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The behavior of the Chinese customer in luxury
purchase decisions. What drives him to buy
abroad? The case of *Chanel*

Supervisor

Ch. Prof. Andrea Pontiggia

Assistant supervisor

Ch. Prof. Adriano Boaretto

Graduand

Angela Ferrato

Matriculation Number 846588

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*“Simplicity is the keynote of
all true elegance.”
Coco Chanel*

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INTRODUCTION

The purpose of this thesis is first of all to analyse the behavior of the Chinese consumers and the development of the grey and black market. Then I want to focus with particular attention to the reaction of international brands that have to improve their importance in the Chinese territory, taking the example of Chanel. During the last few years the Chinese luxury market has expanded rapidly and continues to growth. It is already known that Chinese shoppers have overtaken U.S. shoppers to become the world's biggest buyers of luxury goods. It's easy to see that Chinese people are more interested now, they want to be accepted by the community and they think the only way is to wear very expensive European luxury brand. The problem is that Chinese shoppers are not loyal at all and they are always looking for the best brand afloat.

So, how can a brand become the most important in this overcrowded market?

In China international brands cost more than Europe or America due to taxes. So most of the time Chinese shoppers fly to Europe to buy a bag and they make a better deal than buy it at home. All this premises are use to explain the intensification of the grey market. How international brands react to this problem? The normalization of the price made by Chanel can be enough?

The choice of this topic was made during my studying year spent abroad. I have been studying in Shanghai for some months. I used to live near a very big and famous shopping mall. Inside there were lot of shops like Marc Jacobs, Zara, Louis Vuitton and so on. One day it arose natural to ask myself a question: why in Italy shops are full of Chinese people and here are almost empty? I started thinking of this and I made some research. I discovered that custom duties in China are very high so international brands could not help but raise prices. In China bags cost 30-40% more than Europe. It's totally crazy. So the choice of this thesis was due to one of my Chinese professor that explain me some important concept like the normalization of the price and also due to my love for Chanel brand. I'm always been in love with the concept the brand wants to communicate.

The first chapter of this paper focus on Chinese consumers. The population in China in fact is divided in different groups and there is a big gap between them. There is a system that for years discriminate rural people. Only a small percentage can afford to buy a luxury product. So who are the most important luxury Chinese shoppers?

First of all I think is necessary to explain the meaning of the “luxury” that is very complex in this country due to translation. Then I will analyse the difference between the European and the Chinese costumers, who are very price sensitive. If a brand product can show a higher social and economic status Chinese consumers would be happy to pay a premium? Show off that they are rich and they can afford to buy everything they want, is the fundamental base of their thinking. They are always in competition and they feel judge by everyone on the basis of the material or immaterial goods so they want to show their position, social status or importance through their possessions. But they are not loyal at all. These concepts will be introduced in the first chapter paying attention also to the “made in”.

The brand nationality influences their decision. Which nationality do they prefer? In the Chinese way of thinking is essential. If the product is made in China and cost a lot they would not buy it. They will always prefer a Western brand thought it cost more.

The grey and the black market will be presented in the second chapter. After the explanation of what is the grey market I will speak about the grey market in China called *Daigou*. A phenomenon spread in the years, which is increasingly problematic but totally different from the black market. Then I want to focus on the counterfeiting goods and the efforts the government made to improve the situation.

Rich Chinese people love traveling. There are different types of tourist. Most of them go to Europe two o three times per year and made luxury shopping there. For some Chinese, traveling abroad is also an occasion for have unique occasion during their travel and visiting some historical sites, knowing local products and culture.

If people cannot afford to travel they buy items on Internet. E-commerce in China represents the market with the highest growing rate. There are lot of platforms where citizens can buy luxury products but also food, drinks and so on.

But in China there is a big lack of trust due to fake products. If you go to a fake market you can be shocked by the quantity of fake items sold. On this paper I will speak about Alibaba. Despite it is the most important and famous platform in China, if you want to buy a bag online you have to be careful and pay attention because it could be counterfeited.

My last chapter is about Chanel. For me the best brand ever. After a brief presentation of the brand history and on what the brand wants to show and communicate, I will concentrate on the strategy Chanel has adopted to spread in China. Chanel is one of the few brands that does not sell goods online. So I will explain the motivation of this choice. To fight in an overcrowded market, in 2015 Chanel decided to achieve global price coordination. The normalization of the price is a strategic decision made by the brand with excellent results. Chanel has only few boutiques in China but now consumers don't have to fly abroad to buy a bag because the price will be almost the same. The famous brand organized also several fashion shows but differently from other brands Chanel took in consideration not only Beijing and Shanghai. The last collection was presented in Chengdu with lot of famous people and ambassadors like Liu Wen and Zhou Xun.

前言

本论文的主题首先是对中国消费者行为，灰色市场发展和黑市的分析。然后，我想以香奈儿案例为例，关注想要提高其在中国领土重要性的国际品牌的反应。

在过去几年中，中国奢侈品市场迅速扩张并持续增长。很容易看出，今天中国买家更感兴趣，希望被社会所接受，并认为一种方式是穿欧洲奢侈品牌。问题是中國买家一点也不忠诚，总是寻找流通中最好的品牌。那么一个品牌如何成为过度拥挤市场中最重要品牌呢？

在中国，由于税收，国际品牌的售价要高于欧洲或美国。因此，大多数时候，中国买家飞到欧洲去购买一个手袋要比在家购买更合算。所有这些前提都解释为什么灰色市场的加剧。那么，国际品牌如何应对这一问题呢？香奈儿的价格正常化是否足够？

这个主题的选择是在我出国留学期间做出的。我在上海学习了几个月。我住在一个著名的大型购物中心旁边，里面有许多商店，如 Marc Jacobs, Zara, Louis Vuitton 等。有一天，我自然而然地问自己一个问题：为什么意大利的奢侈品商店里面充满了中国人，在这里它们基本上都是空的？我开始考虑这个问题，并做了一些研究。我发现在中国，关税真的很高，国际品牌除了提高价格外无能为力。在中国，品牌包的价格比欧洲高出 30-40%。这是荒谬的事情。所以这篇论文的选择归功于我的一位中国教授，他向我解释了价格规范化等一些重要概念，也感谢我对香奈儿的热爱。我一直爱着该品牌想要传达的概念。

本文第一章主要关注中国消费者。事实上，中国人口分为不同的群体，他们之间存在很大差异。有一个多年来歧视农村人口的体系，只有一小部分人能买得起奢侈品袋。首先，我认为有必要解释“奢侈”这个词的含义，因为翻译的原因在这个国家变得非常复杂。然后我将分析对价格非常敏感的中国消费者和欧洲消费者之间的差异。如果一个品牌能够展示其高社会和经济地位，中国消费者是否愿意支付更高的

价格？

他们总是处于竞争中，并且在物质或非物质的基础上被所有人评价，因此他们希望通过他们所拥有的东西来展示他们的地位，状态和重要性。这些概念将在第一章介绍，同时也要注意“制造于 XX”。品牌的国籍影响他们的决定。他们更喜欢哪些国籍(的品牌)？

灰色市场和黑市将在第二章中介绍。在解释了什么是灰色市场上后，我会谈到一般中国人所说的“代购”。近年来发展起来该现象越来越成为一个问题，但与黑市完全不同。然后我想关注假冒产品以及政府为改善这种情况所做的努力。

富有的中国人喜欢旅行。有不同类型的游客。大多数富人每年去欧洲三到四次，在那里采购奢侈品。

那些旅行不起的中国人，他们可以在互联网上购买产品。中国市场是电子商务增长率最高的市场。但在中国，由于假冒产品的存在，消费者通常对网购缺乏信任。如果你去假冒市场，你会对销售的假冒产品的数量感到不安。在我的论文中，我将谈论到阿里巴巴。尽管是中国最重要和最著名的平台，但如果你想在该网站上买一个包，你必须非常密小心，因为它有可能是假的。

我的最后一章是关于香奈儿的。对我来说是有史以来最好的品牌。在简要介绍了品牌的历史以及它想要展示和传达的内容之后，我将重点介绍香奈儿在中国推广的策略。香奈儿是为数不多的不使用电子商务的品牌之一。所以我会解释这个选择的原因。为了在过度拥挤的市场中竞争，2015 年香奈儿决定在全球范围内协调价格。香奈儿的价格正常化是一项战略决策，取得了优异的成绩。香奈儿在中国只有几家商店，但消费者将不再需要出国购买，因为国内外的价格几乎差不多。这个著名品牌还组织了几个时装秀，但与其他品牌不同，香奈儿不仅到过北京和上海。最新系列也在成都展出，有许多知名人士和品牌大使，如刘雯和周迅。

CHAPTER 1: CHINESE CONSUMERS AND WESTERN COMPANIES

1.1 A LITTLE BACKGROUND

Understanding the marketing background is fundamental if you want to penetrate the Chinese one. Chinese consumers are really interested in Occidental brands but the population is divided in different categories and before starting a business in China the company should understand the marketing background and the Chinese's way of thinking. They are influenced by a wide range of factors and are different from Western buyers. Showing off that they are rich and they can afford to buy everything they want, is the fundamental base of their thinking. They are always in competition and they feel judged by everyone on the basis of the material or immaterial goods so they want to show their position, status or importance through their possessions. The products' nationality should be Western and the price should be very high. If a bag is so expensive it will certainly have excellent quality and will certainly be envied by everyone. So, first of all we should know the consumers and then pay attention to the different mistakes a Western company can make if the property owner decides to move the production in China or to start the business there. The Chinese market is one of the biggest markets for all luxury brands because not only the potential consumer power but also because the ability of Chinese people to understand the beauty of the luxury goods and enjoy the possession of them. After the cultural revolution the Chinese society has changed and we can find a new social class in the developed urban areas like Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Chongqing and so on.

