appetite for luxury brands in China.

The importance of saving face is also reflected in the act of gift giving, which is of great symbolic value in China.

1.2.5. GIFT GIVING AND CONCEPT OF GUANXI

Gifts play a major role in the Chinese culture, as the purpose to establish and maintain social ties, maintain, give or save face, for preserving the Confucian harmony within the group.

Gift giving in China has a different purpose than in the western societies, because it usually consists of the personal exchange and circulation of gifts, favors, and banquets. Gift giving has a significant connection with the *guanxi*. This word may be best described as a system of deep social and economic relationships, sometimes cultivated from the childhood, with the purpose to develop a long lasting network, in which the person part of it can always rely on. This system of relationships not only regulates social relations but also business ones.

Gift giving can be considered as a mean to give own consent to a business relationship or a friendship. The exchange of gifts creates an ongoing obligation to return the favor: if you receive a gift, you are expected to accept it, and at the same time agree to the duty to return the favor in a second moment. In a business relationship for example, if the parts wishes to continue a *guanxi* relationship, the agreement is usually showed with reciprocal expensive gifts, in order to display own superiority to the other part .

Therefore, it seems enough clear that in China gifts other than communicating the importance of the relationship between the giver and the receiver, means also preserving the face of both the parts involved.

When it comes to the concept of face, the gift giving ritual is a way to express own social status and gain face, especially if the gift involved is a luxury good. Therefore, the act of gift giving in Chinese society, is another way to explain why luxury brands are so popular in China. Offering luxury brands convey an important message: other than displaying own social status, consists also in a way to express the value extent of the relationship with the other person, and to consider the other person worth to receive such an expensive present.

The reason to engage in the act of gift giving is a way to create social capital as well, which in exchange, enables the Chinese to build his significant network, the *guanxi*. In this way Chinese people exploit their economic resources for buying luxury goods to give as a gift to build up prestige, recognition and social capital, in all social and business contexts.

1.3. NEW SPENDING HABITS OF THE CHINESE CONSUMER

1.3.1. CHANGING TRENDS

Since China committed to its “reform and opening” policy in 1978, the Chinese economy has known its most remarkable boom after 20 years of socialist political economy, and from that moment on radically shaped the Chinese consumer trends and behavior.

In order to better understand this change, it is important to start by introducing the Chinese consumer behavior before 1978 reformed China.

Consumers born before 1960, during Mao communist era can be divided into two subcategories, *frugal retired* and *wealthy retired*. Both of them grew up in tough and difficult times. However, the frugal retired did not receive a systematic education and worked at state-owned enterprises. As a result, this group was very price sensitive. The wealthy retired primarily worked in government and government-funded enterprises that in general provided higher wages and retirement benefits. For this reason, they were less price sensitive than the frugal retired and therefore more interested in quality products.

Consumers that grew up during the cultural revolution (1966 - 1976), can also be divided into two subcategories, *frugal forties*, and *wealthy forties*. Both of these categories grew up in the early stage of the reform era, and therefore they shift between a period of economic crisis deriving from the unsuccessful Cultural Revolution, and an economic situation beginning to recover, with the implementation of four modernizations reform in 1978. The frugal forties generally worked in various companies: state-owned, private, and foreign-invested companies, and they usually earned modest incomes. On the other hand, the wealthy forties generally had higher wages and were more willing to pay for premium quality products. They will have fewer responsibilities with respect to childcare and as a consequence will have a higher propensity for spending money on entertainment, groceries, travel, and high-quality healthcare products (Lam, 2016). After the rapid industrialization taking place in China succeeding the reform era, many changes showed up: rising incomes, urban living, better education, postponed life stages, and greater mobility, all factors that quickly shaped the consumer landscape.

Chinese consumers are certainly getting richer faster than ever, however wide differences in income level still persist. The great majority of the population at present consists of “value” consumers: those living in households with annual disposable income of between \$6,000 and

\$16,000 (equivalent to RMB37,000 to RMB106,000), which is just enough to cover their basic needs. “Mainstream” consumers, relatively wealthy households with annual disposable income of between \$16,000 and \$34,000 (equivalent to RMB106,000 to RMB229,000), form a very small group. There are fewer than 14 million households, representing only 6 percent of the urban population.

A tiny group of “affluent” consumers, whose household income exceeds \$34,000, comprises only 2 percent of the urban population, or 4.26 million households (Atsmon & Magni, 2012) . According to McKinsey in 2011, around 85 % of the mainstream consumers were living in the top 100 wealthiest cities; while another 10 % instead lived in the next 300 cities, where many families still can't afford a certain range of goods or services such as flat screen televisions and overseas travel (McKinsey, 2012).

The rising incomes of Chinese people have also increased their willingness to obtain a good education and job, by deciding to postponing at time more important values like marriage and family. Hence, the average age at which women have had their first child has risen from 24 to 27. More time spent in education means more time for recreation, entertainment and travel, and more importantly a consequential change in Chinese spending patterns.

Women recently have become more independent and started to play an increasing role in the society workforce, their participation has already reached the 67%. Women are certainly using their freedom to aim high: one study found that 76 percent of women in China aspire to top jobs, even though they are not unusual on the boards of China's A-share listed companies (Hurun, 2011). The number of women working in offices, where salaries are higher, is also rising. In 2010, 47 percent of working women had an office job compared with 43 percent in 2003 (Hicks, 2011).

Data suggests that the income gap between men and women may narrow further, in 2017, 25% of Chinese women earn more than their male partners (Martin Roll, 2017). That means that women will be more and more independent and become equally relevant partners in financing their family's purchases, as well as more powerful consumers in their own right.

1.3.2. SPENDING PATTERNS OF THE MAINSTREAM CHINESE CONSUMER

An understanding of China's changing economics is essential, in order to identify how this variations influenced, and will influence consumers new spending patterns.

Government recent efforts to give a boost to the Chinese economy is having the expected effects on consumption. Following the rising incomes in Chinese cities, people are able to consume more, and they want to. The lifestyle of urban Chinese consumers has changed from a “survive” mentality to an “enjoy life” one, with 54 percent now pursuing a more fun lifestyle, according to a 2009 GfK Roper China study (GfK, 2009). An increase on the category of discretionary spending³ was noticed from 2000 to 2010, and is also expected to grow further until 2020, as this category of services will be affordable to a greater part of consumers. In the last 5 years, as a matter of fact, consumers are allocating more and more of their income to lifestyle services and experiences such as spas, travel and entertainment, and more than a quarter of the consumers surveyed are planning to spend even more on this services (Zipser, Chen & Gang, 2016).

Categories of semi-necessities⁴ followed by necessities⁵ are also expected to rise by 2020.

McKinsey consumption model suggests that average household spending for value, mainstream, and affluent consumers in 2010 was about \$2,000, \$4,000, and \$12,000 respectively. These figures will jump to \$3,000, \$6,000, and \$21,000 respectively by 2020, making this groups income gaps appear more evident (McKinsey, 2012).

As the consumers have changed their lifestyle, their perceived social status, and became gradually more acquainted with the use of mass products, they have started to be more selective on what to spend their money on.

Chinese consumers are increasingly focusing their spending on trading up for premium products over mass products, starting by basic-necessity categories, which are expected to grow by 15 percent a year over the next five years. Trading-up chances also exist within semi-necessity categories, such as apparel, health care, and household products, as more consumers will be able to afford different outfits for different occasions, for instance, or to buy more branded products. It is the top end of the market that will most benefit from trading up, with growth at the high end of some consumer goods categories already outpacing average growth for the category. Sales of premium skin care products, for instance, grew by more than 20 percent a year in the past decade against an industry average of 10 percent, while annual

³ Discretionary, in this survey includes: personal items, recreation equipment, culture services, education, transportation and communications.

⁴ Semi-necessities, in this survey include: housing and utility, household products and service, health care and apparel.

⁵ Necessities in this survey include: food.

volume growth rates of more than 20 percent are foreseeable for luxury SUV cars, compared with around 10 percent for basic family cars (Atsmon & Magni, 2012). China had already become a leading luxury market by 2010, cementing the country's position as the world's second largest consumer in this market.

Chinese consumers are in general trading up from mass products to premium products, and foreign brands still hold a leadership position in the premium market, especially in premium segments such as skincare, cars, sports apparel and fashion (the modernization..). However, as regards to the mass product market, local businesses are still continuing to dominate on the foreign ones (Lam, 2016).

Chinese consumers after being exposed to a choice of several different products in a short period of time, they are gradually acquiring a more deep knowledge about brands. In fact, recently the Chinese consumers have started to become more discerning in selecting their favorite brands and sticking to them. A rising proportion of Chinese consumers focus on a few brands, with some becoming loyal to single brands. The number of consumers willing to switch to a brand outside their "short list" sharply dropped. For what concerns apparel for instance, the number of consumers willing to consider a brand outside of their consideration list dropped of 10% from 2011 to 2015 (Zipser, Chen & Gang, 2016). In personal care, to the same extent, the number of consumers intending to change brand dropped of 11%.

Having a happy family defines a successful achievement for Chinese consumers. While consumers continue to pursue social status and wealth, the importance of the family has grown steadily over the last few years, leading also to a deep impact on consumer trends. Despite the rise of e-commerce, traditional shopping is still a common habit: Two-thirds of consumers claims that shopping with the family is the best way to spend time with them. McKinsey has registered in 2016 an increase of 21% in this sector, compared to three years ago (Zipser, Chen & Gang, 2016).

Shopping malls are the retail channels which have benefited most from this trend. As a result, consumers are moving away from big-box retail outlets such as department stores and hypermarkets, and are spending more time in shopping malls, which combine shopping, dining, and entertainment experiences that the whole family can enjoy.

Another important factor relevant for the future spending patterns, concerns China's aging demographics, which means that as a share of the total population, there will be 5 percent more people above the age of 65 in 2020 than there are today. That is an extra 126.5 million

citizens, which represents a considerable consumer segment. But what is equally important is the way in which the spending patterns of older people in 2020 will differ from those of older people now. 2011 data survey shows that if older people were once more disposed to save money and less willing to spend, in 2020 they will spend more on discretionary items such as travel, leisure, and nice clothes.

Most people in China over the age of 55 experienced the harsh conditions of the Cultural Revolution in the late 1960's and early 1970's. This has later influenced their spending patterns and their decision to spend more responsibly, by allocating half of their expenditure to food and only 7% on discretionary, like apparel. Today's 45 to 54 year-old instead, show spending patterns more similar to 34 to 45 year-olds (McKinsey, 2012).

1.3.3. MIDDLE CLASS AND UPPER MIDDLE CLASS: MAIN CONSUMERS OF LUXURY GOODS

The Chinese middle class is currently considered to be the most profitable on the rise source of engine, of the Chinese luxury market. The Chinese middle class, consisting of an household incomes between USD 9,000 and USD 34,000, counted 500 million people in 2015, but this number is predicted to grow over 550 million by 2022, assuming that population numbers stay constant (Barton, Chen & Jin, 2013) .

Today, is the mass middle class with annual household incomes between \$9,000 and \$16,000 to be the dominant category, accounting for 54% of all urban households. Whereas, the upper middle class households, with incomes of \$16,000 to \$34,000, represent only 14 percent (Barton, 2013).

An interesting characteristic of Chinese luxury consumers is that they are comparably younger than their European and American counterparts , 45% of Chinese luxury consumers are under the age of 35, they are on average 14 years younger than their European peers, and 25 years younger than their American peers. The average age of Chinese luxury consumers is 33.1 years, with more than 80% of all Chinese luxury consumers between the ages of 25 and 44 (Martin Roll, 2017).

In the next three to five years, Chinese consumers between the ages of 25 and 30, will be the prevailing segment in luxury consumption.

China's new middle class also divides into different generations, the most striking of which is termed Generation 2 "G2". It comprised nearly 200 million consumers in 2012 and accounted for 15 percent of urban consumption.

These G2 consumers today are typically teenagers and people in their early 20s, born after the mid-1980s and raised in a period of relative prosperity, when China was opening up to the world and knowing its most remarkable development.

Those category of consumers who never experienced an economic crisis as their parents, seems to be more confident, independent minded, and determined to display their independence through their consumption. Most of them are the only children in their families because when they were born, the government was starting to enforce its one-child policy⁶ and for this reason they grow up as "little emperors". Since they are only children in their families, they live a privileged and entitled life spoiled by parents and grandparents.

McKinsey research has shown that this generation of Chinese consumers is indeed more predisposed to spending, and taking a more westernized approach to shopping (McKinsey, 2013). Prone to regard expensive products as intrinsically better than less expensive ones, they are happy to try new things, such as personal digital gadgetry. They are also more likely than previous generations to check the Internet for other people's usage experiences or feedbacks, especially for the personal care products. Online shopping actually is not just shopping, but a way to socialize and have fun as well (Wang, 2017). These consumers seek emotional satisfaction through better taste or higher status, are loyal to the brands they trust, and prefer niche over mass brands, in particular they favor high quality foreign brands.

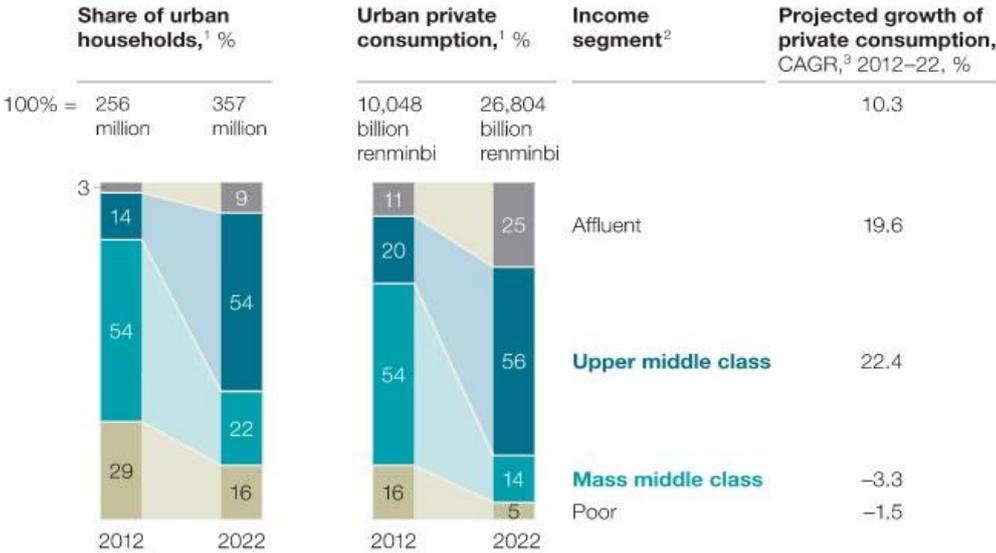
Teenage members of this cohort, already have a big influence on decisions about family purchases, indeed, even as the G2 cohort reshapes Chinese consumption patterns, it appears to be maintaining continuity with some of the previous generations' values. Many G2 consumers share with their parents and grandparents a bias for saving, an aversion to borrowing, a determination to work hard, and a definition of success in terms of money, power, and social status. For the G2 cohort, however, continuity in values doesn't translate into similar consumer behavior. Though, most of G2 consumers are not yet financially independent, they significantly influence their parents' decisions on food, clothing, electronics, and other purchases (Barton, Chen & Jin, 2013).

Likewise, 25 to 44-year-old Generation 1 "G1" consumers, despite their loyalty to established brands, are more open minded than their parents, and as retirees in the years ahead they will

⁶ One-child policy was adopted in 1979, with the main purpose to solve the growing population and alleviate social and economic problems. Chinese family were so allowed to have just once child in the urban areas and two in the countryside, only if the first born was a girl.

certainly show a “younger” consumption mind-set than today’s elderly do. In fact, they rarely save money, but spend most of their income on entertainment and advanced electronic products. According to a survey carried out by McKinsey, in 2022 the upper middle class is expected to reach the 54% of the urban households, while the mass middle class will count just 22%. Data reported in the exhibit shows that in 2022, we will assist to the replacement of the mass middle class with the upper middle class, as the new dominant force in the Chinese luxury market (Exhibit 3).