1.1.1 HOW IS THE CHINESE POPULATION DIVIDED?

Pierre Xiao Lu is the author of the book I've read. He is an Assistant Professor of marketing at Fudan University's School of Management in Shanghai and LVMH Chair Visiting Professor of Marketing at ESSEC Paris-Singapore. He is specialized in luxury consumer behaviour in China and luxury brand management in Asia. In 2008 he wrote the book "Luxury Consumer Behaviour in China" where he talks about the

different classes in which the Chinese population is divide. The emerging upper-middle class and the super rich compose the “Chinese Elite”. The problem for China is that most of the Chinese population is still living in rural areas due to the hukou system (户口). This system can be found in Mainland China and Taiwan and it refers to the household registration or to a family register.¹ In the hukou system it is possible to find all the information about one person like the date of birth, death, marriage, divorce, salary. On the basis of that the government assigns benefits based on agricultural and non-agricultural residency status.² It’s strictly connected with the caste system.³ The hukou has been the source of inequality and discrimination since the establishment of the People’s Republic of China in 1949.⁴ In recent years the government has begun a reform but most of the population is still living in the countryside. ⁵

Pierre Xiao Lu divided the population in some classes. As I already said, for him the upper-upper class, the lower-upper class and the upper-middle class compose the “China Elite”. The upper-upper class represent the China’s super rich. Here, the upper-upper class is a small number of well-established families that belong to the best country clubs and sponsor the major charity event. They are physicians and lawyers and the heads of the major financial institutions or owners of major long-established firms.

The upper member of the society does not always accept the lower-upper class because they represent the “new money”. They are some successful businessmen.

The upper-middle class have not a family status. They are really focus on the development of their career. Usually they are young successful professional,

¹ Elizabeth J. Perry, Mark Selden. "Chinese Society: Change, Conflict and Resistance", page 90

² Bell, Daniel A. "China's New Confucianism: Politics and Everyday Life in a Changing Society", p. 86

³ Lu, Rachel (31 July 2014). "China Is Ending Its 'Apartheid.' Here's Why No One Is Happy About It". *Foreign Policy*. Retrieved 14 August 2018.

⁴ Marková, Ivana. Alex Gillespie. "Trust and Distrust: Sociocultural Perspectives", p. 63

⁵ Sheehan, Spencer (22 February 2017). "China's Hukou Reforms and the Urbanization Challenge". *The Diplomat*. Retrieved 14 August 2018

business owners and in the most cases they have a college degree. Their consumption is often significant.

Then we have the working class represented by the lower-middle class. They are not white collars but highly paid blue-collar workers. They want to be accepted by the community as good citizens. Usually they prefer a good appearance and tend to avoid highly stylish clothing.

1.2 LUXURY

Before speaking about the luxury consumer we have to understand what is luxury and how fundamental is this word. Because, at present, domestic and international academic worlds still have no specify the definition of luxury.

Luxury is defined as "a kind of consumer goods which is beyond the range of the people's survival and development needs" also known as "non-necessities."⁶

In summary, luxury can be defined as products or services that can bring consumers an elegant and refined lifestyle, focus on taste and quality, and mainly for the high-end market. First, luxury is non-essential consumer goods for basic living. Luxury is those commodities that maximize the ratio of intangible value and tangible value and can also be something really eccentric. In fact, people's consumption of luxury goods means to meet more the psychological needs, where the use is not important at all.

Second, luxury has the highest ratio of price and quality. Luxury's quality and price are the highest in the similar products, so luxury's price is often several times or even thousands of times more than the ordinary similar products. In today's China the concept of luxury is really confused because the translation of the word and the negative connotation of extravagance in China old culture. This is really different from the Europe where we can find three different levels: "inaccessible" referred to exclusive models and unique hand-made pieces; "intermediary" referred to

⁶ Dylw 2015

expensive replicas of individual models; and “accessible” for all products made in bulk in factories or workshops.”⁷

1.2.1 LUXURY IN CHINA

So while in Europe a luxury product is an object that represents beauty, in Asian countries a luxury product should produce satisfaction and desire. It must be a symbol that attracts consumers with some fundamental characteristics like the excellent quality, the uniqueness, a high price and it should be considered superfluous because is not necessary for survive.

Figure 1.1 *Translation and examples*

TRANSLATIONS & EXAMPLES	
 奢侈  [shē chí] {noun}	
奢侈 (also: 享受, 奢侈品, 奢华, 珍品)	 luxury {noun}
奢侈 (also: 华贵)	 luxuries {pl}
奢侈 (also: 极端, 铺张, 放纵的言行, 过度)	 extravagance {noun}
奢侈	 luxe {noun}

Source: <https://en.bab.la/dictionary/chinese-english/%E5%A5%A2%E4%BE%88>

As we can see in the photo, the concept and the definition of the word “luxury” is not the same in Chinese as it is in Latin languages or English.

The word “luxury” is translated in Chinese as the word luxury derives from the Latin word *luxus*, which means indulgence of the senses, regardless of cost. Of course there are involved some element of extravagance, but in the Western world the word is more or less neutral and free of criticism. The word can be a noun or an adjective.

⁷ Lu, Pierre Xiao. 2008. “*Elite china, luxury consumer behaviour in china*”

In China, on the other hand, the word luxury consists of two characters (“奢侈” where “奢”⁸ means “extravagant” and “侈”⁹ “arrogant and wasteful.”) Which put together form a word indicating extravagant and wasteful use of wealth.¹⁰ So, in Chinese the word luxury has a negative connotation. The reason for this is, according to Pierre Xiao Lu that throughout China’s history, the social morals of Confucianism, Taoism, and Buddhism have taught that life should have no recklessness, no arrogance, and no showing off. Both emperors in the ancient China and the current Chinese government have encouraged the virtue of frugality, making luxury consumption with its negative connotations conflicting for the Chinese to engage in.

In the book written by Pierre Xiao Lu, luxury is linked with extravagance and arrogance, reinforcing of the potential problems facing the luxury brand and they seek to communicate their values in China. So the author tries to find two possible solutions. The first one is to change the translation from 奢侈 (she chi) to 精品 (jing pin) which means “high end fine product”. The second solution is to maintain the word 奢侈 but only relate to the use in fashion and magazines where the government has less control. Moreover, in 2005 the Chinese government introduced the “socialist concept of honour and disgrace”, which promoted “modern socialist values”. It’s very interesting the fact that in a luxury context is that it is advocated to “know plain living and hard struggle; don’t indulge in luxuries and pleasures”. Hence, luxury consumption is still seen as something negative from the government’s point of view. However, with China being the second largest luxury market in the world, it seems that the Chinese consumers do not live according to the “modern socialist values” proposed by the government.

⁸ the original meaning of “she” in old chinese is given in Shuowen Jiezi by the Han dynasty writer Xu Shen as (奢, 张也。// 《说文》。徐灏曰：“奢者侈靡放纵之义。故曰“张”，言其长大也。”) “extravagant”, “overindulgent.

⁹ In Shuowen Jiezi the original meaning of “chi” (“本义: 自高自大, 盛气凌人; 侈, 掩胁也。《说文》。段注: “掩者掩盖其上; 胁者, 胁制其旁。凡自多以陵人曰侈。此侈之本以也。”) was “lift up one’s horn” and conveys arrogances

¹⁰ Pierre Xiao Lu 2008. “Elite china, luxury consumer behaviour in china”

1.2.2 FEATURES OF LUXURY

Nueno and Quelch defined luxury brand as “whose ratio of functional utility to price is low while the ratio of intangible and situational utility to price is high”¹¹. They had summarized some characteristics of the luxury brands in the traditional view. First of all luxury deliver the high quality consistently, from the most expensive to the cheapest; the brands most of the time are handmade. Each product is produced in a limitate way to create exclusivity and usually consumers can also find a waiting list to purchase that product. Luxury products have a global reputation and each product has a unique kind of element and should also reflect the personality and values of the brand creator.¹² Instead Dubois & Duquesne on the basis of qualitative research found other characteristics: like the excellent quality, ultra-high price, scarcity and uniqueness; an aesthetic and sensory stimulation, heritage and a long history; and that these products are non-essential.¹³

So combining the two different point of view we can say that the most important characteristics are the outstanding personality, high prices, excellent quality, limited number, brand loyal, strong sense of distance, and meet the psychological demand.

1.2.3 THE TYPES OF LUXURY

If we think about the price, luxury products can be classified in: entry-level luxury; commonly used level luxury and top level luxury. Entry-level luxury is primarily used as daily consumption products, like perfumes, clothes, or accessories like sunglasses or scarves. It is also called by Danielle Alleres¹⁴, accessible luxury and includes the larger amount of consumers and products, since items are made in a large quantity for a wide range of buyers, therefore it can be defined as “mass luxury”. The accessible luxury is conceived and distributed on a larger scale and also available for the less wealthy social classes, while still belonging to the luxury sector

¹¹ Nueno and Quelch (1998) (p.61)

¹² Nueno & Quelc 1998

¹³ Dubois & Duquesne 1992

¹⁴ Alleres, D. (1991). “*Spécificités et stratégies marketing des différents univers du luxe.*”

and thus maintaining the distinctive character of its products. The price difference may be a hundred times but it's defined almost cheap.

Commonly used level luxury or intermediate luxury refers to high-end jewellery, cars, watches and so on. The *prêt-à-porter* or ready-to-wear, which indicates clothing items manufactured in series in various sizes, belongs to this level. Items are still exclusive and can be adapted to the necessities and the needs of the individual, but the service is no longer custom made. Prices are significant and the distribution channel is selective.