Exhibit 3. Mass middle class and upper middle class consumption 2012-2022 (McKinsey, 2013)



¹Figures may not sum to 100%, because of rounding; data for 2022 are projected.
²Defined by annual disposable income per urban household, in 2010 real terms; affluent, >229,000 renminbi (equivalent to >\$34,000); upper middle class, 106,000 to 229,000 renminbi (equivalent to \$16,000 to \$34,000); mass middle class, 60,000 to 106,000 renminbi (equivalent to \$9,000 to \$16,000); poor, <60,000 renminbi (equivalent to <\$9,000).
³Compound annual growth rate.

The upper middle class is mainly composed by rich consumers aged 20-60, averagely concentrated in large urban areas, such as Beijing, Guangdong, and Shanghai. Most of them are successful entrepreneurs, top managers, and business owners. Upper middle-class consumers are more eager than the mass middle-class to pay a premium for quality products, since they can afford it, they pursue the best product available: particularly imports, and are the perfect candidates for marketing new products. These segment of consumers can afford to spend more of their income on discretionary products, as opposed to basic necessities such as food. High-end branded bags, shoes, watches, jewelry and ready-to-wear clothing, are therefore in their top choices.

Upper middle class consumers seems also more eager to buy international brands, than their mass middle class peers. Firstly, because international brand are perceived more valuable and prestigious than domestic ones. Secondly, since this class is more willing to make trips overseas, sometimes the only purpose is to shop international brands.

The upper middle class consumers characterize themselves for being more discerning and sophisticated buyers. They usually purchase internationally well-known brand and superior craftsmanship, as the most important reason to buy luxury. Showing off the luxury is not what they aim to, on the contrary they reject that and strongly consider it a bad taste behavior.

The geographic center of middle-class growth is shifting: in 2002, 40 percent of China’s relatively small urban middle class lived in the four Tier-one cities: Beijing, Shanghai, Guangzhou, and Shenzhen. By 2022, the share of those megacities will probably fall to about 16 percent. They won’t be shrinking, of course; rather, middle-class growth rates will be stronger in the smaller inland cities of the north and west, than in the strong urban centers of the eastern seaboard. Many are classified as Tier-three cities, whose share of China’s upper-middle-class households should reach more than 30 percent by 2022, up from 15 percent in 2002 (Barton, Chen & Jin, 2013).

Figure 2. Share of middle class in Chinese cities (McKinsey, 2013).



¹Based on information for 266 cities; data for 2022 are projected. Cities in China are grouped into 4 tiers based on their economic development and political importance. For Tier-1 cities, 2010 nominal urban GDP is >932 billion renminbi; for Tier-2 cities, 120 billion–932 billion renminbi; for Tier-3 cities, 22 billion–120 billion renminbi; for Tier-4 cities, <22 billion renminbi.
²Figures may not sum to 100%, because of rounding.

The ongoing urbanization, increasing income level and the rapid development of new transportation network in China, explains why these factors have made lower tier cities more competitive and appealing to luxury retailers. Most of them have already started confirming their own presence in lower tier cities. Cities like Huizhou, Ordos, Taizhou, Shanyu and Yantian are becoming popular destinations, especially for luxury menswear brands (The Fung Business Intelligence center, 2013). This newly discovered cities represents an interesting alternative for the foreign companies operating in the luxury sector, aiming to spread and invest in new markets. Firstly, because first tier cities, despite being characterized by market saturation and high competition, high rent expenses for brands distribution, they don't exactly look like the most profitable key markets for luxury goods. Secondly, not only are the most part of these cities expenses rents affordable, but also for the growing expansion of the middle class in this area, which is the profitable segment in luxury market (Vianelli, De Luca & Pegan, 2012).

CHAPTER 2. DISTRIBUTION AND RETAILING STRATEGIES IN CHINESE MARKET

2.1. DISTRIBUTION CHANNELS: HOW TO APPROACH THE CHINESE MARKET

2.1.1. INTRODUCTION TO DISTRIBUTION IN CHINA

The economic, political and social transitions happening in China during the last 20 years, where the economy has changed from a centrally planned system to a more market-oriented, have brought a substantial evolution, especially during the last decade, also in the structure of distribution system (Yi & Jaffe, 2007). Before the launch of economic reforms in 1978, nationwide distribution channels like distribution centers, wholesale operations and retail outlets were all managed and controlled by the PRC government. As reforms were spread out, China had a transition from a centrally planned economy to a market economy, while entering the World Trade Organization (WTO) in 2001. This attracted foreign competition that eliminated a lot of local distributors and favored privatization of distribution. Despite the fast growth of distribution needs, changes seem to be reasonably slow. It is only since 2014 that China opened distribution to foreign investment and allowed foreign distribution companies to apply for a Chinese wholesale license, whereas for overseas companies to operate as a wholesale, joint ventures must be created with Chinese companies.

Despite the positive economic changes, it is not possible to define China as a single homogeneous market, because of the high regional segmentation (Hu, 2018b). Some issues are related to the thick disparity gap between urban and rural areas, due to the limited ability of the government to control the different jurisdictions and to create synergies among them, is still an unsolved problem for the country. The complex administrative division into 22 provinces, 5 autonomous regions, 4 municipalities and 2 special administrative regions, have a relevant impact also in the activities of commercial distribution.

First of all, it is important to consider the gap between the eastern areas, which are more developed and characterized by a higher level of urbanization, and the internal areas of the country, which are still at a primitive stage. However, due to the recent campaigns and reforms to increase the investors in those areas, they are soon expected to become profitable markets characterized by relevant trends in many sectors.

Not even the urban areas are uniformly developed, regarding this issue is important to mention the classification in levels (city-tier) which is made based on the density, the economic and political relevance of the Chinese cities. At the beginning, only the first tier cities characterized by an higher GDP, that is to say Beijing, Shanghai, Guangzhou and Shenzhen, were interested by the entrance of big size companies operating in the international distribution. First level cities today still present the highest volume in exports and foreign investments, followed by second tier city Chongqing and provinces like Jiangxi and Gansu, where the import-export growing rates are significantly exceeding those of Beijing and Shanghai (Vianelli, De Luca & Pegan, 2012).

According to Euromonitor, in 2013 the distribution sector in China has been characterized by a strong development. The value of total sales in 2012 counted 9.401,6 billion RMB in the store-based distribution, with an annual growing rate of 11,6%, compared to 2007.

By analyzing the distribution choices made by the foreign companies when entering the Chinese market, it seems impossible not to take into consideration Hong Kong, the first city in the world for investments in retail sector which usually represent a gateway to mainland China, particularly for fashion and luxury goods.

As reported by Euromonitor (2011), due to the increasingly massive entry of the world leaders especially in second and third tier cities, the modern distribution formats will be those to grow at the expense of the little independent retailers (Krafft & Mantrala, 2009). Generally speaking, the department store is the distribution format in outnumber, since it is attended by the consumer type of segment called "white collars" as a place where to relax and spend own spare time (Euromonitor, 2011). Even the shopping malls which are mainly located in the most urbanized cities near the coast, are knowing a significant evolution as well, as a matter of fact, between 2001 and 2015 they had a boost of 893%.

In line with forecasts for the period 2012-2017, distribution in food, clothing and furniture sector had an important growth rate in China. Those indeed are key sectors for the market of Made in Italy, for this reason, a good evaluation of the distribution choices is necessary in order to ensure a trustworthy distribution chain to reach the Chinese final consumer.

According to a classification of the distribution companies in China, reported data show that companies of the commercial distribution with foreign capitals represent only the 3,2% in the wholesale distribution, and just the 1,6% in retail distribution. However, those companies absorb more labor force, respectively occupy the 6,6% of the total number of employed people in the wholesale, and 7,4% of the total of employed in the retail (Vianelli, De Luca & Pegan, 2012).

Although the local commerce, especially in the traditional distribution, seems to dominate the market in terms of presence of number of shops (97.3%) and employed labor force (88.4%), must also be taken into consideration the growth of modern distribution in the last 10 years. Nevertheless, commercial liberalization hasn't had any effects yet. Even though on one hand, foreign capital companies seems to have little growing opportunities in the wholesale, on the other hand the growing development in retail appears to be a far more dynamic and competitive market. The main reasons to this depend on two different factors: concerning the wholesale commerce, since in the wholesale industry most part of the employers have previously established their presence using different entry modes to penetrate the Chinese market, as a main consequence, the wholesale industry at the moment is saturated, and set apart less investment opportunities. On the contrary, the growing perspective in the retail industry seems to be more concrete, in fact, some big size companies currently operating in the Chinese coastal area, are planning to expand their ownership also in the internal territorial areas of the country, where the market is almost still unexplored.

The structure of the distribution channels, consists of the choice between the direct and the indirect channel for the product in the destination market. This two channels are respectively characterized by the presence or not of one or more level of commercial intermediation between the supply and demand, such as agents, distributors, wholesalers and sub-distributors. Different are the factors, both internal and external the company, influencing the choice of the right distribution method. The internal factors to consider are the marketing strategies, especially the entry, choices of distribution cover (intensive, selective and exclusive), the complexity of the product, the organization and resources available. Main external factors include regulatory aspects, distribution system peculiarities, lifecycle stadium of the product, market characteristics both in quantitative (dimension) and qualitative (purchase behavior) terms and competition. Every choice require different levels of entry, risk and control from the manufacturer company.

With reference to the Chinese market, the liberalization of China's distribution sector in the last years has opened a new vista of choices to foreign companies looking to move and sell their goods in the country. No longer are they required to use an uncoordinated network of domestic wholesalers, although some may choose to retain existing ties if these have worked well. Instead they may consider using one of a growing body of international and Hong Kong-based logistics businesses moving goods around and in and out of the country, or perhaps one of the many new domestic distributors which have emerged in recent years, or possibly decide to go autonomously.

The overall picture appears to be more articulated than in the past, with the possibility of choices of direct and indirect structures, with the help of one or more intermediaries.

2.1.2. INDIRECT CHANNEL

The indirect channel frequently used for the distribution of consumer goods, is characterized by the presence of one or more intermediaries between the manufacturer and final consumers stage. In this regard, in the different national markets differ the Wholesale trade and Retail trade. Mushroomed in the 1980s-90s, wholesale markets have been playing a significant role in the Chinese market, in channeling products of the country's numerous small-and medium-sized manufacturers into the hands of urban and rural consumers. According to the National Bureau of Statistics of China (NBS), the number of wholesale markets with transaction value over 100 million Yuan amounted to 4,940 in 2010, up by 5.4% yoy.

Many of the larger market examples in the country are: the commodity wholesale market in Yivu, fruit and vegetable wholesale market in Shandong (Shouguang) and clothing market in Peking (Dahongmen) and many other are located in Zhejiang, Jiangsu, Guangdong, Liaoning and Hebei provinces.

Wholesale markets in China are considered to be as disorganized markets selling low-end and unbranded products. In recent years, however, some large-scale wholesale markets have been upgrading themselves with sound management, modernized facilities and better brand positioning. It is widely believed that wholesale markets would continue to be an important player in China's distribution landscape.

With reference to the imported consumer goods, in addition to the stage of wholesale and retail trade, other intermediaries, relevant also for the entry of the Italian companies in the Chinese market, can be identified. These are the following ones:

1.Sales agents

An agent is company's direct representative and is normally paid a monthly management fee and/or a commission to help represent and sell company's product.

An agent works more closely with the company, whereas a distributor works more closely with the final customers. For small and medium-sized companies, entering the China market through a well-known agent or distributor is also one of the easier ways to enter China. Localized agents possess the knowledge and contacts to promote foreign products and help overcome barriers such as language and culture. In addition, sales agents and distributors can

assist in keeping track of policy and regulation updates, both locally and nationally, collect market data, and quickly respond to change (EU SME centre, 2012).

Advantages of an agent:

- The principal of the company has greater control over the terms of sale
- Freedom to choose customers with whom to deal
- The agent report on the competition
- The agent focus on the best-selling products with the highest margin
- The agent advise the company on new products to be launched
- Greater control over methods of marketing
- The manufacturer is able to retain risk of stock
- The commission paid to an agent is typically lower than the margin of profit a distributor will make

Disadvantages of an agent

- If the agent's work is not reviewed on a regular basis, company sales may not increase
- Control of agent's work requires a lot of communication
- If the company decide to end the cooperation with the agent, he may change to the competition
- Sometimes have an agent in a territory could have tax implications. Consideration should be given to local law and double taxation
- Maintaining stock inventory can be costly
- An agent may be selling similar products as those of own company

2. Domestic and foreign distributors

Distributors are authorized by brand owners or manufacturers to distribute their products; typically, they do not involve in manufacturing and retailing of the products. Some of them are obliged to the buyout of these products, thereby carrying inventory risk; whereas some do not need to buy out but receive a certain amount of commissions.

Currently, domestic distributors account for a large share of the wholesale trade in China. Many of these distributors come with state-owned background and have operated since the pre economic reform era, giving them an edge in terms of established infrastructure, government “guanxi” and network reach (especially in towns and counties).

Distribution sector was opened to foreign investors in 2004. Since then, foreign agents and distributors have been expanding quickly: they have brought into China the international perspective and sound management experience (EU SME centre,2012) .

Advantages of using distributors

- The company supplier can transfer a greater degree of risk to the distributor
- Greater incentive for the distributor to sell the product
- Avoids the need for the supplier to have an established place of business in the territory (reduces costs)
- The supplier only needs to monitor the accounts of several distributors rather than of each customer
- low-cost market entry mode

Disadvantages of using distributors

- Loss of control over marketing activities of the distributor
- An exclusive distributor focuses the supplier's entire credit risk on one entity rather than spreading it over a large number of customers
- Lack of experience in selling foreign products:

Firms approaching the Chinese emerging market for the first time, due to the high cultural distance they have to deal with, have no knowledge of the culture and different business rules, and as a result they address to local distributors/importers wishing to receive more control on marketing activities. SMEs in particular, usually tend to delegate important functions to their distributors: from physical distribution of products to customer service, from promotion to warranties, from selecting retailers to communication. However, dealing with importers and/or distributors in an emerging market like the Chinese one is totally different from dealing with them in the developed countries ones, since in many cases, distributors do not have enough market knowledge and experience of the foreign products they are going to sell to consumers, and as a consequence, the more functions are delegated, the more is the loss of control over brands and products (Checchinato, Hu & Vescovi, 2014).

3. Direct sale by manufacturers

Facilitated by improving logistics infrastructure in China, some established brand owners or manufacturers have set up their own wholesale and retail arms to conduct wholesaling and

retail activities. Indeed, these enterprises view distributing their own products as an effective way to keep abreast with latest market developments.

For instance, a growing number of manufacturers start selling directly to consumers in apparel sector. However, a lot of them use a combination of direct-operated as well as franchise stores. This is probably due to China's vast geographical span and the substantial investment involved.

4. Warehouse-style supermarkets

Warehouse-style supermarkets are another effective way to distribute products in China. The self-service wholesaler METRO, is a typical example that had a great success in China for adopting the cash & carry based service to a membership system, consisting in selling goods in bulk at wholesale prices to its members. Targeted the intermediaries and commercial customers, METRO today has more than 3 million registered members in China. Its major customers include "HoReCa" (hotels, restaurants and catering businesses), small retail outlets and kiosks, and other business users (offices, service companies and government agencies).

According to a survey conducted from 2009 and 2010 regarding the entry strategies and distribution choices adopted by the Italian companies in the Chinese market, it reveals that the range analyzed of Italian SMEs in terms of size (from less than €2 million to €10 million for Small companies and from €11 million to €500 million for Medium companies) operating in sectors of food, fashion, furniture, mechanics, services etc., when approaching emerging markets such as China, the distribution channel preferred by these companies is the indirect channel.