Top luxury so the inaccessible luxury that can also be identified as “supreme luxury”, is exclusively designed for a wealthy client who buys items made in limited series at an extremely high price. Products are usually «tailor-made or hand-made manufactured with prestigious materials and distributed through a very selective channel. For an inaccessible luxury item, it is all about heritage, creativity, creator's fame and prestige»¹⁵. To this level belongs the so-called haute couture¹⁶, the category of fashion characterised by high quality and expensive creations, not thought to be worn every day but to create a spectacle on special occasions and events. Here we can find products including luxury villas, yachts, planes, and even the most fashionable space travel and so on.¹⁷

Luxury includes two aspects, which are physical and nonphysical: they may be automobiles, watches, clothing, cosmetics, hotel services and so on. But we can extend that also to health, leisure, travel, experience, diet and exercise.

1.3 WHO ARE THE MOST IMPORTANT CHINESE LUXURY CONSUMERS?

From 2008-2014, thanks to the growing incomes, the number of the rich Chinese that purchase luxury products doubled. Since 2015, companies started to look more

¹⁵ Messina, B. (2013). “*Luxury, a desirable world of exclusiveness.*”

¹⁶ French terminology for the English “high sewing” or “high dressmaking”.

¹⁷ Latzler 2003

to the old client instead of the new ones. This transition means that it's more important to build loyalty among the old customers than finding new ones. In the past, as Pierre Xiao Lu said, luxury consumers in China were those belonging to upper income households, which earning 100,000-300,000 RMB. But now the wealthy Chinese are more important and their income overcome 300,000 RMB. In 2008, the wealthy Chinese composed only a third of Chinese luxury consumers; today they represent half of the shoppers and account for 88% of Chinese luxury spend.

Figure 1.2 Shifts in Chinese luxury spending



In 2015 the global management consultancy Bain & Company¹⁸ affirm that there are over 350 million luxury consumers in the world. The luxury consumers are distributed across the global markets and the estimate is that there are 50 million luxury consumers in China, 30 million in Japan and 20 million across the other Asian markets. According to them in 2015, Chinese consumers accounted for 31% of all global luxury purchases, followed by Americans (24%) and Europeans (18%).

A Research published by McKinsey Global¹⁹ revealed that a Chinese consumers do much more research before purchasing a product than average consumers in the developed world do, so middle-class consumers often take a long time to make

¹⁸ Bu, Lambert Benjamin Durand-Servoingt, Aimee Kim, and Naomi Yamakawa. August 2017. "Chinese luxury consumers: more global, more demanding, still spending." <http://offices.bain.com/offices/italy/it/>

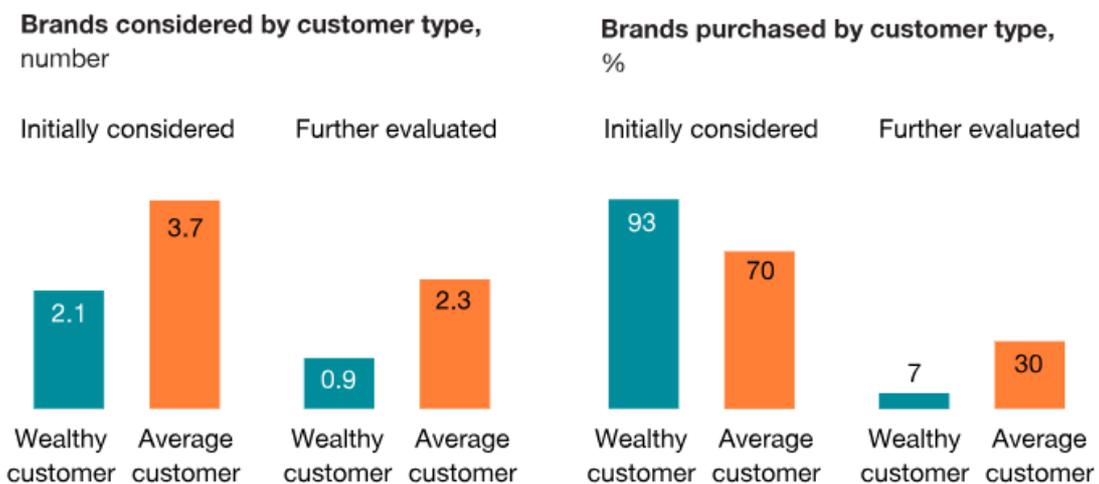
¹⁹ Daniel Zipser, Yougang Cheng, and Fang Gong. March 2016. "Here comes the modern Chinese consumer." <https://www.mckinsey.com/industries/retail/our-insights/here-comes-the-modern-chinese-consumer>

decisions, if only because some things can cost more than their monthly income. For example, a survey on PC purchases, Chinese consumers said they might take three to six months to buy a computer and visit a store three to five times. Decision-making is especially protracted for expensive product but can take quite a while for foods, beverages, and personal-care offerings, as well, given the increasing number of brands and new products available. The research revealed that the word of mouth is more powerful in China than in developed countries. An independent survey of moisturizer purchases, for example, observed that 66 per cent of Chinese consumers rely on recommendations from friends and family, compared with 38 per cent of their US counterparts.

Wealthy Chinese luxury consumers have become more impulsive so the role of word of mouth has gained more importance. Research found that 30% of luxury purchases are directly influenced by word of mouth, up from only 14% in 2010. The number one of the factor that influence purchase decision is now the word of mouth from friends and family.

Figure 1.3

Wealthy Chinese customers are more likely to purchase their initially considered item when compared to **average customers**.



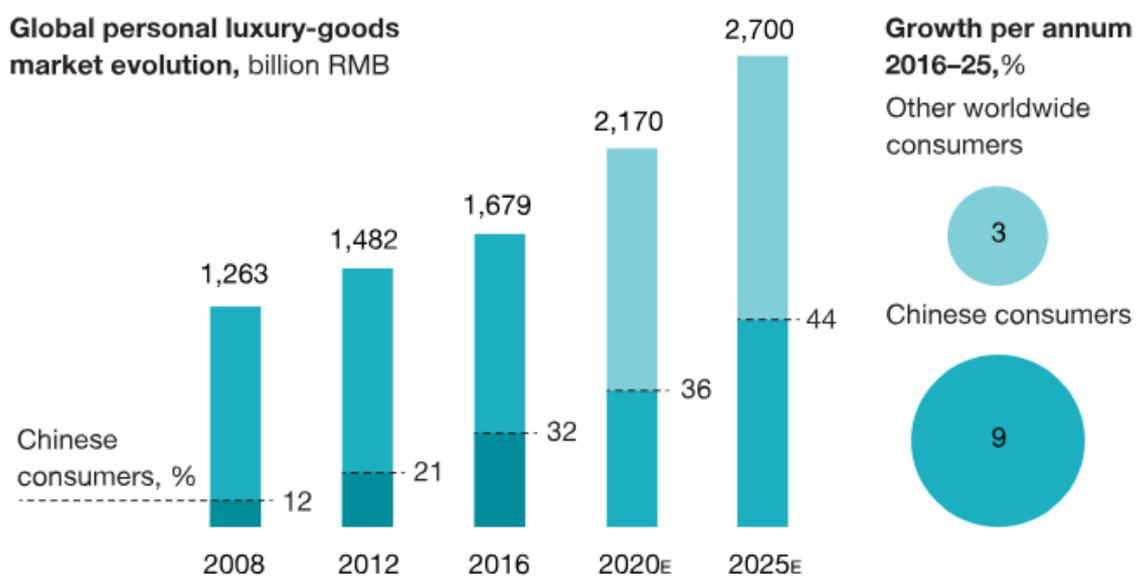
McKinsey&Company

Source: McKinsey & Company

In the research it's expected that from 2016 to 2025 wealthy Chinese consumers will increment their luxury purchase. And by 2025 they will represent 44% of the total global market, so the major force. By 2025, 7.6 million Chinese households will represent 1 trillion RMB in global luxury sales, an amount that is double that of 2016, and equivalent to the size in 2016 of the US, UK, French, Italian and Japanese markets combined.

Figure 1.4

By 2025, 7.5 million wealthy Chinese households are expected to spend 1 trillion renminbi in luxury goods.



McKinsey&Company

Source: McKinsey & Company

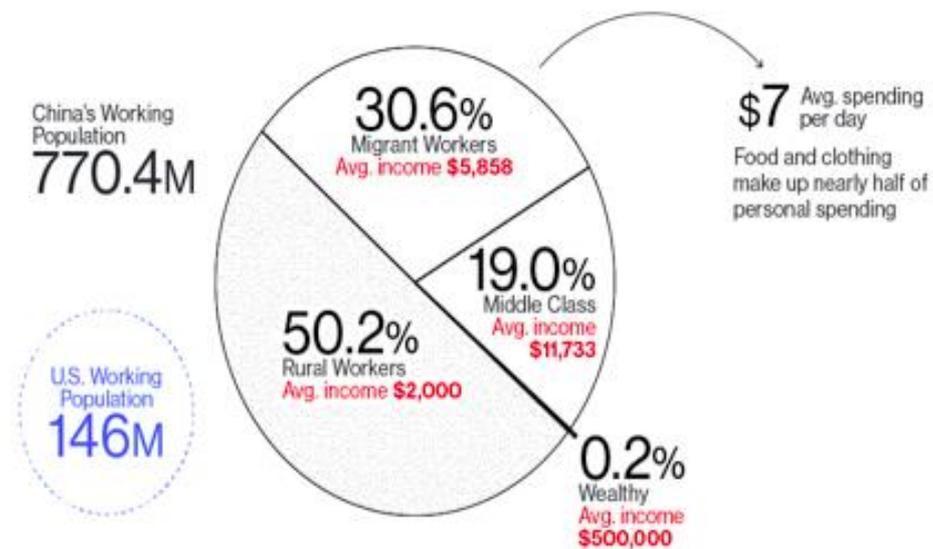
China's working population, 770.4 million people, is the largest in the world.²⁰ But according to Goldman Sachs²¹ regarding the middle class that dominates its

²⁰ Chang, Rachel 2016: "Here's What China's Middle Classes Really Earn — and Spend"

²¹The Goldman Sachs Group, Inc. is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and individuals. Founded in 1869. <https://www.goldmansachs.com/>

consumer market less than 2% of workers earn enough to pay income tax. In recent years as I already said, the Hukou system has change and now there is a big migration from the rural areas to the urban ones, in fact the migration in Beijing is at its highest level in history but most Chinese still earn and spend less than Americans. From the research of Goldman Sachs the average Chinese consumer spends \$7 a day for food, clothing and personal care, despite the average American spends \$97 a day.

Figure 1.5 *Chinese Consumers: A Breakdown*



Source: Goldman Sachs, Chinese National Bureau of Statistics
Graphic: Pekka Aalto

Bloomberg

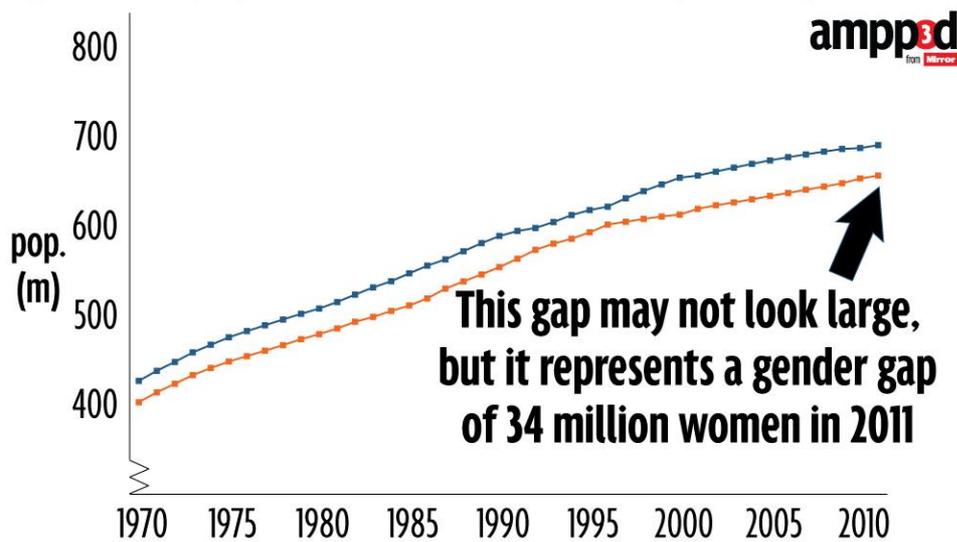
Reading the article written by Rachel Chang in 2016 we can understand that families are smaller than ever before. Gender imbalance in China is also the worst in the world: about 116 boys are born for every 100 girls, against a global average of 107 boys to 100 girls. Between 1979 and late 2015, the country imposed a limit of one child on most Chinese families, and skewed gender ratios date back to the early 1980s. China now has 33 million more men than women; some of them may never

find a partner. Among the working-age population, single people and smaller households tend to have more discretionary spending power.²²

About traveling, only 4% of the Chinese population hold a passport, compared to 35% of Americans — but that 4% spends almost \$200 billion overseas annually, more than any other nation.²³

Figure 1.6 Chinese demographics

CHINA'S GENDER IMBALANCE PROBLEM



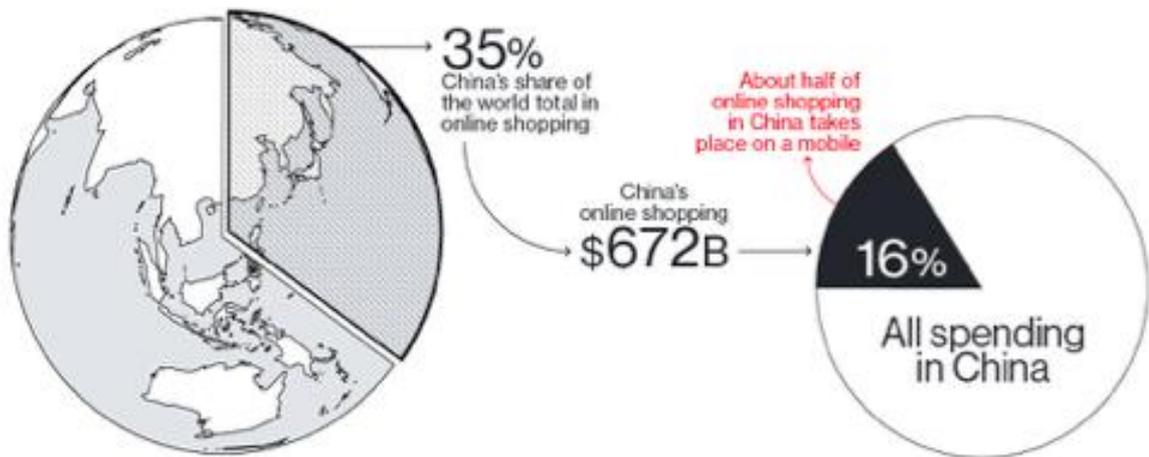
Source: <https://www.zmescience.com/other/feature-post/china-gender-imbalance-243423/>

Online shopping is growing fast and I will speak about that in chapter 2. Online shopping in China accounts for 16 per cent, or \$672 billion, of all spending — and about half of that takes place on mobile, according to a study by eMarketer, a market research company and in 2018, it is estimated that China's spending will exceed the rest of the world's combined.

²² Chang, Rachel in 2016 “Here's What China's Middle Classes Really Earn — and Spend”

²³ Goldman Sachs

Figure 1.7 *Chinese Shopping Habits*



Source: eMarketer

Graphic: Pekka Aalto

1.4 WHAT ARE THE DIFFERENCES BETWEEN ASIAN AND WESTERN BUYERS?

There are some differences between them. One of this is the age. This is a very interesting characteristic of Chinese luxury consumers because they are younger than their European and American counterparts. In fact 45% of Chinese luxury consumers are under the age of 35, and 25 years younger than Americans. In the next three to five years, Chinese consumers between the ages of 25 and 30 will be the predominant group in luxury consumption. This demographic of China's new middle class is called as Generation 2.

Then we have the gender because also women have become more important in a market traditionally dominated by males between 35 and 45 years old. This is because Chinese women are beginning to catch up with men in numbers in the workplace, and thus are gaining more financial independence and social status. As a result, their purchasing power has increased, and they are buying more luxury goods than ever before to reward themselves for hard work and personal accomplishments. With 25% of Chinese women earning more than their male partners, they now account for three-fifths of the luxury goods market.

But the difference is not only about the age and the gender. According to some studies, from 90% to 95% of the choices made in a store by Western people are

determined by impulse, emotions and habits. We mainly buy what we know. Only a small percentage of our purchases are determined by a conscious decision.²⁴ Of course, the results may vary depending on the group they belong to. Like Chinese consumers European can be divided in some categories. The most important are the Millennial and the generation Z but we have also to pay attention to the elder generation.

1.4.1 SENIOR BUYERS

The elder generation is composed by a group of senior people. They are important because this segment of population is really strategic. In Italy, for example, it is a group of over 19 million individuals, about 42% of the population. This segment has a higher income, 9% to 13%, among the rest of the Italian population. Within them a distinction should be made so we can find three groups. Younger Senior that are between the ages of 50-74. They represent about 77% of the total of senior Europeans and are better known as baby boomers for having lived in full the explosion of the age of consumption and for having known, in more recent years, the crisis; than we have the Silver Digital that are distinguish from the first group because of their predisposition to the use of technologies. The last group are the Older Senior that are the over 75s representing at least 23% of the total senior in Europe. In general, seniors are inclined to feel younger, they are more educated, have more access to specific health care, follow healthier lifestyles and nutrition, and they are more active. A research, commissioned by BNP Paribas Cardif and carried out by AstraRicerche, believes that they are confident and projected towards the future, even more than young people. As characteristics they proved to be believers in values and ideals, optimistic, curious, capable of aging peacefully, eager to make new experiences.²⁵

²⁴ Cosa ci spinge ad acquistare i prodotti che compriamo? 11/07/2014 Ultima modifica 22/04/2016 <https://www.eea.europa.eu/it/segnali/segnali-2014/intervista/che-cosa-ci-spinge-ad>

²⁵ Dara, Virginia. <https://www.insidemarketing.it/consumatori-senior-chi-sono/>

1.4.2 MILLENNIAL

Millennials are the generation of users (also called Generation Y) born between 1980 and 2000, which are currently in the age group around fifteen and thirty-five years old. Millennials are the first truly global generation, but with a passion for the local. They have an active role in the purchase of products and use the Internet. Are collaborators of nature, are born digital and grow mobile.²⁶

1.4.3 GENERATION Z

The Z generation is composed of those born between 1995-2000. According to the US Chamber of Commerce Foundation, they are influencers of the purchase decision for 600 billion dollars in the USA, and have a spending capacity of 43 billion.