In particular, the companies analyzed address to the channel of independent foreign distributors, such as importers or wholesalers (29,2%), followed by Chinese national agents, representatives and brokers (16,2%) (Tab. 1). Direct export implemented with the use of an intermediary based in the foreign country, substantially outweighs the secondary role played by Italian or intermediaries, agents or foreigners resident in Italy.

Tab 1."Distribution channels selected by the Italian companies in China" (Adapted from Vianelli, De Luca & Pegan 2012)

Distribution channel	N°	%
Independent foreign distributors that buy from the company (importers, wholesalers, etc.)	54	29.2%
Chinese agents, representatives or brokers (paid on commission)	30	16.2%
Direct foreign investment (own facilities abroad, such as branches, subsidiaries etc.)	25	13.5%
Franchising sales points	16	8.6%
Direct sales	12	6.5%
Own sales points	9	4.9%
Italian intermediaries that buy products from the company and manage the sales in China (trading companies, export house)	7	3.8%
Foreign intermediaries resident in Italy (buying offices of foreign chains)	7	3.8%
Italian agents, representatives or brokers (paid on commission)	6	3.2%
Commercialization companies (independent or joint) with offices in Italy	5	2.7%
Internet	4	2.2%
Export consortia	3	1.6%
Other	7	3.8%
Total	185	100.0%

The channel with the most weight after direct exports, is that one which reflects a choice in investment or a contractual collaboration in some other form. In fact, companies prefer direct foreign investments (13.5%), franchising (8.6%) and company-owned sales points (4.9%), and direct sales (6.5%), this latter being typical of business to business sectors. The internet on the other hand, is not yet a relevant distribution channel for Italian companies (Tab. 1).

Tab. 2 "Distribution channel and company size" (Adapted from Vianelli, De Luca & Pegan 2012)

Distribution channel		Company size		Total
		SME	Large Company	
Independent foreign distributors that buy from the company (importers, wholesalers, etc.)	N°	38	8	46
	%	32.8%	23.5%	30.7%
Chinese agents, representatives or brokers (paid on commission)	N°	19	5	24
	%	16.4%	14.7%	16.0%
Direct foreign investment (own facilities abroad, such as branches, subsidiaries etc.)	N°	15	8	23
	%	12.9%	23.5%	15.3%
Franchise sales point	N°	11	4	15
	%	9.5%	11.8%	10.0%
Direct sales	N°	7	4	11
	%	6.0%	11.8%	7.3%
Own sales points	N°	4	3	7
	%	3.4%	8.8%	4.7%
Italian intermediaries that buy products from the company and manage the sales in China (trading companies, export house)	N°	4	0	4
	%	3.4%	0.0%	2.7%
Foreign intermediaries resident in Italy (buying offices of foreign chains)	N°	5	0	5
	%	4.3%	0.0%	3.3%
Italian agents, representatives or brokers (paid on commission)	N°	4	0	4
	%	3.4%	0.0%	2.7%
Commercialization companies (independent or joint) with offices in Italy	N°	3	1	4
	%	2.6%	2.9%	2.7%
Internet	N°	3	1	4
	%	2.6%	2.9%	2.7%
Export consortia	N°	3	0	3
	%	2.6%	0.0%	2.0%
Total	N°	116	34	150
	%	100.0%	100.0%	100.0%

By relating the choice of sales channel to the size of the company, it appears that the channels preferred by big companies are direct investments and company-owned sales points or subsidiaries, which are unpopular among SMEs, due to the wide amount of investments required for FDI (Foreign Direct Investment).

SMEs in fact, tend to internationalize through export, since it is a less demanding resource approach, requires minimum risk, needs low resources and offers high flexibility of movements (Checchinato, Hu & Vescovi, 2014). Approaching the Chinese market for the first time through the establishment of agreements with intermediaries or agents, is also the best entry mode to gather the necessary knowledge needed by the company for operating in a new market.

Independent foreign distributors were adopted by the SMEs and large companies in equal measures, as were Chinese agents, representatives and brokers, as well as franchising sales points (Tab. 2) .

The definition of the structure of channels is influenced also by the distribution approach adopted, which also includes the choice of an intensive, selective or exclusive distribution.

The intensive distribution requires the presence of the product on the majority number of point of sales, in order to increase the chance to realize more sales, that means more profits for the company. This kind of approach is typical of mass products (such as pasta, mineral water, detergents etc..) which can be easily done through long length distribution channels.

The selective distribution requires the individuation of a limited number of point of sales, that are coherent with the brand positioning, and usually located in central or business areas where its presence can be easily be appreciated at the assortment level. This approach is typical of the high fashion, furniture market and of food products addressed to the high end segment of the market.

Lastly, the exclusive distribution requires the full control on the point of sale, which can be realized through direct investments or joint ventures , as usually happens for the automotive, fashion and luxury, those sectors where is relevant the control on the product from the production stage to the final consumer stage.

2.1.3. FOREIGN INVESTED COMMERCIAL ENTERPRISES (FICE) DISTRIBUTION CHANNEL

Foreign-invested commercial enterprises, commonly known as FICE, are fast becoming an ideal way, for foreign investors to enter China's Mainland market. Previously, foreign companies could only form trading companies on their own if they registered in the country's Free Trade Zones. However, as part of China's WTO commitment to let foreign-invested enterprises exercise trading and distribution rights, starting from December 11, 2004, foreign investors have been allowed to set up FICE in the country to conduct wholesale, retail, franchising and other permitted businesses (Vianelli, De Luca & Pegan, 2012).

A FICE, in addition to engaging in the traditional distribution channels (agents, wholesale and retail) it operates also through franchising, vertical business and contractual system which allows to manage different point of sales of ownership.

Although the majority part of the first entrants opted for a direct channel with the opening of owned point of sales, recently more and more companies as a result of an open legislation ,

started to enter the market with the franchising. The choice of the franchising has different use and effects depending on the sector of work, for example the agri-food is one of the first sector which saw its development in China through the franchising, but indeed, the Chinese franchisors usually prevail on the foreign ones, because of the risks associated with the limited control on the franchisee. As an explanation, the direct franchising in China which provide a direct contact of the domestic company with the franchisee or through the establishment of a WOFE (Wholly Owned Foreign Enterprise) as a sub-franchisor in the destination country, often appears to be a problematic approach. Firstly, the role of the WOFE operating as a sub-franchisor, although revealing to be an advantageous investment, since it's fully owned by the domestic company, could also be a risky one. Secondly and more importantly, the lack of abilities and cultural knowledge from the domestic company for the management of the Chinese counterpart, is a factor and a relevant obstacle not to underestimate, when dealing with the Chinese market.

In this situations, therefore, is advised the type of indirect franchising that requires the involvement of a Chinese partner to invest its own capital and take the responsibility, together with the franchisor, for the management of the franchisee in the destination country. In most cases, the franchisor operates through the establishment of an Equity Joint Venture (EJV) or a contractual Join Venture (CJV). In this particular case, the established joint venture acts as sub-franchisor, but with a less potential of risk for the management of the franchisee and the format adaptation to the local market, since it is fully supported by a Chinese partner.

Establishing a FICE is one of the best ways for a foreign company to distribute its products in China. The pros and cons of a China FICE are the following ones.

Pros:

- FICE can sell in RMB to local Chinese customers and issue *fapiao* (发票)⁷
- The foreign company can benefit from VAT rebates if exports are done through the FICE
- FICE can take control of the supply chain and expand the range of suppliers in China by purchasing in RMB
- FICE can establish and operate branch offices anywhere within China
- FICE can be 100 percent owned by a foreign entity

⁷ *fapiao* is a legal receipt that serves as proof of purchase for goods and services. The larger *fapiao* invoice system, however, is an essential component of China's tax law, and compliance for businesses.

- FICE has no annual turnover or minimum asset requirements

FICE can also carry out a wide range of activities, including wholesale, retail and franchising trade activities in China.

Cons:

- FICE requires registered capital to establish – usually at least RMB500,000 to become a General VAT Taxpayer
- FICE can take several months to set up (typically 4-6 months)
- FICE export and VAT issues can be complex
- FICE need to obtain permission from several bodies

The legal minimum capital under the law is RMB100,000 for a company with multiple shareholders, or RMB30,000 for a single-shareholder company. However, as the registered capital must reflect the needs of the business, it is usually far higher than the minimum requirement. Depending on the type of operation, typical minimum capital required for approval is between RMB500,000 and RMB1 million (China Briefing, 2013).

2.1.4. DIRECT CHANNEL

The direct channel implies the relation, without intermediaries involved, between the manufacturer and the final consumer in the destination market.

The choice of this channel occurs more frequently in business to business, in particular situations of a limited number of customers, or in case of a strong demand concentration reached through the company force of sale.

Even though the direct sales represented only the 1% of the retail turnover in 2011, the total amounted to 7 billion euro. The only form of direct sale allowed in the country, after the ban on carrying out the multi-level marketing, is the single-level marketing, which requires the release of a special license by the government. Due to the strict enforcement, and the wide presence of the retail, the direct sale is still a scarcely developed channel, but with a great potential if we consider the increase of 16,5% from 2010 to 2015 (Euromonitor, 2016).

The direct channel is present specifically in healthy and cosmetics sectors, which are expected to grow respectively of 18,5% and 15,4%. In the last year, the electronic appliances are also seeing an increase of 25,4%, while games are decreasing of (-20,8%).

2.1.5. ONLINE CHANNEL

In business to consumer, if in the past the direct channel was based on traditional means, such as door to door sale, by telephone and direct mail; there's another means that recently has seen a radical development thanks to the more frequent use of internet and so, its spread has become a even more common sales instrument adopted by companies and little size companies: the e-commerce. The e-commerce, therefore is an instrument that can facilitate the direct contact among different users, that is to say, manufacturers and costumers or among the intermediate stages of the distribution chain, such as retailers and consumers or among consumers themselves.

Data reported by China Internet Network Information center, give evidence of the great potential of the online channel in China. Up to December 2016 China had 731 million Internet users, up 42.99 million over the previous year. The Internet penetration rate was 53.2%, a growth of 2.9 percentage points compared with the end of 2015. The number of internet users is growing also in rural areas, up to December China had 201 million rural internet users, accounting for 27.4% of the national total, with an increase of 5.26 million or 2.7% from the end of 2015. Chinese urban users accounted for 72.6%, with an increase of 37.72 million or 7.7% from the end of 2015. The number of rural netizens is on the rise, but a wider urban-rural gap still exists in the Internet penetration rate, as of December 2016 in urban areas was 69.1% while in rural areas was 33.1%. With a small urban-rural gap of utilization ratio of basic Internet applications including instant messaging and online entertainment, an about 4% urban-rural gap of utilization ratio is reflected in instant messaging, online games and online music. But the urban-rural gap of utilization ratio shown in online shopping, payment and travel booking applications exceeds 20%. This situation shows that entertainment and communication applications are the main ones prompting rural residents to access the Internet and that rural netizens have potentials in Internet-based consumption fields (China internet network Information center, 2017).

The rapid expansion of the Internet in China, and the effect of credibility on the Chinese consumers, means that nowadays Internet represents an essential means to motivate the choice of products and brands. As a matter of fact, the 66% of the Chinese consumers consults internet websites to collect information about companies and products before the purchase. The online channel is indeed to take into consideration as an important instrument the companies should exploit, to generate word of mouth, and for the development of an integrated marketing communication (IMC) program.

The available data give evidence of a significant potential of the web as a distribution channel. If we consider the initial trends dominated by the rising growth of internet, according data surveys reported by Euromonitor (2016), it can be noticed a change in the composition of sales in the non-store retailing, during the years from 2010 to 2015 . As a result, the amount of sales in non-store retailing counted a value growth of 66.3%, while store-based retailing grew only 8% in the same period (Euromonitor, 2016). China, the largest e-Commerce market in the world is now setting the benchmark for present and future global retailing. According to PwC's Economic Quarterly Q1 2017, the national online retail sales of goods and services reached 1.40 trillion Yuan in the first quarter, 32,1%higher than a year ago, and it's supposed to grow even more in the next years. In comparison retail sales of the physical stores went up by only 7.2%. The business to business and business to consumer in China, is currently dominated by Alibaba and Taobao. Alibaba was founded in 1999 with the initial purpose to help Chinese manufacturers selling to foreign buyers, later with the establishment of Taobao, where independent sellers can list products, and T-mall, an e-Commerce site for big brands, became the most important digital marketplace in China. The company not only sells category of goods, such as apparel, electronics, electrical appliances, but recently has also moved into health care and services. In the e-Commerce market, Alibaba has 2 competitors, JD and Tencent which are after the 85% of the retail trade (The Economist, 2017).

The online retail represents even more a competitive market to the physical store, indeed, Taobao has recently developed an interesting initiative to face the brick and mortar competitor in the furniture sector. The company has opened show rooms in the city of Beijing, where customers are given the possibility to try a choice of items: sofas, tables, chairs, before ordering them online.

Alibaba leader in the e-Commerce sector, is also reportedly set to open its first brick-and-mortar department store in Hangzhou next April (2017). Chinese media states that the new mall will occupy 40,000 square meters of space across five floors and it will host brands that already have an established presence on Alibaba's two major online platforms: Tmall and Taobao Marketplace.

In order to provide a seamless shopping experience for Chinese consumers, More Mall, this is the name of the new concept department store, will also implement a number of AR and VR capabilities such as virtual fitting rooms and makeup mirrors. This "New Retail" initiative is a pioneering experiment that aims to connect online businesses with offline stores (O2O) by integrating e-commerce with the in-store shopping experience (Pan, 2017).

Despite the important opportunities in this sector, the European companies interested in investing directly on e-Commerce are not many so far: on one hand, it is due to a limited knowledge of the Chinese market online, on the other hand, in China there are still many problems concerning logistics and payments. Among the Italian companies analyzed, only the 2,2% claimed to use Internet as a distribution channel in China. Nevertheless, companies more frequently apply to multi-brand platforms such as VIP Store, since they allow them to enter the Chinese market in a more fast and efficient way (De Luca, Vianelli & Pegan, 2012).

2.2. RETAILING STRATEGIES IN CHINESE MARKET

2.2.1. RETAIL DISTRIBUTION

For nearly 30 years before the economic reform began in 1978, retailing in China was a simple and rigid distribution system, limited to the distribution of necessities to consumers. No competition existed in direct contrast to the competitive nature of a market economy, private ownership was banned and all retail market places were eliminated. The whole retail system was either state owned or collectively owned. After the institution of China Open Door policy, the retail sector went through a huge transformation with profound changes. Store ownership had a considerable diversification, since that moment foreign retailers were allowed to enter the country, and almost all the western retail formats such as supermarkets, shopping centers, factory outlets and retail chains were introduced by them in China. Chinese academics relate these changes to a "revolutionary storm" that totally altered the retail structure and landscape in China, by moving from a centrally-planned towards a market-oriented retail economy (Li, 1997). Nowadays, retailers not only respond to changing consumer demands but also induce consumption by manipulating consumer tastes and preferences.

The Chinese market, from a retail point of view appears to be marked by the coexistence of a modern distribution system in accordance with the emerged markets on one hand, and a permanence of factors linked to a historic, social and economic evolution that has characterized the country in the last 30 years. In the Chinese retail market, in the grocery and non grocery industry currently coexist two main retailer categories: first, the state owned company, legacy of the Chinese planned economy, and the private company, which are mostly foreign capital owners coming from both western and Asian countries. The Chinese

retailers, even though of state-owned propriety, they have immediately adapted to the modern competitive dynamics, therefore today they still play a dominant role.