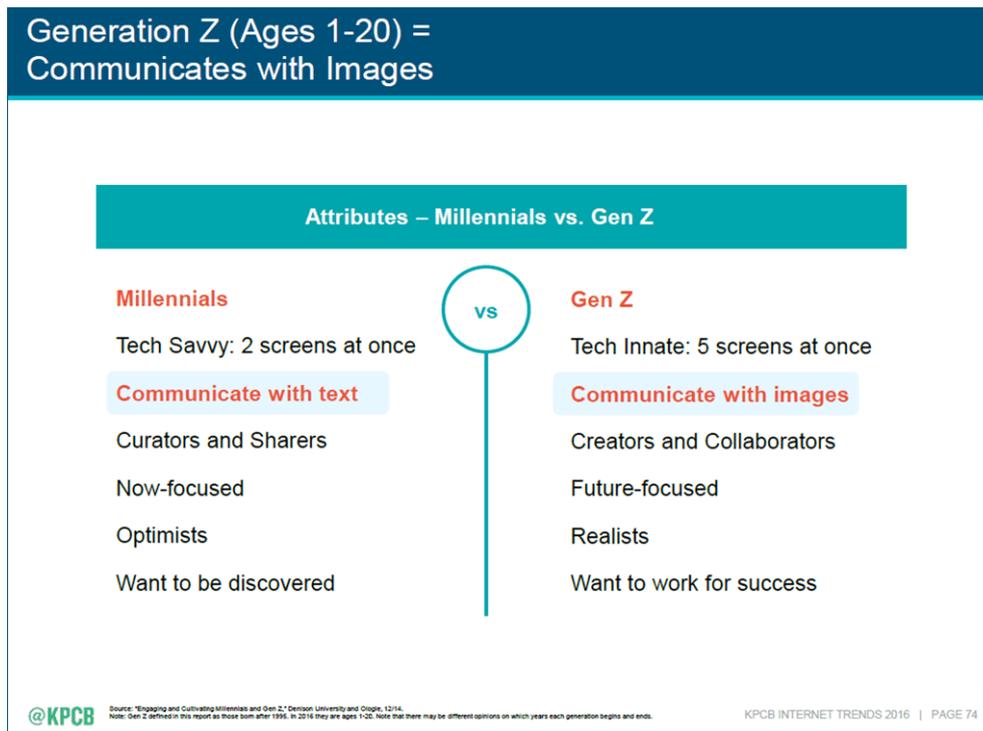
However, it is expected that in 2020 the consumers of Generation Z will constitute 40% of the total. Data from the US tells us about these people as loyal researchers of information, even when research is about products. In addition to research, they love to learn from self-taught: 33% look at online lessons, 20% read textbooks on the tablet, and 32% work with their online colleagues. Generation Z youths use an average of five devices (compared to 3 of the Millennials): smartphones, desktops, notebooks, TVs and tablets or iPods.

For this generation is important to go straight to the point without being long-winded, to stimulate the curiosity as they have a resourceful spirit and consequently the brands must have it too.²⁷

²⁶ Di Gaetano, Fabio . 22 ottobre 2014. <http://www.argoserv.it/generazione-x-y-z-c>

²⁷ <https://www.tsw.it/digital-marketing/generazione-z-le-caratteristiche-del-target/>

Figure 1.8 *Don't Mistake Them For Millennials*



Source: <https://www.nevillehobson.com/2017/04/24/generation-z-vs-millennials/>

1.5 WHAT SHOULD WESTERN COMPANIES CREATE?

After reading the book “An Asian Perspective”²⁸, I think that creating loyalty through the satisfaction is the heart of the business strategy; in fact the business success is set up by getting, keeping and growing customers.

Satisfaction is a “person’s feeling of pleasure or disappointment resulting from comparing a product’s perceived performance in relation to his or her expectation”.²⁹ So only if the performance can match the expectation the customer can be satisfied. If the customer is satisfied he can also be loyal.

Loyalty is defined as “ a deeply held commitment to re-patronize a preferred product or service in the future despite situation influenced and marketing efforts having the potential to cause a switching behavior.”³⁰ The problem is that Chinese

²⁸ Philip Kotler, Kevin Lane Keller, Swee Hoong Ang, Siew Meng Leong and Chin Tiong Tan. “An Asian Perspective.”

²⁹An Asian perspective (page 160)

³⁰ An Asian Perspective (page 158)

people are not loyal at all, and later I will speak about that. Satisfaction depends on product and service quality.

And quality is “ the totality of feature and characteristics of a product or service that bare on its ability to satisfy stated or implied needs”.³¹ So product quality and costumers satisfaction are very connected.

Satisfaction = performance - expectations

(-) *Disappointed* (0) *satisfied* (+) *delighted*

Expectations are created from advertisements, sellers, friends, word of mouth and so on. But if the gap is larger the dissatisfaction is bigger. And if a consumer claims on a product the company must resolve the problem in its best way or the consumer will feel very disappointed.

1.5.1 WHICH MISTAKES CAN WESTERN COMPANIES MAKE IN CHINA?

Western companies can make a lot of mistakes if they decide to open a factory in China. The first one is concerning the name.

Many foreign brands that have already set up shops in China have had to deal with the dilemma of (re) naming their company.³² This is because Chinese language is different form English and really complex. Each character has its own meaning and putting two characters together the meaning can change and with the meaning of the name can change also the perception of the Chinese people.

For example, the company *Subway*³³ is a popular chain of stores that sell submarine sandwiches and the Chinese name is: 赛百味 [sài bǎi wèi]. This name does not only

³¹ An Asian Perspective (page 162)

³² Cost, Benjamin. May 5, 2018 “Lost in Translation? Pick your Chinese brand name carefully...”
<http://shanghaiist.com/2014/03/28/hutong-school-pick-your-chinese-brand-name-carefully/>

³³ Hurwitz, Michael. Fri, 04 Apr 2014. “9 Clever Chinese Translations for Foreign Names”

phonetically resemble the English name, but each character lends a hand in creating a colourful image of a unique company. 赛 [sài] means *to surpass*, 百 [bǎi] means *one hundred*, and 味 [wèi] means *flavour*, suggesting that this company has an incredible amount of variety and flavours from which to choose.

Another example of a well-known brand name is *Mercedes Benz*.³⁴ In Chinese, this has become 奔驰 [bēn chí] and is phonetically similar to the name *Benz*. This name can be used to suggest the unique or favourable selling points of the product: 奔 [bēn] means *to run quickly* and 驰 [chí] means *to gallop*. Together these suggest a *dashing speed* at which these cars are able to go. So the name of the brand is fundamental. Many Western companies in Asia have translated their names by sound without considering the Asian name's meaning. Sometimes marketers create mistakes or unlikable situation. Some meanings of the brands are really ridiculous or offensive and this can create a bad consideration of the brand. All business owners know that choosing an appropriate company name in the first place is not something that should be taken lightly, and nor should it be when later translating this name into Chinese. If Western companies don't think about that they can make a big mistake and risk to fail. An example might be the consumer electronics chain *Best Buy*, or 百思买 [bǎi sī mǎi].³⁵ Just like the examples above, this name also phonetically sounds roughly like its English equivalent, but the individual characters used here actually portray a negative meaning when linked together. 百 [bǎi] means *one hundred*, 思 [sī] means *to think*, and 买 [mǎi] means *to buy*. It's easy to see how some people might interpret this name as *to think 100 times before buying*. If you have to think that long about whether you really want something, odds are that you probably won't end up purchasing it. So, when a company choose a name it has to be conscious of what emotions can evoke because for Chinese this is really important.³⁶

³⁴ Posehn, Aaron. 2014. "How to Successfully Choose a Chinese Brand Name for Your Western Company."

³⁵ Ibidem

³⁶ <https://yoyochinese.com/blog/learn-chinese-yangyang-9-cool-chinese-names-for-non-chinese-things>

Western companies don't have to pay attention only to the name they choose because they can do a lot of other mistakes if they decide to produce their goods in China. The first one is looking for the lowest price in fact if you purchase something below market price, you are taking very high risks. In fact if you do it the quality will not be up to your standard. Western companies must not let the supplier ship without checking the product quality. They have to pay for quality inspection service and not to have a bad image of themselves because if not, nobody will look after the production in the factory. They have not to be left in the dark regarding the supply chain and they have to describe all product attribute among which the entire packaging or the factory technician will take decision most of the time basing it on cost saving. Last but not less important is to register one's trademark when buying from China. Register the IP is fundamental and I will explain it in chapter 2.³⁷

1.6 CHINESE CONSUMER BEHAVIOR

Consumer behavior is “the study of how individuals, group and organizations select, buy, use and dispose of goods, serviced, ideas or experiences to satisfy their needs and wants.”³⁸

Behavior is influenced by cultural, social and personal factors.

The culture is a really important factor and the family behavior is the key. “Culture is a system of values and norms that are shared among a group of people and that when taken together constitute a design for living.”³⁹ Children depends on parents, they can see how the parents buy goods, how many times, why and so on. So the social stratification is fundamental. “All societies are stratified on a hierarchical basis into social categories. It is based on socioeconomic characteristics such as family background, occupation and income. Social stratification is based on four basic principles:

³⁷ Quality Inspection Blog published_- Top Ten Mistakes committed by Foreign Buyers

³⁸ Philip Kotler, Kevin Lane Keller, Swee Hoong Ang, Siew Meng Leong and Chin Tiong Tan. *An Asian perspective* (page 188)

³⁹ Pontiggia Andrea. “*International organizational Design and Human Resources Management to China.*” Chapter 4 page 214

- 1- Social stratification is a trait of society, not a reflection of individual differences
- 2- Social stratification carries over a generation to be next generation
- 3- Social stratification is generally universal but variable
- 4- Social stratification involves not just inequality but also beliefs"⁴⁰

So, social class are different in dress and speech patterns. And they referred to some variability like the occupation, income, wealth, and education.