According to the top 10 retail chain operators in China, the Chinese groups still occupy relevant positions in the ranking by retail sales in 2015. The Chinese Suning Commerce Group ranked the top with total sales of 158.6 billion Yuan, followed by Gome Electrical Appliances and China resources Vanguard. The American Wal-Mart, only ranked fifth with total sales of 73,547. Among the top 100s chain retailers, the domestic players once again performed better than their foreign counterparts in 2015 in terms of sales growth. . Foreign enterprises achieved 0.5% yoy growth in 2015, down from 4.7% in 2014 and lagged behind the sales growth of 4.3% for the Top 100s in general (Fung Business Intelligence, 2017). In 2015, there were 18 foreign enterprises in the Top 100 list, down from 19 in 2014. However, in the ranking of the top 100 foreign retail chains in the Chinese market, the presence of foreign ones come especially from Asian countries such as Hong Kong with A.S. Watson Group 175, Malaysia with the department store Parkson, Taiwan with the shopping mall Dennis, but also from Korea and Japan. Foreign retailers instead come from America like the famous supermarket chain Wal-Mart and the fast food restaurant chain Yum, France like the supermarket chain Carrefour and from Germany like the food retailer Metro.

By most estimates, foreign competition in the retail sector in China is quite small. Carrefour, for example, has only 40 stores in China. Wal-Mart, the world's largest retailer, has only 30 stores in this most populous country. A number of environmental differences make China a very different market in which to compete.

First, Chinese consumers spend an average of about \$317 a year on retail (making the size of the retail market \$412 billion). This is a relatively small amount by regional standards, and only a fraction of the retail market in Japan, which has a population which is only one-tenth that of China. Consumers in Japan annually spend an average of \$10,370 in stores (making a market size of \$1.316 trillion). Overall, international retailers control only about 1.5 percent of the Chinese retail market. Although this is expected to grow fairly rapidly in the intermediate term, Beijing intends to limit international retailers' share of the market to about 8-10 percent during the next decade.

Second, most retail expenditure by Chinese consumers is in small, independent shops.

Third, most retail spending is concentrated in such big cities as Beijing, Shanghai, Tianjin, Guangzhou, Chongqing, Shenyang, Wuhan, Zhengzhou, Chengdu, Shenzhen, and coastal cities. Therefore, current opportunities in larger cities in China are somewhat limited. Finally, certain retail sales formats are not legal in China. Retail "parties" (i.e. personal selling

coordinated through in-home parties) and door-to-door selling, as executed by these firms as Avon, Tupperware and Amway, were not permitted in China until 2004, when under the pressure of WTO China finally allowed this form of retailing (Samiee, Yip, Luk, 2004) .

2.2.2. RETAIL FORMATS IN CHINA: GROCERY AND NON GROCERY

As mentioned before, the analysis of the distribution formats is based on the distinction between grocery and non grocery. However, it's not easy to maintain this type of differentiation, since especially in grocery retail formats is more and more common the extension of the range of categories of goods that include also the more complex ones. Supermarkets and hypermarkets represent the main retail format for grocery products, with a contribute of 60% on retail sales and 97% on the sales of the big modern distribution. The amount of sales in retail sector, counted 431 billion euro in 2011, and include all the retail formats operating in the Chinese market . With reference to the period 2006-2011, different points have emerged: a constant growth of the supermarkets, a great evolution of hypermarkets and a significant drop of the traditional retail formats like the specialty stores (Vianelli, De Luca & Pegan, 2012). The state-owned supermarket or the private owned by Chinese or foreign owned capital supermarket is the dominating distribution format for foodstuffs, with a contribute of 46% of the total grocery (Euromonitor, 2011). This supermarkets made their entry in China in the mid-90s beginning a sort of commercial revolution in this market, that Western countries had already witnessed in the previous century, with different modes and times, that resulted in the transition of family owned and fragmented distribution systems into more concentrated systems with managerial management. In 2012, only the city of Shanghai counts more than 2 thousands supermarkets, symbolizing the most widespread retail store for the purchase of foodstuff products. However, this distribution format has reported a gradual decrease in the following years, to privilege instead the hypermarket format that soared of beyond 35% from 2006 to 2011, and of 15% during the last year (Euromonitor, 2012).

Hypermarkets experienced own development just in recent years, due to the initial struggles caused by the scarce ability of buying elevated quantity of goods at each purchase shipment and also further troubles related with the logistics. In addition to a changed economic and social situation, the expansion of hypermarkets is connected with its double role operated in the market: as a retail store for the final consumers, and as a cash & carry wholesaler for the companies.

Top 10 FMCG players ranked by retail sales are both domestic and foreign owned: first ranked is the China Resources Vanguard Co., second is the Chinese Sun Art Retail Group, third is the American Wal-Mart followed by Lianhua Supermarket, Yonghui Superstores and the French Carrefour China.

Most large-scale key players in the hypermarket and supermarket sector are nationally focused, many smaller-sized domestic supermarkets and hypermarkets operate regionally. On the other hand, most foreign players tend to adopt a national approach when expanding, whereas domestic players generally focus on regional rollouts. In 2016, the performance of hypermarkets and supermarkets was mixed. A few key operators such as Wal-mart (China), Yonghui Superstores and Sun Art saw a rebound in sales, while many still saw declining sales. Over recent years, domestic retailers have increasingly become the dominant force. Among the FMCG players in the Top 100s, sales growth of domestic retailers was 7.5% yoy in 2014, while sales growth of foreign retailers was 4.4% yoy. However, foreign players led in terms of expansion; foreign retailers saw a 16.8% yoy growth in the number of stores compared with 4.4% yoy for domestic retailers (Fung Business, 2017).

Another distribution format of recent introduction is the Convenience store, which is gaining a growing popularity over the years in the grocery market. This retail format represents the evolution of the locally settled little shops and kiosks, which have been spreading in the country through establishment of subsidiaries and franchising. In 2012, only in the city of Shanghai a number of 6 thousands of Convenience Store were still operative. This type of format differ from the previously brought up retailers, for being more accessible to customers by providing a free service sale , opened 24/24 h; besides, it offers a wide range of first consumption foodstuffs of local provenience, and provide a wide choice of integrated services (laundry, telephone and photo services).

CVS has been the fastest-growing retail format in China in recent years. Total sales revenue for the CVS sector reached 60.0 billion Yuan in 2015, up 13.2% year-on-year (yoy). The growth momentum of CVS is expected to continue, as small retail format continues to gain in popularity in China's retail market. According to the Ministry of Commerce (MOFCOM), the yoy growth of key retailers in the CVS and shopping mall sector reached 7.7% and 7.4% respectively in 2016, faster than the average growth of key retailers in other retail formats of 4% (Fung Business, 2017).

The development of CVS in China is still unbalanced. Guangdong and Shanghai have the highest concentration of CVS, each with more than 5,000 stores. In general, the development of CVS along coastal areas is more mature and concentrated than in inland areas, and at the

same time, the development of CVS in the southern region is more mature than in the northern region.

In the majority of cases, the CVS are owned by big foodstuff retail chain both state owned and foreign owned based. Most leading Chinese players in CVS sector for number of stores are easy Joy of Sinopec group and uSmile of PetroChina Co., which operate mainly forecourt and Meijia which is the market leader in terms of store count, with 7,400 stores in Guangdong, followed by Tianfu, Hongqi, Sun-high, and Quik. Most active foreign players are the Japanese chain Lawson with a 652 stores mostly regionally focused, and 7-eleven with 192 stores (Fung Business, 2017).

The other side of the market of non grocery products, is dominated by the department stores, mainly collocated in the principal areas of interest, in the big Chinese cities. The department stores are developed on several floors with numerous point of sales offering a wide choice of goods, ranging from the apparel to electronics, additionally, they are normally integrated with one or more floors designated for the sale of foodstuffs goods.

Competition in China's department store market is fierce, and many department store operators are managing to diversify their income streams. As a consequence, many players among the top 100 retail chain operators (the "Top 100s") in 2012 started operating in other retail formats that include supermarkets, convenience stores, specialty stores, shopping malls and discount outlets.

At the same time, some have also tapped into other business sectors such as food and beverage, commercial property, logistics, finance, hotels and entertainment. For instance, Dalian Dashang Group runs a specialist wine retailing business and has over 100 chain stores located in cities in Liaoning, Heilongjiang, Henan, Shandong, Sichuan, Shanxi, Guangxi provinces. The group also opened a movie theatre chain business in 2011 and its cinemas can be found in major cities across the north-eastern part of China. Another example is Liaoning Xinglong Big Family Business Group: it operates a holiday resort business in Panjin, Liaoning province. Shanghai Friendship Group Incorporated Company also owns Home Mart, a home improvement chain retailer . It is noteworthy that when compared with foreign players, domestic department store operators are more flexible in running other retail formats.

Most domestic department store operators are regional players, and they generally have a better understanding of local consumers' needs and stronger connections with local suppliers and distributors. Moreover, many are state-owned and can obtain valuable support from local governments.

Some domestic department store players have been actively widening their footprint over recent years, Wangfujing Department Store is a case in point. For instance, in June 2013, Wangfujing operated a total of 30 stores in China covering two municipalities and 14 provinces. Intime Department Store, on the other hand, has announced plans to open more stores in tier 3 and 4 cities across the country.

Foreign department stores have been involved in the China market for many years and have developed wider national footprint. Compared with domestic players, foreign stores have not been doing well over recent years; some have either had to suspend aggressive expansion plans and focus on revamping existing stores or close unprofitable stores and withdraw from certain cities. Increasing pressure from domestic players, a lack of understanding of consumer needs and inadequate product differentiation are the major reasons behind poor performances. Some examples of foreign department store closures are Isetan store in Shenyang, Ito-Yokado in the Wangfujing branch of Beijing, New World in Taizhou branch (Fung Business, 2013).

The specialized distribution is mainly represented by large areas, in the specific case of electronics and furniture, or by mono brand point of sales, which are commonly owned by the greatest international group chains.

The most traditional point of sales, specialized in the offer of a wide choice of different productions, are still present in the Chinese market. A relevant example for its historic and cultural interest, is represented by the silk market in Hangzhou, a huge area where hundreds of small specialized shops in a wide range of silk products, are dislocated inside the typical Chinese ancient buildings.

2.2.3. RETAIL FORMATS OF THE FASHION SECTOR

The analysis of the commercial distribution in China has to be treated differently accordingly to each different sector. Therefore, the distribution structure change in terms of the category of product commercialized, and it is also characterized by a constant evolution that go hand in hand with the contemporary changes in the lifestyle and consumption of the Chinese society.

In this paragraph it will be given much attention to the distribution formats adopted in the fashion apparel sector, with focus on its peculiar dynamics.

As already mentioned in the first chapter, the development of the apparel and fashion industry has been largely encouraged by the growth of incomes and the consequent increase of the purchasing power of the Chinese consumers. This allowed many foreign brands of the fashion industry, particularly Western symbols of affluence, to step outside the saturation of own

domestic market to enter new emerging market as China. Of particular importance is the process of internationalization of fashion retailers in China are the market entry strategies, whose dynamic differs in some ways from other markets.

When foreign companies have to deal with emerging markets considered to be still unacquainted and unexplored as the Chinese one, in conjunction with the mass communication means, they usually choose the point of sale as an integrated communication instrument to provide tangible proof of the brand power and of the quality of products sold (Checchinato & Hu, 2013). These proofs distinguish between static elements of the store, such as items used to present the merchandise, communication material (brochures, leaflets, etc.) store atmosphere, and dynamic elements of the store, including human interactions with the store personnel, other customers, and entertainment activities (Hu & Checchinato, 2015).

The Chinese market constitutes for the international brands a relatively new market compared with traditional ones, since here the brand and its product characteristics are almost completely unknown to most part of Chinese consumers. In a market where since 30 years ago, the advertising communication wasn't considered a means of information and promotion, and where the information is still directly controlled by the Communist government, the point of sale in this case, is a relevant instrument that can encourage the development of the brand image, as a strategic means to build more rapidly the brand awareness among the Chinese consumers and acquire also a premium positioning.

In this context, the point of sale and the distributor play a fundamental role in the definition of the success or the failure of the brand itself. The companies should both define the distribution strategy and the formats to apply to the Chinese market, and delineate the most suitable elements of the store image for the adaptation to the context of reference (Checchinato & Hu, 2013).

Concerning the distribution formats, the use of the flagship store is frequent as a market entry method, since it conveys the correct communication of the brand image and its values. The flagship store plays also an important role along the process of internationalization, by building brand strength and reputation, as a means of assuring partner companies of their commitment to China (Hu & Checchinato, 2015). Indeed, flagship stores are usually located in luxury buildings, along the main shopping streets of the greatest cities, as a means to immediately make Chinese consumers perceive the foreign brand as a premium one. Some important names of the Made in Italy fashion, made their first market entry in 2000s through flagship stores: Bulgari, Dolce & Gabbana, Furla and MaxMara (Bonetti, 2014).

Another important format adopted by the foreign companies, especially in the fashion sector, is the mono-brand point of sale or in franchising to save costs, usually located in less central areas or less important cities. In many companies of the fashion sector, the mono-brand point of sale play a key role in affecting perceptions of product quality, product value and willingness to buy in Chinese market. In line with such evidence, from a comparative analysis of the communication on the Vogue magazine carried out both in China and Italy, has emerged that advertising of the main relevant point sales and their addresses tend to appear more frequently in Chinese magazines, more than in Italian ones (Checchinato, Colapinto & Giusto, 2013). Reported data shows that the 34,62% of advertising in apparel and accessories sponsored in Vogue China provided information regarding the point of sales, while in the Italian magazines only the 1,79% (Checchinato & Hu, 2013).

In the fashion luxury industry, many are the international brands that invested in the mono-brand distribution in China. One of the first was Tiffany & Co., that made its enter in the Chinese market in 2001 with the opening of its first mono-brand in Beijing, and it's planning to invest further on the growth of the brand with the project of opening more flag ship stores in China second tier cities. Another example is given by Cartier, that only in 2009 opened five mono-brand stores in China: in Hong Kong, Shenzhen, Macao, Suzhou and Wuxi.

In significant number are also the historic high-end brands of the Made in Italy that successfully entered the Chinese market through mono-brand point of sales. Armani, Ermenegildo Zegna, Fendi and Versace, were amongst the first companies to enter China and opened their stores in luxurious hotels in Beijing. In particular, 1991 was the first time a Western luxury fashion brand had ever entered China; the entry mode was a fully owned store (Bonetti, 2014). Gianfranco Ferré, Gucci, Prada, Salvatore Ferragamo and Valentino made their early entry not through hotel. Stores in key locations, conferences to establish their presence (Gianfranco Ferré) and debut at the country's first government-sponsored fashion event in Beijing (Valentino) were the entry modes used. (Bonetti, 2014).

The most significant retail format acting as a "window" for the communication and enhancement of the brand, is the modern format of the Shopping Mall. According to the US real estate services firm CBRE, China retained its position in 2013 as the world's most active shopping mall development market. Nine cities out the world's top 10 for completed new shopping centre space were located in China that year, namely Chengdu, Tianjin, Shanghai, Chongqing, Shenzhen, Hangzhou, Beijing, Wuhan and Shenyang. INSITE Asset Management Group predicts shopping malls will account for 97.3% of total commercial property supplies in tier 1 cities in 2017, up from the current level of 68.3%; in tier 2 cities, the supply of

shopping malls among total commercial properties is expected to jump from 61.6% to 88.7% (Fung Business, 2014).

Officially shopping malls are defined as “one or more buildings forming a complex of shops representing merchandisers, with interconnected walkways enabling visitors to walk from unit to unit.” Unofficially, they are the heart and soul of communities, the foundation of retail economies, and a social sanctuary for teenagers everywhere (Fantoni, Hoefel & Mazzarolo, 2014). However, following the recent trends regarding new lifestyle of the consumers, the increasing urbanization and a greater need of public spaces to socialize and congregate, the growing middle-class and the e-Commerce revolution, shopping malls had to rethink their strategies.