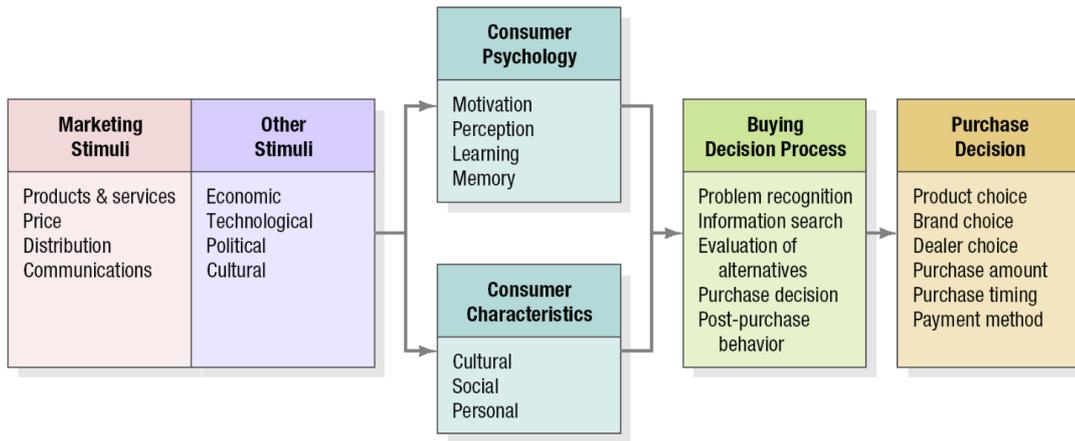
Social factors as the reference group like the family. A person can participate in different group where family, friends, professors, religion groups can influence them.

Personal factors include the age, the occupation, lifestyle and the economic circumstances. The starting point for understanding consumer behavior is the stimulus-response model shown in figure 1.9. Marketing and other stimuli, like economic, technological, political and cultural, enter the consumer's consciousness. A set of psychological process combines with some consumer characteristics to result in purchase decision. Motivation, perception, learning and memory can influence the buying decision process.⁴¹

Figure 1.9 *Stimulus-response model*

⁴⁰ Pontiggia Andrea "*International organizational Design and Human Resources Management to China.*" Chapter 4 page 214

⁴¹ Philip Kotler, Kevin Lane Keller, Swee Hoong Ang, Siew Meng Leong and Chin Tiong Tan. "*An asian perspective*" (page 195)



Source: <https://www.flickr.com/photos/107774138@N06/11533922414/>

In the evaluation stage, the consumer forms preferences among the brands in the choice set.

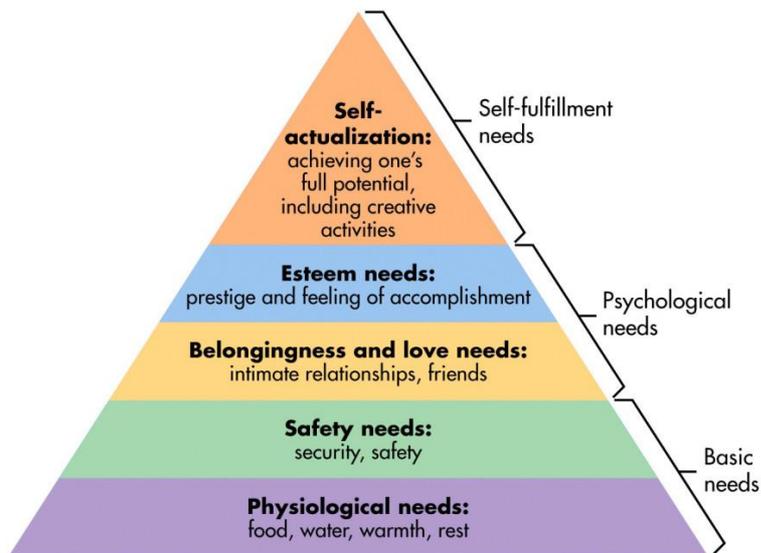
The consumer may also form an intention to buy the most preferred brand.

In executing a purchase intention, the consumer may make up to five sub-decisions:

1. Brand
2. Dealer
3. Quantity
4. Timing
5. Payment-method

1.6.1 MASLOW'S HIERARCHY OF NEEDS:

Figure 1.10 *Maslow's Pyramid*



Source: <https://www.simplypsychology.org/maslow.html>

Every person has different needs during life. Some of them are physiological and are the basis of the Maslow's theory⁴². Maslow's hierarchy is often displayed as a pyramid. People will try to satisfy the most important needs first. So at the lowest levels we can find the most basic needs including food, water, and sleep. The most complex needs are at the top of the pyramid because only after satisfy the basic ones, people will satisfy the psychological needs so, belonging and love needs, the esteem needs (self-esteem, recognition and status) and than the self-fulfilment needs so the self actualization where is also included the creative activities.⁴³

1.6.2 HOW MUCH IMPORTANT IS THE BRAND?

In the last few years branding has become a marketing priority and important is the ability to create, maintain, enhance and protect brands.

People believe that strong brands results in better earnings and profit performance for firms, which, in turn, create greater value for shareholders. But what is brand? In 1960, the American Marketing Association (AMA) defined the brand as «a name,

⁴² Maslow, A.H. motivation and personality, 2nd ed. (upper Saddle River, NJ: pretrice hall, 1970). Reprinted by permission of Prentice Hall Inc.)

⁴³ <https://www.verywellmind.com/what-is-maslows-hierarchy-of-needs-4136760>

term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers»⁴⁴

The scope is about creating differences. It's necessary to teach consumers "who" the product is, "what" the product does and "why" consumers should care.

The challenge for marketers is therefore ensuring that consumers have the right type of experiences with products and services and their marketing programs to create the desired brand knowledge.

Marketing Advantages of strong brands⁴⁵

- Improved perceptions of product performance
- Greater loyalty
- Less vulnerability to competitive marketing actions
- Less vulnerability to market crises
- Larger margins
- More inelastic consumer response to price increases
- More elastic consumer response to price decrease
- Greater trade cooperation and support
- Increased marketing communications effectiveness
- Possible licensing opportunities
- Additional brand extension opportunities
- Improved employee recruiting and retention
- Greater financial market returns

⁴⁴ <https://www.ama.org/resources/Pages/Dictionary.aspx?dLetter=B>

⁴⁵ Philip Kotler, Kevin Lane Keller, Swee Hoong Ang, Siew Meng Leong and Chin Tiong Tan. "An asian perspective" (page 302)

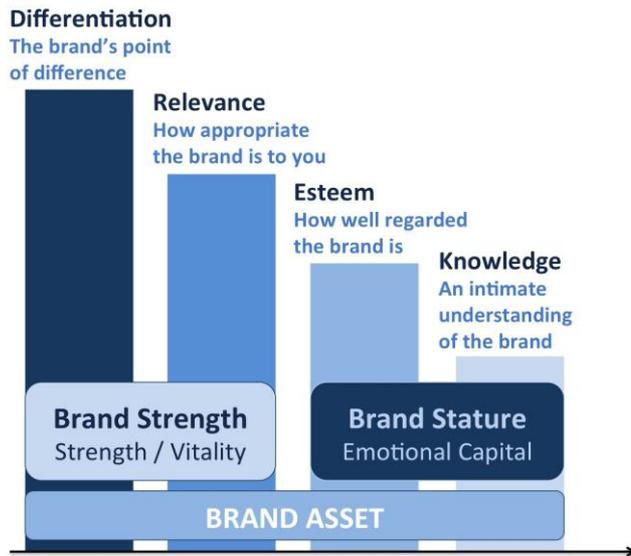


Figure 1.11

Brand asset valuator model

Source: courtesy of brand Asset consulting, a division of Young & Rebecca

When a company introduces a brand in China has to pay attention to the asset valuator model. Looking at this model we can understand that the brand strength is base on two factors so the energized differentiation that is the brand's point of difference relates to margins and cultural currency and with the relevance so how appropriate the brand is to people, related to consideration and trial.

About the brand stature we have two parameters: the esteem, so how you regarded the brand relates to perceptions of quality and loyalty. Then knowledge so an intimate understanding of brands relates to awareness and consumers experiences.

“So the brand strength is a leading indicator that gives us the future growth value, despite the brand stature is a current indicator that gives us the current operating value.

If the brand has low brand strength but high potential they have built some relevance but are know to only a relatively small audience and consumers express interest for them. If the brand combining high brand strength with high brand stature, they surely have high earnings, high margin power and the greatest potential to create future value.

If the brands have a low brand stature and low brand strength they are not well know among the population so they can be new entrances or brand that are not popular at all.

If the brands have only a high brand stature is sufficient for maintaining a leading positioning.”⁴⁶

The criteria of choosing a brand are a lot. The first three can be characterized with “brand building” and are: memorable, meaningful and likeable. If the brand is memorable it adds strength. It should be appealing and unique. Then we have the “defensive” so transferable, adaptable and protectable.