As a result, recently the shopping malls started incorporating value-added elements that attempt to recast the mall as the new downtown, including concerts, arts centers, spas, fitness clubs, and farmer’s markets. These services provide a level of leisure and entertainment that can never be satisfied online. An emphasis on fine dining and events is also helping to make malls the hub of the local community – a place to share quality time with friends and family, not just wolf down a meal at the food court.

Shopping malls are also trying to transform customers experience by leveraging on technology and multichannel strategies. They are extending their relationship with customers to before and after the mall visit through social media and proprietary sites, apps as well as loyalty programs.

Finally, they are considering an exploration of new formats and commercial real estate opportunities, with the incorporation of a differentiated design and structure and possibly environmentally sustainable.

In China the most successful shopping mall is Wanda plaza. Wanda Commercial Properties is the top key shopping mall player, owned by Wanda group, which has 95 shopping mall across the whole China under the name Wanda Plaza.

The enhancement of the brand is a key factor for the companies of the Made in Italy that rely to this type of retail format. As a matter of fact, the presence of Italian retailers in the Chinese market, could be essential in order to reinforce the concept of experience and Italian lifestyle. Market research report that the concept of "brands box" has strong potentialities for attracting the Chinese consumer and create relevant associations with the Made in Italy (Checchinato & Hu, 2013). A significant example of this case is given by the outlet mall Florentia Village in Wuqing. This concept differs from the indoor shop, since the architecture and design of the structure where the point of sales are collocated, can be essential for building a competitive advantage based on the Country of origin and for spreading the knowledge of the Made in Italy in China.

CHAPTER 3. THE CASE OF FLORENTIA VILLAGE: AN ITALIAN RETAIL EXPERIENCE

3.1. HISTORY AND DEVELOPMENT OF FLORENTIA VILLAGE

3.1.1. Methodology

The data used to write this dissertation were collected from:

- making an analysis of the case study (Hu, 2018a), consisting of two interviews conducted in 2017 with the retail director of Florentia Village headquarter based in Shanghai and the marketing manager of Shanghai store;
- conducting field research, where I have personally gathered data. In December 2017 I visited Florentia Village first point of sale opened in Tianjin;
- analyzing information gathered from Florentia Village website page, Wechat and Weibo account.

3.1.2. Overview of the company

The company Fingen was founded in 1979 by Corrado and Marcello Fratini, and it operates in 3 different business areas fashion, retail and real estate. RDM, founded in 1998 by the CEO Jacopo Mazzei in partnership with Fingen group, it's one of the main Italian firms specialized in the investment, development and management of real estate products. RDM has been in the outlet development business for close to 20 years and has developed five major centers in Italy, through a partnership with McArthur Glen, including Serravalle, the largest outlet mall in Europe. After confirming its presence in Italy in the retail field, with several outlets and numerous point of sales, enters the Chinese market in June 2011 after 3 years of market research, in partnership with a strong European pedigree together came up with the idea of opening their first luxury outlet in authentic Italian style: Florentia Village. This project was born by a joint venture of shareholders managed by Silk Road Holdings that includes: the Italian RDM-Fingen group, the Luxemburg based China Outlet Mall controlled by Jacopo Mazzei, Gaw Capital Partners from Hong Kong, the Sino-US Waitex affiliate as well as a major US institutional investor. Silk Road is advised by RDM Asia (the real estate development company of the Fingen Group in Asia) as operating and development partner alongside Henderson Global Investors as investment advisor. Together the team brings an unprecedented degree of international outlet expertise, luxury retail network, development

capability and local market knowledge which has established a new benchmark for the China luxury outlet sector in terms of design, brand representation and consumer experience (TH Real Estate, 2013).

The Italian real estate developer and retailer RDM launched its first Florentia Village high-end Italian outlet in the development area of Wuqing, a strategic position halfway between Beijing and Tianjin in the northeast of China. The whole project covers an area of 60,000 square meters, with 42,000 square meters of gross leasing area. The project aims to bring many famous Italian brands into an outlet center in China for the first time, with guaranteed affordable prices averaging 50 percent and as much as 70 percent off normal domestic retail prices. As specifically expressed by the Chinese partner, the main idea of Florentia Village shopping mall is to recall the Italian values through the architecture and design representation of most famous Italian cities and monuments in the world, such as Florence, Venice and Rome (Hu, Checchinato & Vescovi, 2013).

In a country like China, where the luxury market is the third largest growing market in the world, foreseen to become the leading one by 2020, and where Made in Italy goods are the top choice in this sector, the company management made the strategic retail decision to choose the *luxury* as main business model and anchor for Florentia Village. The village actually has a strong connotation with luxury brands, especially houses Made in Italy high end luxury fashion labels, as an example, Florentia outlet in Tianjin was the first one to introduce brands like Prada and Bulgari in China.

Not a coincidence, that the type of target consumer attracted by Florentia Village luxury outlet mainly is the Chinese middle class or upper class consumer aged from 25 to 45 (Jing Daily, 2015), with a good job position (white collar working for important Chinese or international companies) and a significant disposable income, who can afford to spend money on high-end branded products and to pay a premium for quality products and services. More importantly, Florentia Village targeted Chinese consumer shows good taste for imported brands, especially for the Made in Italy, since they are perceived by the Chinese buyer of better quality and more prestigious than the local ones. The interest of the Chinese consumer for Made in Italy brands, came from the definition in China of Italian fashion products, ranging from apparel to shoes, as high quality luxury goods. However, even though the Chinese consumer has manifested curiosity towards Italian lifestyle and culture, the majority of them has little knowledge about Italy, since so far, they have never traveled to our country. Therefore, the only information they receive about Italian lifestyle are mainly acquired through communication sources such as TV, radio or social media, which are not always

delivered in the right way. Hence, the main idea developed by RDM-Fingen group is educating the unacquainted Chinese consumer to Italian values by offering a different retail experience based on an ensemble of visual and architecture elements to support the Italian lifestyle, and at the same time increase the awareness of Italian brands.

The first Italian element that immediately grabs the attention of the Chinese consumer is the choice of the name and the logo for the luxury village: Florentia. The choice of the name is essentially due to the Tuscany imprinting of the company RDM: the founders Fratini brothers, the CEO of RDM Jacopo Mazzei, and the managing director of RDM Asia Maurizio Lupi, together thought of the city of Firenze in Chinese "佛罗伦萨", one of the most famous Italian cities in China and all over the world, as the name to represent the world class outlet village. Besides, the Latin version of the name Firenze: Florentia, is expressed in combination with the well-known symbol of the Italian city, a red lily as the logo of the outlet village (figure 3).

Figure 3. Florentia Village name and logo (Florentia Village, 2018)



Beginning with name and logo, the values on which the company is founded are mainly three, *Italian style*: expressed in the Italian cuisine, the special atmosphere, accompanied by the special shopping environment of the outlets surrounded by Italian architecture that paints a vivid image of Italian most fascinating cities by combining plazas, fountains and monumental buildings.

Second, *quality*: to remind customers about the high quality of Italian luxury brands and exclusive services provided by Florentia Village. The village offers a wide choice of the most appreciated high-end Italian luxury brands and provide privileged experiences, one of them is in the VIP lounge, a private area where customers can enjoy special quality treatments.

Third, *authenticity*: is an important value that the company wants to convey, which is built on a new shopping experience to ensure the customer about the authenticity of the quality of the

product, and most importantly of its Italian origins. The logo of the made in Italy is applied at the entrance of each Italian outlet store collocated inside the village, to ensure the customer about the quality and Italian origin of the product is going to purchase (Figure 4).

Figure 4. Florentia village advertising billboard in Tianjin.



3.2 FLORENTIA VILLAGE CENTERS

Compared to Italy, the construction of a village in China requires shorter time, an average time of 7-9 months. However, the investment areas are not selected randomly by the firm, as they are identified through market research (Hu, 2018a). RDM group checks the availability of the area they want to invest, by making focus and research studies, evaluating costs, local position of the land etc, before moving forward with the purchase phase. If the research study satisfies all the criteria, RDM group proceeds with the purchase of the land. The company starts with the preparation of a project of the village, and later with the support of a general contractor, it finally proceeds with the construction. Consequently, the company is responsible to prepare the leasing of the commercial spaces, the future tenants signing the contract will acquire the right to use the business licenses and to operate their business inside the Village. The relationship linking the two parts is called "Joint Operation", since the more the tenants perform, the more Florentia Village as a retailer, will succeed.

To date, all the investments taken by RDM Asia have had successful results, following the opening of the first village in Tianjin in 2011 in partnership with Waitex Group with an investment of 1 billion yuan (\$ 154.4 million) (China Daily, 2011), and a turnover of 3 billion Yuan (400 million euro at current exchange rate) ⁸, other 5 key locations were opened in Mainland China in the following 6 years: Shanghai, Guangzhou, Hong Kong, Wuhan and Chengdu (figure 5).

Figure 5. Florentia Village points of sale (Florentia Village, 2017)



The open air layout of the villages evoke Italian design and architecture of Italy's greatest cities, and each one has its own characteristics and distinctive features. The Tianjin village has distinctive characteristics that are not present in other villages: a canal runs through the village from east to west, where customers have the possibility to walk down it by gondola, the canal is also crossed by a reproduction of the Rialto Bridge, all elements to evoke the atmosphere of the city of Venice (figure 8). The shopping center is also inspired by the architecture style of Rome through the representation of its well-known emblem: the Roman Coliseum (figure 6), and its plazas: Piazza San Pietro, Piazza San Giovanni. In general, the village is a good representation of the Italian style architecture: at first sight the porticos and the stylish brick roads immediately remind of the typical city center of an Italian town,

⁸ Data updated in 2015.

enriched by artistic elements like the scenic galleries, Florentine arcades, columns, balcony existing only in our tradition.

Shopping is not the main activity attracting customers at Florentia Village, indeed, many people that were surveyed claimed that what first attract them to visit the center is the Italian style environment, where to spend a day strolling surrounded by a relaxing fun atmosphere (South China Morning Post, 2015).

Figure 6. Reproduction of Coliseum-like building in Florentia Village Tianjin



Figure 7. "Grand Canal" crossing Florentia Village in Tianjin



Figure 8. An imitation of the Venetian Rialto Bridge in Florentia Village Tianjin



Figure 9. Porticos and balconys in Florentia Village Tianjin



The village in Tianjin is located in Wuqing development area, at about 40 miles southeast of central Beijing and covers an area of 60,000 square meters, with 42,000 square meters of gross leasing area. The village is located just 100 meters away from the Jingjin Intercity railway station, and therefore reachable in just 30 minutes from the city of Beijing, and only 5 kilometers away from the Jingjin expressway Wuqing north exit for those coming by car. About 25-26% of the customers reach the village by train, with the possibility to receive their ticket redeemed if they spend more than a certain amount. All the Florentia Villages provide also a free shuttle bus service to reach the village in an alternative way. Customers can easily find the schedule time and further transportation information on the website page or on the brochure of the village.

Each village houses a selection of more than 200 international brands, ranging from the categories fashion and accessories, intimate wear, beauty, home and travel, kids and toys to dining, with a particular attention for the Italian luxury brands, and the Chinese local brands. To provide the best luxury experience, a Retailer Academy trains the store managers to play its key role, while a special team every two days, checks the displays, cleanness, assortment

and prices of all the shops. Italian luxury boutiques are usually placed in strategic areas close to the main attractions of the village, to give them more visibility, since the majority part of the customers expect to find and purchase especially luxury brands at the Village. Analyzing the specific case of Jingjin Village, the luxury compound is mainly located in the southern part of the Village, embraced by the two piazzas standing in front of the principal entrances: entrance 5 accessible from the VIP parking area, leads to Piazza San Carlo, here the customer can find a choice of well-known Italian luxury labels like Gucci, Gucci kids right in front of the entrance, Valentino, Dolce & Gabbana, Max Mara, La Perla, and other brands of the Made in Italy like Canali and Brioni, but also a choice of international luxury brands such as Jimmy Choo, Kate Spade, Balenciaga and DKNY. Another strategic point is at Entrance 2 accessible from the shuttle bus arrivals, which leads directly to Piazza San Giovanni embracing a wide selection of important Italian luxury brands starting by Ermenegildo Zegna, Armani, Versace, Salvatore Ferragamo, Fendi, Bulgari, Prada, Bottega Veneta, and international brands as Burberry, Bally and Hugo Boss. Florentia Village in Tianjin has also the merit for being the first outlet in China introducing outlet stores of Prada, Bulgari and Fendi.

Figure 10. Customers queuing at Prada outlet in Florentia Village Tianjin



However, the compound of local brands is located in more hidden areas of the village, opened after the second phase construction, placed farther from the strategic entrances accessible from the railway station and shuttle bus arrivals, in consideration of a more limited number of

Florentia consumers interested in purchasing them. Indeed, the Chinese brands as Anmani and Elegant Prosper selling womenswear, Woo for accessories, and other Chinese brands selling menswear and lingerie, are located in the northern part of the village. Among the local brands located in Florentia Village, there are some examples of local Chinese brands with a misleading connotation. The most relevant example is given by Anmani, since the brand name can be easily confused with the Italian "Armani" or simply being mistaken with an Italian label, by the Chinese consumer who is unfamiliar with Italian fashion culture. This is the effect of the country sound branding, that occurs when a company, in this case "Anmani", assume the technical image of a country (Italy), with the result of causing a wrong perception of the brand by the Chinese consumer, who reads the two brand names on Florentia Village brochure, without being able to distinguish the Italian label from the Chinese one. Anmani which is present also in Shanghai outlet is not a single case, inside Florentia Village can be find also the jewelry brand Folli Follie, shoes brand Ecco and Stella Luna and the apparel brand Vero Moda. The wrong perception of the Chinese low quality brands Anmani, Stella Luna as Italian ones, can also contribute to the development of a negative perception of the image of Made in Italy by the Chinese consumer (Vescovi, 2013).

In support of the local brands, the sportswear houses most emerging international brands currently dominating the Chinese market: Nike, Adidas, New Balance and Puma, but also less popular brands like Converse, Skechers, Fila, Columbia and Jeep.

Chinese consumer trends have known radical changes in the last years: if at the beginning the Chinese Consumer was used to buy luxury brands (he himself has never heard before) with the only purpose to display own status, prestige and to brag about the price of product with friends and other people, nowadays instead, they demonstrate of gaining a more deep knowledge about brands, they have started to become more discerning, quality oriented and to give more relevance to own tastes more than caring about the showing off.

At the outlet in Tianjin in fact, the top choice brands among the Chinese consumers are Ermenegildo Zegna, Prada, Armani, Gucci, important benchmark of the Made In Italy, and already known by the Chinese consumers, as first Italian luxury brands entering the Chinese market. Among the international brands, the top popular labels are Burberry and Coach, and the most bought goods from this brands are mainly the accessories (China Daily, 2011) . Prada, Zegna, Ferragamo, Burberry and Coach, covering an area of 3,000 square meters, together generate more than one-third of total sales, corresponding to 15%.

According to my personal experience, when I went to visit Florentia Village outlet in Tianjin on a Sunday of December 2017, I immediately noticed that the brands attracting more

customers were actually corresponding to those selling more. Gucci for example was one of the most crowded, indeed people were starting queuing even from the opening hour, when at that moments shops in the same Piazza San Carlo were still empty. Other brands asking to line up because of the high traffic store at that moment were Prada, Armani, Coach and Versace, in order to ensure a good quality of service and a personal assistance provided in moments of high store traffic. At Gucci outlet store for example, there were several sales assistants, one of each dedicated to a couple of customers entering the store, following clients from the entrance to the exit, in order to present the product to the customer as soon as she/he shows interest and to provide ready assistance in case of inquiries. In some of Italian brand store I have personally visited, I have noticed how the sales assistant were particularly stressing the Italian origin of the product, and how Italians usually wear it to Chinese consumers, which are both essential in order to build and grow a good brand awareness among consumers.