1.6.3 PRICE

Price is often the determining factor for consumers when they are making purchase decisions. At the same time, Chinese people are very brand conscious as is shown by their fondness of luxury brands;⁴⁷ and the key to understand that is the appreciation of the Chinese culture. If a brand product can show the higher social and economic status the Chinese consumer would be happy to pay a premium. If it doesn't, they become very price sensitive. In China, consumers will pay a premium also for goods consumed and admired in public.⁴⁸ Several multinational brands have embraced this insight. Lot of multinational companies sell their items for a higher price but Chinese clients want to be out in public, seen eating the treats with friends. For brands that can signal status, such as luxury watches and wine, the price is usually at least two times more in China than it is in the West.⁴⁹

MNCs are producing comparably priced items for the Chinese market, yet with lower quality than those sold in the West. But in China there is a lack of trust. For this reason many company will never succeed here. For example, EBay⁵⁰ requires buyers to pay first and then wait for the item to be delivered. This model works in a society where the trust level is high. However, there is a serious lack of trust in China right now, so to ask buyers to pay first without seeing the product is a hard

⁴⁶ Philip Kotler, Kevin Lane Keller, Swee Hoong Ang, Siew Meng Leong and Chin Tiong Tan. “*An Asian perspective*”

⁴⁷ Zhu, Rui wrote in the Harvard Business Review in 2013: “*Understanding Chinese Consumers*”

⁴⁸ Doctoroff, Tom. 2017. “*Three Golden Rules of Brand-Building in China*”

⁴⁹ Zhu Ruiwrote in the Harvard Business Review in 2013: “*Understanding Chinese Consumers*”

⁵⁰ An online shopping site that is best know for its auctions and its consumer to consumer sale.

sell. That's why eBay failed so miserably in China.⁵¹ Taobao, on the other hand, came up with a different model. It introduced a third-party payment system, namely AliPay. Buyers will pay the money to this third-party account owned by Alibaba (Taobao's holding company), and only after they have confirmed receiving the products, Alipay will transfer the money to the seller. This model effectively solved the trust issue, and was immediately successful.

1.7 WHY ARE CHINESE CONSUMER NOT LOYAL? WHY ARE WESTERNERS?

As I said Chinese consumers are not loyal at all. In a report of the wall-street journal of 2012 was written that Chinese consumers are really interest about brands and really conscious but there are not necessarily brand loyal. When they do they shopping Chinese consumers are brand-obsessed. According to a new study by Bain & Company and Kantar World panel, Chinese consumers are adventurous shoppers who are constantly trying out new brands and are rarely loyal to one.⁵² And this is really disappointing for the market.

The researchers studied the shopping habits of 40,000 Chinese households by providing them with scanners to track their purchases in real time. Lot of Chinese shoppers consider and buy lot of brands rather than support one favourite. For example, the average Chinese household bought yogurt 16.2 times last year. But shoppers chose one of the leading three brands just 28% of those times. And the more they shop in a category, the study found, the more brands they'll try. For example, the 20% of Chinese shoppers if they have to buy biscuits, they will buy ten different brands because they have to try all of them.

"Chinese do love brands. It's a reassurance for them. But even though they love them, in most categories, it doesn't mean they love one in particular."⁵³

⁵¹ Zhu Rui wrote in the Harvard Business Review in 2013: "*Understanding Chinese Consumers*"

⁵² Wall Street Journal reported in 2012: "*China's Rarely Loyal Consumers*"

⁵³ Ibidem

Certain products can inspire loyalty, including beer, soft drinks and chewing gum. Loyalty can also be reinforced from an emotional attachment and a good product name.

In the Western world, despite Millennials have many buying alternatives, are a target that demonstrates loyalty to the brand. When the available alternatives are many, in fact, the psychological mechanism of social proof comes into play, so a person is influenced by the behaviour of others in making a decision. This is evident with the interaction that is created on social network conversations and with product reviews and sectorial blogs. In addition, Millennials are more likely than other segments of the population to buy brand products with which they have a value resonance, and whose commercials are authentic. In fact, more than advertising, it is appreciated the content marketing of those companies that create engaging content and really in line with the mood of the target they are talking about. From a research by Elite Daily, we know that only 1% of Millennials is influenced by advertising in the purchase of a product, generally considered to be not very authentic. Before making a purchase, 33% of Millennials rely on industry blogs rather than magazines, television news or books.⁵⁴ More than content, the authenticity of the content is important.

57% of Millennials believe that they will not change their buying habits even if they increase their spending capacity

62% of Millennials want to have an interaction with brands on social networks: presence is not enough, but a dialogue must be activated.

For Millennials it is important that brands support local communities and demonstrate real interest in their customers. Also creating an emotional connection is important because only like this group of people can trust the brand.

1.7.1 HOW MUCH DOES BRAND NATIONALITY INFLUENCE THE DECISIONS?

For Chinese consumers, the binary choice between “foreign” and “Chinese” brands is

⁵⁴ Di Gaetano, Fabio. 22 ottobre 2014. Inbound Marketing | <http://www.argoserv.it/generazione-x-y-z-c>

always present.⁵⁵ As knowledge of brands has increased, the nationality of brands has emerged as an important consideration as explain Jerry Clode, a marketing consultant.

However Chinese people now travel more and they have not only improved the image of Chinese brands but they also start to analyze the different nationality of the product. I want to take in consideration different nationality brands after reading the article written by Jerry Clode "*Does your brand's nationality matter to Chinese consumers?*"

FRANCE

If you think about France you immediate come to mind the strong association with fashion, romance, and culinary experience. Future success for French brands in China will depend on an ability to give a French interpretation of modern and contemporary lifestyle, symbolized by Paris. Particularly, in the context of luxury, the most consolidated of China's consumer categories, an ability to differentiate beyond 'continental stereotypes' will prove essential to capturing the attention of Chinese consumers increasingly 'fatigued' with luxury. The most profitable area for French brands is connected with the femininity as Coco Chanel said "A girl should be two things: classy and fabulous."⁵⁶

This fits well Chinese women that are becoming more important and are looking for the unique style.

ITALY

Italian brands are similar to French ones in terms of something related to the "old world cliché". Especially in luxury and fashion, Italy is famous for the heritage and craftsmanship that are really important for the Chinese perspective. Regarding auto, food and retail brands, Italy is excellent, especially if we think about design and lifestyle but the country has also to communicate more strongly on innovation that always attach Chinese consumers.

⁵⁵ Clode, Jerry. 2016: "*Does your brand's nationality matter to Chinese consumers?*"

⁵⁶ Coco Chanel, founder of Chanel.

GERMANY

Chinese consumers consistently associate Germany with engineering and quality. This perception is driven by perceptions of prominent auto brands such as Audi and BMW. But the problem for Chinese people is that these German important characteristics are not extending to lifestyle stories so the perceptions are only related to a technical and unemotional level.

UNITED KINGDOM

The image of the United Kingdom, and London in particular, has enjoyed a global renaissance in terms of urban culture and innovation.

Burberry is a case of a brand that combines a British pedigree with more dynamic aspects of contemporary urban culture, presenting the creative and diverse aspects of the UK through designers and musicians.

UNITED STATES

Chinese have been influenced by the 'soft power' of the U.S. and American's openness and creativity. Excluding Nike and Apple that have been successful in China, for other brands have been a challenge. There have been many disasters, most of the time because of the translation of their name as I already said.

Americans should drop the assumptions, understand the consumers on their terms, take some of the assumptions about America, but build your own individual brand based on clearly defined local consumer needs.

CHAPTER 2: WHY CHINESE CONSUMERS BUY LUXURY PRODUCTS ABROAD?

2.1 THE GREY MARKET

Chinese consumers use to buy luxury products abroad, sometimes in the shops, sometimes in the duty free of the airports. The causes are several, but the most important is the price. In fact, due to taxes, in China luxury products cost more than Europe or America. Sometimes cost less to go to Europe and buy some goods there than buying them in China; so Chinese people can make a better deal. This is called Grey market. E-commerce has made all manner of grey market goods readily available. "China has attempted to crack down on illegal grey market importation through a number of means, including higher taxes on goods brought in by travellers as part of their luggage, lower taxes on goods imported through legitimate channels; and increased penalties for those caught falsifying customs declarations."⁵⁷

"The Grey market refers to goods which have been manufactured by or with the consent of the brand owner, but are sold outside of the brand owner's approved distribution channels, which can be perfectly legal. In the securities markets, the grey market is a market where a company's shares are traded, usually before they are issued in an initial public offering (IPO)."⁵⁸

In simple terms, grey market is the buying of a good in one market and selling it in another market to benefit from the difference in prices prevailing in the two markets. It is also known as a parallel market. Differently from the black market, the grey market's products are perfectly legal.

This situation happen when the price of an article in one country is much more high than the price in another country. For the cigarettes or electronic devices like cameras always happen.

⁵⁷ Dresden, Matthew. June 27, 2017. "Grey Market Goods and China, Part Two" <https://www.chinalawblog.com/2017/06/grey-market-goods-and-china-part-two.html>.

⁵⁸ <https://www.investopedia.com/terms/g/greymarket.asp>

Entrepreneurs will buy the product where it is cheaper, will legally impose it on the final market and sell it at a price that can earn but in any case lower than the normal market price. “Grey marketing could occur within a country but it is becoming increasingly prevalent across countries among international brands with high price differentials and low costs of transportation, tariffs, taxes etc.”⁵⁹

Grey markets tend to develop in markets where information about the price of similar goods as cars, designer goods, consumer durables etc is cheap and easy to obtain. “Small firms see grey marketing as a viable international strategy to compete against larger firms with the limited resources they have at their disposal.

It would be considered a black market for the importation of some articles restricted by law, such as firearms or drugs that can be bought only on prescription, as well as the illegal entry of products on a market to avoid import duties.”⁶⁰

The existence of the grey market is an example of economic practice known as “arbitrage”. That is basically buying a security in one market⁶¹ and simultaneously selling it in another market at a higher price, profiting from the temporary difference in prices. This is considered risk-free profit for the investor/trader.⁶²

2.1.1 GREY MARKET GOODS

Original manufacturers for some reasons often decry grey market goods:

“Grey market goods are often difficult to distinguish from counterfeit goods, which harms the reputation of the brand and the manufacturer.

Grey market goods are often customized for the particular market for which they are made, and are unsuitable for use in other markets. This too harms the reputation of the brand and the manufacturer.