RDM Asia held the grand opening on January 22, 2015 for their second outlet center in China, Florentia Village Shanghai Luxury Designer Outlet. The JV invested \$ 250 million for the Shanghai center, consisting of approximately 48,000 m² resulting in 210 retail shops, 12 restaurants, 2 bars, 2 food courts, 1 indoor playground, 1 VIP lounge, 3 customer service desks and ATM points, 2 security rooms, 6 public toilets, 4 big storages, 1 canteen for the Outlet staff and 1 management office. The Shanghai site, at the junction of Huaxia Highway, Yinbing Highway and the Shanghai belt expressway in Pudong New District, is located in a strategic position close to the city's main airport, Shanghai Pudong International that counts more than 50 million passengers. Additionally, the Metro line 2 Yuandong Avenue Station is only 400 meters to the village. There is also a shuttle bus service connecting Florentia Village to the Shanghai Metro rail system and directly to downtown points. For customers arriving from the highway, the village can accommodate 2,700 car spaces. The center is also a few minutes away from the site of China's only Disneyland Park, that opened in 2016 and represents a real attraction point for tourists interested in spending a shopping day also at Florentia village.

The Italian Renaissance themed architecture is also protagonist of the Florentia Village Shanghai, completely surrounded by elegant porches and monumental colonnades, some of the squares are customized by fountains which emphasize the importance of water as a source of life and urbanization. Several paths start from the squares and develop in streets, widenings, porches and galleries until they finally rejoin, accompanying the customer on an imaginary journey through the most beautiful Italian cities. As in the Tianjin Village, here again emerge

elements reminding of the cities of Florence, such as the Tuscan earth-tone motifs representing the lily and the stone-mosaic piazzas, but also a representation of the city of Venice embodied with the replica of the magnificent Palazzo Ducale. In the central area of the village is located an oval shaped piazza in Palladian style, enriched by numerous colonnades, where all the events and shows organized by the village, as the opening event, usually take place (figure 11).

Figure 11. Central plaza at Florentia Village Shanghai (The official Shanghai China travel website, 2018)



The village is developed on two floors, at ground floor at the center of the Village is located the compound of luxury brands, such as Armani, Celine, Coach and Ferragamo , while at first floor are placed the local and sportswear brands, and also food & beverage area.

The choice of the brands located in every village is strongly influenced by the tastes and trends of the local consumer, in that specific case depends on the Shanghai consumer . At Florentia village Shanghai for example, It has been noticed that the consumer has a shown a strong appeal for stylish, trendy and young brands such as Yves Saint Laurent, Celine, Givenchy and Moncler which are of a recent introduction in the Chinese market, but among the most appreciated. On the contrary, institutional brands like Zegna and Burberry always appreciated by the Chinese market don't seem to have the same appeal in Shanghai, despite being present at the outlet, don't constitute the top choice brands for the customer, probably due to a more significant flow of younger consumer in Shanghai, differently from what happens in Tianjin Village. Another factor influencing the tastes of the Chinese consumer, is

their attitude of following the trends launched by the Chinese or international stars, which is expressed with the standardization and imitation of their idols, an attitude that has its roots in the collectivist culture. The apparel brand Boy London, for instance was unknown by the Chinese market, as long as few Chinese stars started to wear it. Since that moment, Boy London has become very popular in Shanghai especially among the young-adult target of customers, that was later included at Florentia Village in Tianjin and Shanghai. At Shanghai village it has been noticed a section of consumers not necessarily interested in following the trends, indeed less popular brands as Karl Lagerfeld, Pinko seem to have a modest appeal on the Chinese consumer as well, who can be identified with the type of consumer who prefers satisfying own personal taste more than caring about current fashion trends.

Generally, the retail brands that sells the most at Florentia Village Shanghai are those reflecting the current trends of the Chinese market, in first position there is Coach, a middle level brand mostly appreciated by young adults target, followed by timeless sportswear brands Nike and Adidas.

The third outlet center has been opened the 24 September in a strategic position halfway between the cities of Guangzhou and Foshan, covering an area of 47,551 m² built in two different phases. The Florentia Village Guangzhou site with an investment of 1 billion Yuan (140 billion euro) rises on Shugang Road, by the Guangzhou West Expressway has a 90 minute catchment of at least 28 million people and is within a 20 minute drive of the city centers of Guangzhou and Foshan. The village provides also free shuttle bus service every 30 to 40 minutes connecting to Guangzhou south railroad station, a massive modern facility that accommodates four railways including high-speed train service, as well as subway service. The center features an underground facility for a portion of its 2,500 parking spaces, a concession to the April to September rainy season.

By making use of " Visit Italy without going to Italy" theme, Florentia Village Guangzhou follows the format of the design philosophy of Florentia Village, drawing inspiration from an Italian style layout recalling the Florence Renaissance and Roman age. The streets and piazzas of the Village are also embellished by palm trees and plants, which almost give the impression to the customer of finding himself in a botanic garden (Figure 12).

Figure 12. Florentia Village central plaza in Guangzhou-Foshan (Florentia Village, 2015)



The village houses a selection of over 100 crossover brands which are always present in Florentia Village such as Armani, Prada, Coach, Ferragamo, Versace, and features a selection of local brands which are known only by the Cantonese market and, as a consequence can't be sold at villages in Tianjin and Shanghai since they would never gain the same popularity.

The village is also planning a third phase project resulting in a new and outstanding on-site entertaining facilities and a space for seasonal events. A 3,500-square-meter family entertainment complex will have facilities for kids to play, for teenagers to experience new gaming and sporting activities, as well as cinemas, virtual reality, and interactive digital games. The village is in continuous expansion and its number of visitors as well, the Guangzhou-Foshan outlet received 2 million visitors (January 2017) and ranked in sales of 500 million Yuan (China Daily, 2017).

Luxury Designer Outlet Florentia Village Hong Kong opened in January 2017, is RDM group's first luxury retail centre in Hong Kong. The center which occupies two floors and 60,000 square feet, incorporates a modern living culture with a series of intrigued interactions between its internationally renowned brands, products and customers. It's located in the heart of Kwai Hing with just 5 minutes' walk from Kwai Hing MTR station, and only 25 minutes from Hong Kong international airport. The proximity to mainland immigration checkpoints and Hong Kong airport are strategic attractive points benefiting Florentia Village, that in a year was forecasting to welcome half a million customers, 50 % of whom coming directly from Mainland China, 25% from Hong Kong residents and another 25% of travelers and expatriates (Panorama, 2017).

The proximity of the outlet village to the mainland, raises also the risk that buyers from north of the border will source goods from the Hong Kong outlet, carry them through customs and resell them in mainland China where prices are higher due to steep import taxes. This practice is called, *daigou* 代购; and it is becoming more and more common in Kong Kong, since there, luxury goods are sold at more competitive prices than in mainland China.

Florentia Village Hong Kong, in contrast with the format of traditional Italian style architecture honored by the three mainland locations, due to density and geographic constraints of the city (Mingtiandi, 2017), adopts a unique aesthetic stand in the KC office building, with a choice of a contemporary shopping space and its simplistic, stylish glass facades (figure 13). The village gathers the leading renowned brand names including Armani, Lane Crawford, Sergio Rossi and Sunglass Hut, as well as the first outlets opening in the city of Hong Kong, from Kenzo, Links of London, Versace, the city's biggest Prada outlet and other labels as Folli Follie, Furla and Salvatore Ferragamo.

Figure 13. Florentia Village adopting different aesthetic for Hong Kong mall (Mingtiandi, 2017)



After opening centers in China first tier cities, Florentia Village started to approach second tier cities, and in future also third tier cities, after years of market research, with a smaller size and phased investment and ensuring that enough number of brands were interested in investing in these new almost unexplored markets.

The fifth Florentia Village outlet mall opened in the second tier city of Wuhan in Hubei province of central China, with an investment counting 400 million Yuan (\$59 million), the center provides an area of 33,600 square meters of prime retail space (Mingtiandi, 2017). The mall is located in Ezhou, a tourist city outside Hubei provincial capital, and it's reachable by high-speed train from Wuhan railway station in 20 minutes, or with an hour's drive from Wuhan Tianhe International Airport. Thanks to its good connectivity to a large and wide catchment, the mall has good potentials for engaging a sharp touristic traffic.

Last Florentia village joining RDM family was opened in Chengdu in Sichuan province, after the celebration of the Grand Opening ceremony on December 13th. The village is the sixth Florentia Village in Greater China that follows the Italian style design architecture launched by the existing villages, and it is also the first large authentic Italian outlet center in southwestern China offering high-tier international brands. The new Florentia Village Chengdu covers a floor area of approximately 35,000 square meters in Phase I development, plus 15,000 square meters added in the second phase and house nearly 100 premium brands from across the world, that are going to expand in the following months (Florentia Village, 2017).

The choice of Chengdu as the first southwestern city where to locate a Florentia Village, is mainly due to its remarkable development and increasing income level that makes this second tier city more appealing to luxury retailers. Furthermore, Chengdu and the choice of placing own villages in second tier cities represents also a new interesting market where to invest compared to first tier cities, such as Beijing and Shanghai, which are characterized by high market saturation and high competition.

Since 2011, after the opening of 6 centers in China, Florentia Village group has been considered the greatest outlet operating in the luxury sector in China and one of the benchmark in the country with a turnover of \$1.02 billion reached in 2017. Indeed in 2016, Florentia Village centers registered an inflow of 11 million people, and at the end of 2017 counted more than 13 million visitors (Pambianco News, 2017).

Indeed, RDM is scheduled to open other two venues enlarging Florentia Village family in 2018, keeping on with the goal of expansion in second tier cities: next projects see the southwestern municipality city of Chongqing and Qingdao in Shandong province, as the new home for Florentia Villages.

3.3. LOYALTY CUSTOMER PROGRAM

Florentia Village centers offer to its customers the possibility to apply to a membership program, which allow them to enjoy a variety of prestigious benefits and to take part to special activities provided by the Village. Florentia Village loyalty program is one of the most developed in China, since it counts more than 500 million members (as of June 2017), a number growing rapidly week by week. Data are provided by the customer department, in Chinese "吓人部" at Florentia Village Shanghai headquarter, whose duty and responsibility is to provide customer assistance, elaborating and issuing weekly updated data of the upcoming members joining the loyalty program and monitoring clients transactions of each of the 6 opened centers in China. Last June 2017, Florentia Village in Wuqing counted 260,000 members, Shanghai center more than 150,000, while the center in Foshan counted 70,000 members, which comprise a number of almost 500,000 total members of Florentia Village (Hu, 2018a).

Florentia Village put a lot of efforts and invested a significant amount of money for the development of the loyalty program, efforts compensated with the acquisition of 500,000 members in only 6 years, who seem to appreciate and take the full advantages offered.

Customers interested in becoming members of Prestige club, this is the name of Florentia Village membership club, and being eligible for numerous benefits, have two possibilities for subscribing the program. Customers can decide to enroll directly at Customer Service located at the entrance of each Village and here after providing own customer data as telephone number where to receive updated information about discount activities and events, they will be receiving a tangible member card. However from December 2016, Florentia Village gave a boost to its Omni-channel strategy by linking its customer loyalty program to WeChat.

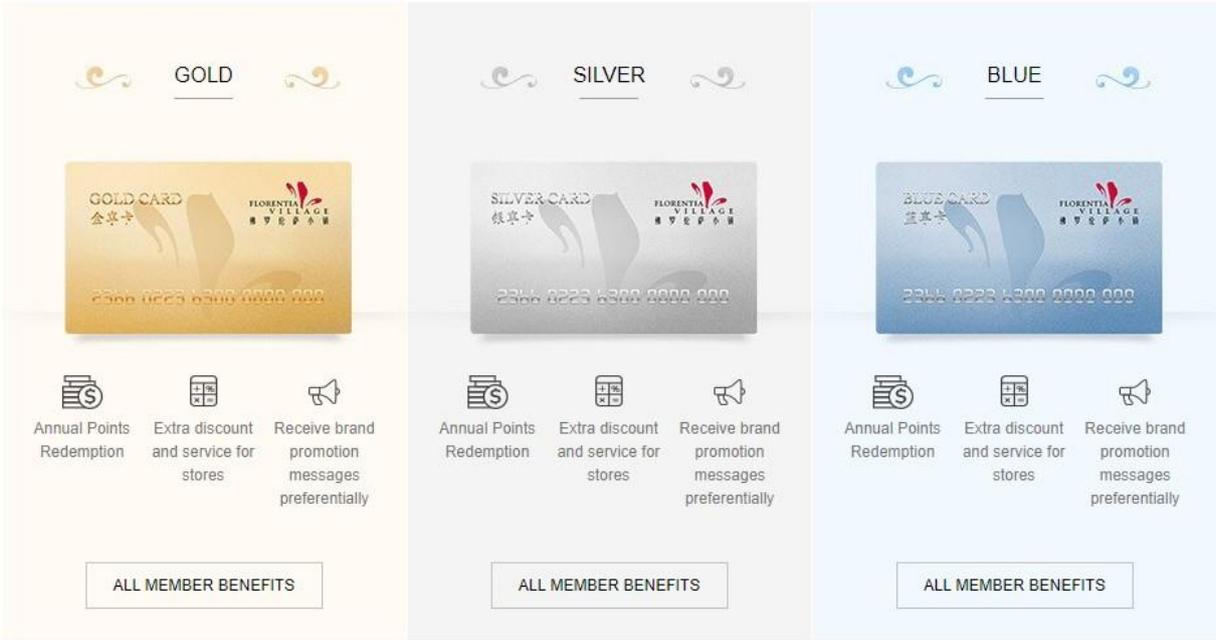
The subscribing method has been updated due to the event of the digitalization, which is a process that brought to the abandonment of the physical card, in favor of the adoption of digital technologies, as the mobile devices that make possible using social collaboration and unified communication platforms for engaging with the customers. That is to say, that since December 2016, customers has the possibility of using WeChat mobile to enroll the loyalty program by basically scanning the QR code, enter the system by introducing own telephone number and own personal data in order to activate the service and starting receiving constant notifications by Florentia Village informing the client about the score points available on their e-card, as well as the upcoming promotions and activities reserved to the customer.

At the moment of registration to the loyalty program, the new member will receive a white card as to represent the customer who hasn't made any expenditures yet. Each Yuan spent inside the Village, the customer earns 1 point, which can be used to shop for gifts or to upgrade the Prestige card. As soon as the client reach the amount of points necessary for the upgrade, Florentia Village system will automatically proceed with the upgrade to the new membership level. Once the upgrade is complete, the old card will be retrieved and the points and personal information in the old card will be automatically transferred onto the new card.

The system includes three distinctive tiers or level of membership which can be divided into: *blue*, *silver* and *gold*, depending on the amount of money spent by the customer. If the customer spends a sum of over 700 RMB in one day, the client receives the *blue* card and immediately can start enjoying the benefits dedicated to first tier members. If the customer spends more than 10,000 RMB in 2 months or accumulate over 10,000 loyalty points is awarded of the *silver* card. Lastly, the most special clients spending more than 50,000 RMB in 5 months or Blue and Silver card holders accumulating over 50,000 loyalty points will be awarded of the *gold* card.

As soon as the customer enter the Prestige club and totalize a significant number of loyalty points, each member is entitled to a multitude of different privileges offered by Florentia Village (figure14):

Figure 14: Florentia Village tiers of membership and awarded benefits (from FlorentiaVillage website, 2018)



The system "spend 1 Yuan gain 1 point", is a retail strategy relevant in order to motivate the consumer to enjoy Florentia Village shopping experience, and to invite them to spend more each time, until they become eligible for a special award.

Each tier of membership blue, silver and gold give the right to the consumer to take advantage of different privileges. Every tier of membership can:

1. receive updated promotions in real time via Florentia Village WeChat official account, or via SMS/MMS for those clients who do not have WeChat
2. enjoy activity of extra discounts and rebates offered by the single store brand in established period of the year.
3. redeem points for kids playground located in each Florentia Village
4. take part to the yearly point redemption. At the end of the year, each Florentia Village celebrate the activity of points redemption, in which the customer members joining the activity, have the occasion to use the score points acquired during the year to redeem a special branded gift within the established time. Customers can choose own special gift among a selection of branded products. Last November 2016, Shanghai center offered a selection of high-end gifts such as Michael Kors bags, Burberry scarves , Versace sunglasses and many other high-end label gifts.
5. gain a percentage of discount, varying depending on the tier of membership, at Bella Vita Restaurant & Bar. Bella Vita bar and restaurant is located at each Florentia Village center and offer an authentic Italian dining experience to its customers.

Silver and gold special high level members can benefit even more advantageous activities:

1. benefit of triple point activity on any purchase during the month of August and at birthday month, with the purpose to invite customers to spend more during summer period.
2. take part to special events organized by single store brands, such as Italian style brunches and aperitifs, as a way to call the attention of the customer inside the store and increasing sales probabilities.
3. enjoy a superior experience in a VIP lounge (figure 15). It is an Italian designed space, offering Wi-Fi, luggage storage, widescreen TV, newspapers and magazines, and an elegant bar offering drinks, finger food and aperitifs. Silver card holder is allowed to bring up to 2 extra persons that imply a deduction of points for each person, while the gold member is allowed to bring one person for free. VIP lounge is also a scene of special Italian themed activities, teaching courses and events dedicated to affectionate customers.

Figure 15. VIP lounge at Shanghai Florentia Village



Florentia Village not only uses the impressive Italian style architecture as a way to offer a little Italy visual experience, but also uses an important program of activities ranging from food, style, language to fashion to provide to the Chinese consumer a total full immersion in Italian culture and its fundamental values.

In line with the Italian values widely promoted by Florentia Village, Tianjin and Shanghai villages were the first centers organizing activities to its more affectionate customers. The activities take place at the VIP area placed at the second floor of each Florentia Village, and are reserved to the only members of silver and gold card, in order to ensure the best quality of the service provided. As claimed by the retail director of Florentia Village Shanghai, the aim of this project is not to provide academic courses to its clients, but merely is a fun and entertaining instrument to approach and educate the Chinese consumer to Italian values.

Florentia Village centers join its members to take part to several courses and activities to entertain customers in weekends. One of past activities organized called "Member's family happy weekend" (Florentia Village Tianjin, 2016) gathered the Prestige members and their children at Florentia village Tianjin VIP lounge to take part to a pizza making teaching course held by Italian chefs, where children and own parents were given the possibility to experiment for the first time the authentic art of the preparation of Italian most iconic dish.

Florentia Village provides also Italian fashion style courses to teach the Chinese consumers how to wear and combine Italian made clothes and accessories, Italian language courses for children, always taking place at centers VIP lounge and more importantly held by professional masters of the sector and trusted partners of the Village.

Bella Vista bar and restaurant located at Florentia Village centers, as well play a fundamental role to engage the Chinese consumer with Italian life style. Bella Vita Italian chefs and the management team select only imported ingredients to create an authentic Italian dining experience. Moreover, the restaurant is strongly committed with the development of a superior Italian food and beverage culture.

Florentia Village Shanghai last February 2017 prepared a two-day supreme food and wine experience to lead its VIP members to taste a "double senses Italian experience". Florentia Village emblem Italian Bella Vita restaurant , welcomed its prestigious members to enjoy a menu prepared by the esteemed Italian chef Stefano Tasso. The Italian chef brought the finest natural products directly imported from Italy served with a prestigious Italian wine, and its traditional Italian culinary techniques to its Chinese clients.

The famous Italian Gelateria chain Venchi with a past tradition of centuries-old culture and the quality of unique products, thanks to its confirmed presence at each of Florentia Village centers, offers to the Chinese consumers the best experience of authentic Italian gelato. During the summer months, Venchi gelateria attracts Chinese consumer to better know and taste its refined chocolate ice-cream by offering only to village prestigious members a coupon of 100 Yuan of free ice cream.

3.4. FLORENTIA VILLAGE E-SHOP

Following the recent trends concerning the growing e-commerce revolution, Florentia Village as a retailer has started recently to take some measures for reviewing the traditional way of shopping, by incorporating value added elements as Italian themed activities, courses, events, promoted through the online social platforms, to attract the customers at the Village.

However, last December 2016, Florentia Village made its first significant leap in digital presence, by tightening a collaboration in partnership with VIP.com and Mei.com. This two platforms are not the conventional e-commerce websites Chinese consumers usually refer to for online shopping such as T-Mall and TaoBao, since in particular are designated for the sale of authentic and genuine luxury products.

VIP.com is in fact a leading online discount retailer providing special offers and deep discounts on high quality branded products at a significant discount from retail prices. Since its founding in 2008, the company is pioneering the online discount retail model in China and has built a growing network of customers and brand partners.

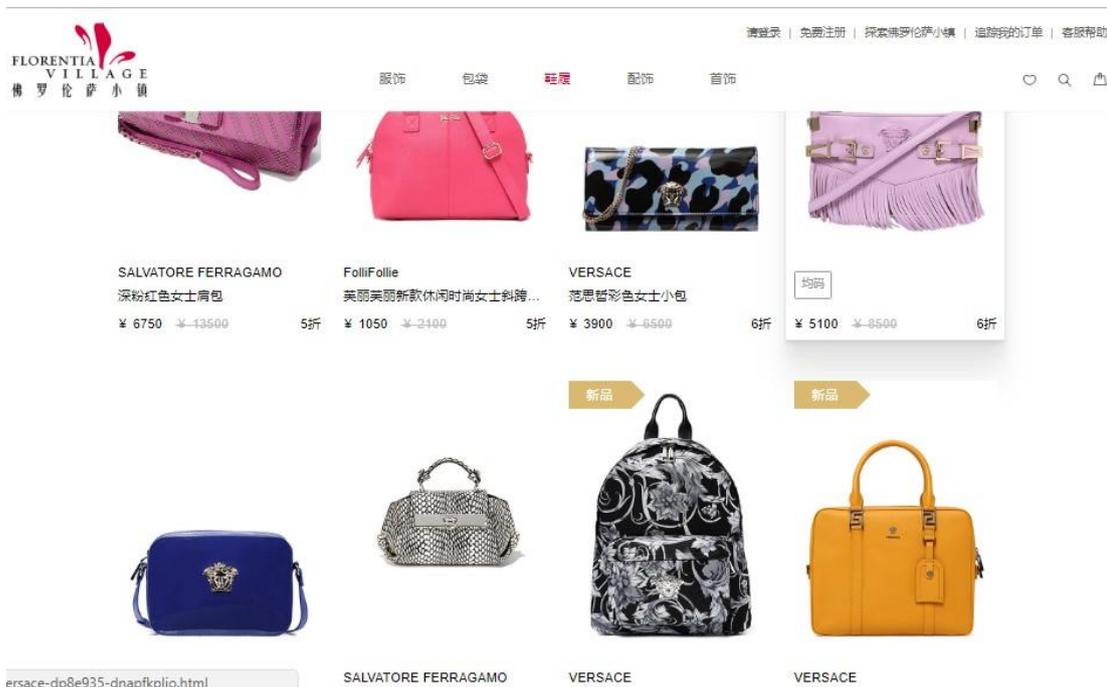
Mei.com founded by Thibaut Villet in 2010 and owned by Alibaba group since 2015, is a e-commerce platform selling over 2000 luxury brands including Italian brands as Armani, Valentino, Bottega Veneta etc. and a customer base that spends on average 640 euro per month (AGI, 2017).

This two platforms were designated by Florentia Village for the selling own genuine and authentic luxury products at discount prices. The collaboration with Mei.com and VIP.com had excellent results, since helped luxury brands to increase their online sales by 120% through 2016 and 2017 (Jing Daily, 2018).

Furthermore the company in order to create a sort of bridge connecting e-commerce approach with the brick and mortar, more and more makes use of Online to Offline commerce (O2O). This business strategy is used to draw potential customers from online channels to make purchases in physical stores or vice versa. The approach used by Florentia Village is bidirectional, from brick and mortar to e-commerce and from e-commerce to brick and mortar. O2O approach, incorporates techniques used in online marketing with those used in brick and mortar marketing, such as through emails, internet advertising etc.

Although the company's core business is "brick and mortar", in order to support the physical retail experience, however, Florentia Village is updated with the current trends. Indeed, last January 15, 2018 it launched its own first e-commerce platform named "Florentia Village e-shop", establishing the opening of the online sale to embrace the needs of many Chinese consumers already familiar with the online shopping experience (Figure 16).

Figure 16. Florentia Village e-commerce website



Source: Florentia Village website

The website gives mainland Chinese customers access to its luxury offerings after the stores close at 8pm, with 24-hour customer service on 300 products from 10 international brands , including Ferragamo, Follie & Folli, Versace, and La Perla at up to 80% discount. By the end of the year, more than 20 luxury brands are expected to be included on the site, including Furla, Moschino, Lane Crawford and Guess, to satisfy customer demands with a full wide range of labeled products (Jing Daily, 2018).

3.5. RETAIL-TAINMENT

While digital industry remain a huge challenge for the retail industry, Florentia Village top priority remains the enhancement of the physical customer experience.

The incorporation of value added elements including concerts, activities, events, provide a level of leisure and entertainment that can never satisfy the online, here the term: retail-tainment.

Indeed, Florentia Village GuangFo (Guangzhou-Foshan) is set to debut on February 7 during the Spring festivity, with the mall's first family entertainment center, expected to be largest

one in the China outlet industry. The jungle-themed venue, will offer a trampoline and a rock climbing area, a cinema, games, and VR experiences for customers.

The jungle-themed Family Entertainment Center covers an area of 3,000m² and features plenty of natural components like palm trees, bamboo and wood. The space is full of flora and fauna, and immersed with the sounds of a blooming tropical forest, allowing guests to feel like an explorer stepping into the Amazon.

The two-story center is comprised of four main areas: fit&fun, jungle exploration, children's entertainment and VR. The jungle-themed Family Entertainment Center features classic entertainment like trampolines, rock climbing, a cinema and video games as well as themed entertainment including "Jungle Playground", "Path of the Brave", "Limitless Hike" and "Mangrove Maze" (Florentia Village Guangzhou, 2018).

Through the VR experience, guests can visit "River Rapids", "Flying Snail", "Crazy Knight" and "The Swamp" and experience the exhilarating thrills of rafting, skydiving, surfing and more.

The ticket entrance price is 100 RMB for children and 120 RMB in the weekends, price for adults is 150 RMB from Monday to Friday, 180 RMB in the weekend and Holidays (Florentia Village Guangzhou, 2018).

Florentia Village takes the "retail-tainment" approach, providing guests the opportunity to do more than shop, but to discover, eat and have fun. The jungle-themed Family Entertainment Center is integral to the continuing implementation of this strategy.

3.6. COMMUNICATIONS STRATEGIES

The wide portfolio of events and activities provided in each center of Florentia Village, are managed by the marketing department at Florentia Village headquarter based in Shanghai. The marketing department in Shanghai is responsible for the executions of the marketing and communication activities mostly planned by Kerry Center advertising agency.

The activities organized are mainly focused on the involvement of the Chinese consumer to the Italian way of life promoted by Florentia Village centers, and make use of this events to meet the Chinese culture with the Italian one.

Activities and events are supported by a communication program based on both traditional and digital communication tools.

Considering the traditional tools, Florentia Village make use of brochures delivered at each village center to offer a discount voucher to promote centers' Italian restaurants and bar Bella

Vita and Gelateria Venchi, to provide customers the shopping guide containing list and map of all the brands available and all the facilities offered by the center, or to inform customers about benefits acquired by applying to FV loyalty program. At the entrance points of the village are also located some billboards advertising outlet stores' discount activities and promoting special events dedicated to Prestige Club members . For example, last December 2017 to celebrate Christmas Holidays at FV Tianjin, every weekend of the month, Prestige club members spending at least 3,000 could receive two tickets for a luxury experience at the Hot Springs in Europe (figure 17).

Figure 17. Florentia Village Tianjin advertising Christmas billboard



Some other advertising billboards are also placed in main strategic areas such as train stations, metro stations and highways, where passengers can more frequently bump into and get to know with the Village. In Shanghai for example, advertising billboards are placed in Huahai road and Huasha highway to Shanghai Pudong airport, but also on metro line 2 leading to the Village.

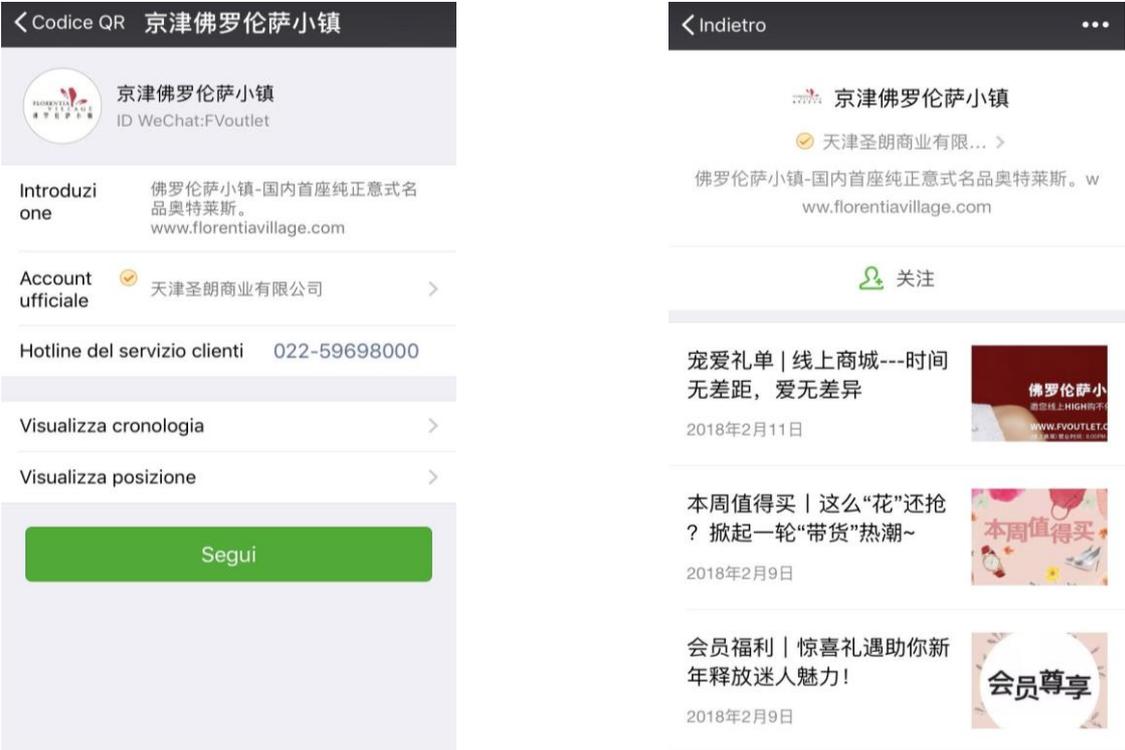
Billboard is the main advertising tool adopted by Florentia Village for its communication strategy (Hu, 2018a), since it has more efficacy on their target market mainly composed of young and active consumers in their thirties with an high purchasing power.

In current digital era, digital marketing is also an essential vehicle of promotion and engagement to the addressed customer. Main digital channel used by Florentia Village to communicate with the audience is first of all the website platform. Florentia Village website page content is constantly updated, with daily news regarding next coming events taking place in the center, discount promotions posted by the outlet stores each month, and many other announcements with the purpose to constantly involving customers to join all this events.

Furthermore, social media platforms, as WeChat and Weibo are two of the most used platforms by Florentia Village to have an immediate contact with the customer.

As mentioned previously, WeChat is used for delivering communications in membership, to inform Prestige members on score points gained, and most importantly to send invitations to events organized by the Village.

Figure 18. Florentia Village Tianjin WeChat account



Source: WeChat

In order to successfully promote these events, FV holds important collaboration with popular influencers and KOLs (key opinion leaders) present in the social media platforms like WeChat and Weibo, as main sources to attract the customers taking part to these events.

Figure 19. Florentia Village Weibo official account



Source: Weibo

Influencers and KOLs in nowadays digital era are considered like leaders of the mass, who have a significant power of raising awareness on new fashion trends. For this reason, Florentia Village usually entrust to local lifestyle influencers and KOLs to post events on the social platforms Wechat and Weibo, with the purpose to invite own followers to get to know with the Village by taking part to the activities promoted. The events organized by Florentia Village are almost always in line with conveying Italian values to its customers. For instance, at Labor Day, customers were invited through the social media platforms to celebrate and enjoy Italian meals prepared by Italian chefs invited for the celebration of the events. Another event organized for the Father's Day to attract people at the village, customers were invited to participate to a game consisting on guessing correctly the price of branded product sold at the Village, to win special gifts. At Shanghai center, winners could get belts, purses and other accessories from Coach outlet store.

In addition, during Chinese most important celebrations, such as the Spring festival, customers are often invited to the center to take part to lotteries and other games.

KOLs, influencers and stars are also confirmed presence at each of Florentia Village new Grand Opening events. At each Florentia Village new debut, three or four stars, usually actors, singers and web-stars from China, Hong Kong or Taiwan are invited for the ribbon cutting ceremony and toasting at each new Village celebration. The Grand Opening ceremony is always anticipated by a musical performance enriched by lights and an Italian-style environment that since from the very beginning makes the customer enjoy the authentic Italian retail experience.

What makes Florentia Village different from the competitors operating in the same luxury market, is its positioning characterized by the detailed evocation of an Italian-style entourage, the customer engagement and education in a full range of Italian themed activities, and its ability to overcome the e-commerce revolution by successfully integrating the physical and digital retail experience.

However, the physical retail experience remains Florentia Village top anchor and also a trusted retailing format for the new Made in Italy companies aiming to succeed in Chinese luxury market in the next future.

APPENDIX

Florentia Village locations and next opening centers in China.

CITY	AREA EXTENSION IN sqm	DATE OF OPENING	TENANTS
Beijing- Tianjin	58,060	June, 2011	<p>Abercrombie & Fitch, Adidas, Aigle, American Eagle Outfitters, Anmani, Anteprema, Ara, Armani outlet, AW, Azona, Baldinini, Balenciaga, Bally, Bean Pole, Blocco 5, Bottega Veneta, Boy London, Brioni, Brook Brothers, Burberry, Bvlgari, Callisto, Calvin Klein, Calvin Klein platinum, Camicissima, Canali, Chow Tai Fook, Chloé, Clarks, Coach, Coach Men, Columbia, Converse, Crocs, D&D, David Naman, Dazzle, Didiboy, DKNY, Dolce & Gabbana, Double Love, Dunhill, D'zzit, Ecco, Ed Hardy, Ehe, Elegant Prosper, Ermenegildo Zegna, Etro, Euro couture, Fendi, Filà, Five plus, Folli Follie, Furla, Gant, Gap outlets, Geox, Giorgio Fabiani, Givenchy, Golden Point, G-star raw, Gucci, Guess, Hollister, Hugo Boss, Hush Puppies, I.T, Inniu, J.Lindeberg, Jack Wolfskin, Jeep, Jimmy Choo, Jorya/Jorya weekend, Kappa, Kate Soade, Kidsland, Kipling, Koradior, La Perla, Lacoste, Lafuma, Lancel, Lancy, Le Suanda, Lee, Lesportsac, Levi's, Li Ning, Lily, Liu Jo, Loewe, Longchamp, Lottusse, Maje, Mammut, Marc Jacobs, Marc O'Polo, Marisfrolg, Marmot, Marni, Maryling, Mattel, Maud Frizon, Max Mara, Maxstudio, MCM, Michael Kors, Miss Sixty, Moncler, Montblanc, Moschino, Moussy, Mulberry, Mvio, Navigare, New Balance, Nike, Nine West, Nota Kids, Ochirly, Onitsuka, Osp, Pancoat, Paul Frank, Paul & Shark, Pinko, Ports International, Prada, Prich, Puma, Ralph Lauren, Rapido, Rayban, Rockport, Roger Vivier, S.T. Spontini, S.T. Dupont, S.T. Dupont shoes, Salvatore Ferragamo, Samsonite, Sandro, Satchi, Scofield, Sephora, Skap, Skechers, Stella Luna, Swarovski, The North Face, Theory, Timberland, Titleist, Toddlon, Tod's, Tommy Hilfiger, Tory Burch, Trendiano, UGG, Under Armour, Valentino, Vans, Venchi, Vera Moda, Verri, Versace, Vskonne, W/on & on, Watch station, Woo, Yinger Club, Zenobi (updated December 2017)</p>
Shanghai	80,083	January 22, 2015	<p>Able Jeans, Ace, Aigle, Aimer, Adidas, American Tourister, Andrew Mackenzie, Anmani, Armani Outlet, AW, Balabala, Bally, Bean Pole, Bellavita, Blocco 5, Boy London, Brax, Brooks Brothers, Burberry, Callisto, Camicissima, Canali, Cat & Merrell, Céline, CK Jeans, CK Performance, CK Underwear, Clarks, Cloud 9, Coach, Columbia, Converse, Crocs, Dazzle, D&D, Daniel Hechter, David Mayer Naman, Didiboy, Dyson, Ecco, Ed Hardy, EHE, E-House, Elegant Prosper, Elle, Embry Form, Ermenegildo Zegna, Etro, Euro Couture, Eve's temptation, Fendi, Filà, Five plus, Folli Follie, Furla, Gant, Gap, Geox, Givenchy, Golden Point, Goldlion, G-star Raw, Gucci, Guess, Haagen Dazs, Hazzys, Hilditch & Key, Hugo Boss, Hush Puppies Shoes, Inniu, I.T, Jack & Jones/Selected, Jeawa, Jeep, Jessica Episode, J. Benato, Jimmy Choo, J Linderwear, Jorya, Karl Lagerfeld, KFC, Kipling, Lacoste, Lane Crawford, Lao Feng GE, La Perla, Lea Wa, Lee, Le Saunda, Levi's, Lily, Links, Liu Jo, L'Occitane, Londa Polo, Marc by Marc Jacobs, Marisfrolg., Mattel, Max Mara, Maryling, MCS, Michael Kors, Missoni, Miss Sixty, Moncler, Montblanc, Monnalisa, Moussy, Moschino,</p>

			Nautica, Navigare, New Balance, Nine West, Nike, N.O.T.A. Kids, Noodle etc, Ochirly, OSP, Pal Ongaco, Paul Frank, Peuterey, Pinko, Pizza Hut, Ports, Prada, Prime Time, Puma, Ralph Lauren, Replay, Rookie, Saint Laurent, Salvatore Ferragamo, Sammy, Samsonite, Sasa, Satchi, Schiesser, Scofield, Skechers, Staccato/Joy & Peace/Belle/Tata, Starbucks, S.T. Dupont, S.T. Dupont Shoes, Stella Luna, Subway, Sunglass Hut, Swarovski, Test Tube, The North Face, Timberland, Tina Gia, Tod's, Tommy Hilfiger, Toms, Tory Burch, Tranoi, Trendiano, UGG, Under Armour, Valentino, Vans, Venchi, Vero Moda, Verri, Versace, Vertu, Vskonne, Woo, Yang's Dumpling, Yiner Club.
Guangzhou-Foshan	47,551	September, 2015	Able Jeans, Adidas, Aigle, Aimer, Aitu, Alfieri, Anagram, Anta, Armani, Balabala, Belle, Biem, Brooks Brothers, Callisto, Calvin Klein Jeans, Calvin Klein Performance, Calvin Klein Underwear, Camicissima, Caroline, Cat, Charriol, Chow Tai Fook, Clarks, Coach, Columbia Sportswear, Converse, Crocs, Daniel Hetcher, Dazzle, Ecco, E. Land, Elle, Elle Homme, Embry Form, Erfini, Etro, Fila, Five Plus, Folunsi, Folli Follie, Furla, Gabor, Gant, Gap, Gegina, G-star Raw, Goldlion, Gucci, Guess, Haagen Dazs, Honma, Horizon, Hush Puppies, Inniu, I.T., Jack & Jones, J. Benato, Jeep, Jessica Episode, J. Lindeberg, JNBY, Jorya, Joy & Peace, Kailas, Kappa, Kipling, KFC, Lacoste, Lancy, Lee, Le Saunda, Levi's, Lily, Li-Ning, Londa Polo, Mani Form, Marisfrolg, Max Mara, Michael Kors, Miss Sixty, Moussy, Moveup, Mo&Co, Navigare, New Balance, Nike, The North Face, Ochirly, Only, Paul Frank, Pierre Cardin, Pizza Hut, Ports, Prada, Puma, Roberta di Camerino, Salvatore Ferragamo, Sammy, Samsonite, Sasa, Satchi, Schiesser, Sketchers, Starbucks, S.T. Dupont, Stella Luna, Subway, Swarovski, Teenie Weenie, Test-Tube, Tibao, Timberland, Titleist, Toddlon, Tommy Hilfiger, Trendiano, Uncle, Under Armour, Urban Revivo, Vans, Vasto, Vaude, Venchi, V-Grass, Versace, Yiner, Zwilling, Ziotello.
Hong Kong	4,686	January, 2017	Armani outlet, Balenciaga, Folli Follie, Furla, I.T., Kenzo, Lane Crawford, Links, Prada, Salvatore Ferragamo, Sergio Rossi, Sunglass Hut, Versace.
Wuhan	44,045	May, 2017	Advanturer, Anta, AUM, Able Jeans, Adidas, AW, AXiangmi, Brooks Brothers, Balabala, Bestseller, Barbie, BMW, Belle, Biemfdlkk, Coach, Converse, Crocs, Cat, Camicissima, Calvin Klein, Clarks, Daniel Hechter, EP, EHE, Folli Follie, Fila, Folunsi, Guess, Goldenpoint, Giorgio Fabiani, Gap outlet, Horizon, Hazzys, Hush Puppies, Jorya, Jeep, Joy & Peace, Kappa, Korador, KFC, Lafuma, Lee, Lime Flare, Levi's, Moussy, Millie's, Mind Bridge, Mattel, Marisfrolg, Marisfrolg.SU, New Balance, Nike, Navigare, Nautica, OSP, Ochirly, Ports, Puma, Pizza Hut, Rookie, Sunglass Hut, Salvatore Ferragamo, Sovogue, Subway, S.T. Dupont, Satchi, Skechers, Trussardi, Timberland, The North Face, Trendiano, Tina Gia, Vans.
Chengdu	50,053	December, 2017	Adidas, Anta, Anta Kids, Aimer, Alfieri, AUM, AXiangmi, AW, Brooks Brothers, Basic House, Biemfdlkk, Bestseller, Belle, Balabala, BMW, Balvoli, Calvin Klein, Camel Active, Crocs, Columbia, Converse, Callisto, Camicissima, Daniel Hechter, EP, EHE, Ecco, EEka M Club, Erfini, Embry Form, Elle Home, Fila, Fomoce, Furla, Folli Follie, Gap outlet, Guess, Goldenpoint, Goldlion, Hilditch & Key, Hazzys, Hush Puppies, Horizo, IGO, I.T outlet, Jorya, Jeep, Jack Wolfskin, Kappa, KFC, Lee, Levi's, Lacoste, Li-Ning, Lily, Lafuma, Marisfrolg, Mattel, Mani Form, Meilleur Moment, Moussy, Nike, Nautica, New Balance, Navigare, Nolly, OSP, Ochirly, Puma, Polo Sport, Ports, Pizza Hut, Rookie, Skechers, Saint Angelo, Sovogue, S.T. Dupont, S.D. Spontini, Sasa, Schiesser,

			Svarovski, Subway, Starbucks Coffee, Timberland, Tommy Hilfiger, The North Face, Trendiano, Toread, UGG, Vskonne, Vans, Yijia, Yiner.
Chongqing	50,053	Opening in 2018	
Qingdao	50,053	Opening in 2018	

CONCLUSION

From the research analyzed in this thesis, it has emerged the growing importance of the luxury market as having a dominant position acquired in China. The soaring purchasing power of the middle class and upper middle class consumers, and their rising appeal for premium high-end labels will bring China to reach a world leading position in the consumption of luxury goods by 2020.

Over the last 30 years, after the remarkable socio-economic development of China and its opening up to foreign investments, China has attracted a multitude of brands leaders in Western markets, entering the Chinese luxury market with the main aim to find new opportunities of expansion and growth.

Western companies, especially of the Made in Italy sector, wishing to invest in Chinese market are rapidly increasing, but first of all they need to consider own economic and financial resources and a series of market conditions that could obstacle their process of internationalization.

Made in Italy in China is a growing industry and many are the opportunities offered by this market. Italian companies operating in this sector should evaluate own economic resources, assets and known-how necessary to invest in Chinese market , which an Italian SME does not have in the majority of cases. Before assessing for the first time a cultural distant market like the Chinese one, companies should start by making market research, based on constant explorations and "scouting" which are necessary for the knowledge of the market sector they want to approach. Market research can be useful for the choice of the best suitable entry and distribution strategy to adopt, in order to be aware of unsuccessful partnerships with the locals. The risks of unsuccessful partnership are quite a few, Joint Ventures with local partners require a great amount of long term investments, and the agreement with local distributors, especially at the beginning, could be mostly unprofitable for the foreign companies.

As emerged in the thesis, although export through local distributors is the entry mode preferred by Italian companies when approaching the Chinese market for the first time, however distributors lack experience in selling foreign products, in many cases they fail to control over marketing activities. For this reason, once the company has overcome the first phases of entry and market exploration in which acquired enough knowledge of the Chinese market, should afterwards suspend the agreement with distributors or agents and develop own advanced phase of internationalization process.

An Italian example of successful investment is given by Florentia Village luxury outlet mall, which represents the first and only existing Italian property mall chain that operates in China. After several years of market research, Florentia Village outlet malls opened after the establishment of a Joint Venture between the Italian real estate company RDM-Fingen with other Chinese partners. To date, they have already set up 6 malls in China first-tier and second-tier cities. Florentia Village differs from Chinese property luxury outlets present in China, for selling not only discounted Italian and European luxury labels, but most importantly for offering customers a visual shopping experience surrounded by architecture and design reproductions of Italian most famous cities Florence, Venice and Rome.

Florentia Village innovative Italian retail experience provides Italian-themed activities and events and offers the taste of imported Italian food made by Italian Chefs at its Bella Vita bar-restaurants present in every village, with the main purpose to engage the Chinese consumer with Italian values.

Furthermore, over the last year Florentia Village has made progresses also with the digitalization, the company has introduced Omni-channel strategies, using Wechat and Weibo, two of the most popular social network used in China, as means to connect Florentia Village members to customer programs they enrolled, and to send invitations to all the events and promotional activities organized by the Village. The promotion of the events through social media platforms is supported by local influencers and KOLs, who are key elements for encouraging customers to take part to events and spend time at the Village.

Recently, Florentia Village has launched its own e-commerce website in sustain of "brick and mortar" company core business, to give Chinese mainland consumers the access to luxury offerings after stores close and satisfy demand of that growing part of consumers already familiar with online shopping experience.

All the Italian elements integrated by Florentia Village, represent the retail strategy that all the Italian companies should adopt in order to have success in Chinese market and to make themselves known by the Chinese consumer. The physical customer experience should be adopted by Italian companies not only as a sense of refinement, but also and above as a way to reinforce the Italian brand awareness.

In conclusion, Florentia Village is a relevant example of its ability to bring the Chinese consumers closer to the concept of Made in Italy and Italian lifestyle, by incorporating the physical retail experience with the digital one, and creating important associations.

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