⁵⁹ <https://www.mbaskool.com/business-concepts/marketing-and-strategy-terms/6705-grey-market.html>

⁶⁰ <https://www.investopedia.com/terms/g/greymarket.asp>

⁶¹ <https://www.investopedia.com/terms/m/market.asp>

⁶² <https://www.investopedia.com/ask/answers/what-is-arbitrage/>

Grey market goods often have different warranty protection — or none at all — when sold or used outside the market for which they were made. This causes customer frustration and dissatisfaction.

Grey market goods sometimes are of lower quality (hence the lower price), which harms the reputation of the brand and the manufacturer.

Grey market goods often interfere with the business expectations of the original manufacturer and its licensees.”⁶³

2.1.3 DAIGOU: GREY MARKET IN CHINA

Daigou (in chinese 代购 , is the acting as an overseas personal shopper⁶⁴) is the new, all-Chinese method of buying luxury products. The word means “buy on behalf of third parties”. This is the new e-commerce model that is simple, economical and comfortable. Buying luxury goods in China is for some few people, in fact due to the given taxes that the People's Republic imposes on goods the prices of watches, cosmetics, bags and clothes are increased by 30/40 per cent.⁶⁵

To get around the surcharge and get the same product at a lower price, many Chinese people ask their compatriots abroad to buy it for them and send them. Everything happens on the Internet: choice, order and payment. A true e-commerce because after purchasing it is possible to send the products directly to your home or to a collection point where the customers then had to go personally to pick them up.

⁶³ Dresden, Matthew. June 19, 2017. “*Grey Market Goods and China, Part One.*”
<https://www.chinalawblog.com/2017/06/grey-market-goods-and-china-part-one.html>

⁶⁴ Parker, Pamela (16 March 2018). “*How to become a professional shopper.*”
<https://www.bbc.com/news/business-43259904>

⁶⁵ Chittrakorn, Kati (28 october 2016). “*Daigou' Agents Help Chinese Get Luxury Goods for Less*”
<https://www.businessoffashion.com/articles/global-currents/daigou-agents-help-chinese-consumers-get-luxury-goods-less>

The success of the Daigou system is also due to the distrust that the nascent middle class has for "made in China" products.⁶⁶

2.2 THE GLOBAL CHINESE CONSUMER

Chinese luxury consumers are constantly growing and evolving. Now more than ever, it is important for luxury companies to stop viewing Chinese consumers as homogeneous, but instead structure their business models according to the differences within various regions, social classes, and income levels in China. Wealthy Chinese consumers are more mature and demand one of a kind products, while the emerging middle class continue to demand traditional logos, so luxury companies have to meet the needs of both groups. With the Chinese luxury demographic shopping globally, it is important for companies to keep up consistent quality and service while taking advantage of opportunities to communicate brand heritage in unique ways not possible in China.

Reading the article "Trends and Challenges for Luxury Brands-The global Chinese consumer"⁶⁷ it's possible to understand that despite the slowing down of domestic luxury consumption, Chinese tourists are spending more in luxury retail locations overseas. Chinese consumers can actually save money by spending money on a trip and buying luxury abroad instead of buying at home. It is estimated that 60% of luxury consumption occurs outside the mainland and abroad. As traveling becomes easier and more appealing, Chinese tourism has exploded, with the number of Chinese tourists exceeding 80 million in 2012. It is estimated that 72% of Chinese tourists purchase luxury goods abroad, and Chinese tourism is becoming an important stimulus to local economies around the world. They spend more on luxury cars, experiences like private jets, yachts or luxury cruises.

⁶⁶ Caretto, Giusy. "Daigou, il nuovo modello di e-commerce" .
<https://www.startmag.it/startup/daigou-modello-e-commerce/>

⁶⁷ Chinese Luxury Consumers – Trends and Challenges for Luxury Brands-The global Chinese consumer. <https://martinroll.com/resources/articles/asia/chinese-luxury-consumers-trends-and-challenges-for-luxury-brands/>

2.2.1 REASONS

The appetite for luxury goods grew so large that Louis Vuitton has become “a brand for secretaries”. In 2011, a billionaire woman told China Market Research Group managing director Shaun Rei, “Louis Vuitton has become too ordinary. Everyone has it. You see it in every restaurant in Beijing. I prefer Chanel or Bottega Veneta now. They are more exclusive.”⁶⁸

However, many international luxury retailers have seen sales growth slow recently as Chinese consumers become more sophisticated and price sensitive.⁶⁹

There are several reasons why Chinese consumers prefer to buy luxury goods abroad rather than at home, including guaranteed authenticity as well as differences in price. In China, intellectual property laws are weakly enforced and buying luxury abroad decreases the possibility to buy non-original products. “The safeguarding of the company's intellectual property (IP) is the biggest challenge multinational corporations face in China. The country is notorious for its counterfeiters, pirates, and IP scofflaws, yet withdrawing from the world's second-largest economy is not an option for most multinationals. On these basis every companies must accept the reality that they can never make their company 100 per cent leak-proof on the IP front.”⁷⁰ However, the most prominent reason for buying abroad is the large price gap that exists between luxury products in China and outside of the mainland. Luxury goods are extremely expensive in China because of high import duties, consumption taxes, increasing rental and labour costs of luxury goods stores, as well as inefficient logistics and distribution systems.⁷¹ With the prevalence of international Chinese consumers, luxury companies must globalize their marketing strategies to please Chinese tourists. Effective methods can include employing

⁶⁸ Business Insider published in 2015: Louis Vuitton is now a 'brand for secretaries' in China

⁶⁹ <https://www.linkedin.com/pulse/daigou-gray-markets-implications-chinas-retail-market-sean-linkletter>

⁷⁰ Anil Gupta and Haiyan Wang wrote in Bloomberg in 2013: Safeguarding Your Intellectual Property in China

⁷¹ Chinese Luxury Consumers – Trends and Challenges for Luxury Brands-The global Chinese consumer. <https://martinroll.com/resources/articles/asia/chinese-luxury-consumers-trends-and-challenges-for-luxury-brands/>

Mandarin speaking staff⁷², that is the most important priority, and providing Chinese payment options in stores around the world. Luxury companies now have also to maintain consistency, excellence, and exclusivity in their products and retail locations around the world. Failing this can increase the risk of losing consumer trust. However, companies now have the opportunity to provide unique shopping experiences for Chinese consumers abroad that they cannot get at home.

In 2017 the tourists who have spent more to travel were the Chinese. According to the World Tourism Organization⁷³, a United Nations agency dedicated to the study of global tourist flows, last year Chinese citizens traveling abroad spent 258 billion dollars, figure up 5% compared to 2016, so Chinese people are spending far more than anyone else.⁷⁴ By 2030, then, according to estimates by the China Outbound Tourism Research Institute⁷⁵, Research Company with offices in Hamburg and Beijing will be 400 million to travel abroad, a boom compared to the 145 million that have crossed the borders of the Asian country in 2017. There are millions of people who also move and the most important thing for them is to go shopping in the European cities, which are a symbol of fashion and luxury. Again in 2017, according to Global Blue⁷⁶, a leading company in tax free shopping services, Chinese tourists generated 30% of tax free purchases both in Italy and in Europe, with an increase in double-digit spending compared to 2016. Purchases that in Italy they are concentrated mainly in Milan, in the fashion district: in those streets, according to the Global Blue surveys, from 2016 to the first four months of 2018, the shopping weight of Chinese tourists grew by 2.3%, more double the Italian national average, equal to 1%.⁷⁷

⁷² <https://vincenzochierchia.blog.ilsole24ore.com/2017/07/27/i-turisti-cinesi-preferiscono-la-francia-secondo-hotels-com/>

⁷³ <http://www2.unwto.org/>

⁷⁴ Peck, Sally. 25 July 2017 <https://www.telegraph.co.uk/travel/destinations/asia/china/how-chinese-tourists-travel-etiquette-and-money/>

⁷⁵ <https://china-outbound.com/>

⁷⁶ <http://www.globalblue.com/tax-free-shopping/china/>

⁷⁷ <https://www.ilsole24ore.com/art/notizie/2018-06-03/boom-clienti-cinesi-negozi-montenapoleone-studio-servizi-ad-hoc-190242.shtml?uuid=AEeIwiye>

Luxury stores are increasing customer service, hosting VIP events, and providing special perks aimed at communicating exclusivity and recognizing the status of their best customers. Examples of this special treatment can be closing an entire floor for VIP shoppers, providing special notifications of new products for individual customers, and assigning personal shoppers. And also limiting direct glances, avoiding physical contact, propose suggestions but respecting customers' wishes and preferences, being smiling, efficient, quick. Offer a cup of tea at the end of the shopping; avoid black or white colour for the packaging of the purchases, because in the Chinese culture this is associates to the misfortune, while red and yellow are preferred as a key of good luck.⁷⁸

2.3 CHINESE TOURISTS

“One-third of what is spent on travel goes toward buying goods, often luxury items, to take back home. 21 per cent goes to transportation and 12 per cent to food and beverage.”⁷⁹

There are at least three types of consumers that companies must understand, remembering that from the data, females were more eager to travel abroad than males. Based on the gender and age data, the report estimates that in 2019, 41% of outbound tourists will be males while 59% will be females, an increase of 18%.⁸⁰

1) *The ultra-wealthy veteran traveller.* These consumers, many of them businessmen, go on multiple overseas trips per year and spend, on average, nearly \$4,500 per trip, with a few thousand of that going to luxury purchases. More than any other segment, these consumers value a high level of service and want to feel that they have access to goods that would not be available at home in China. These tenured shoppers are looking for less well-known brands and ever-more luxurious items.

⁷⁸ <http://www.east-media.net/colori-in-cina-significato/>

⁷⁹ Nathalie Remy and Aimee Kim June 2014. “*Winning today’s globe-hopping and shopping Chinese luxury consumers*”. <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/winning-todays-globe-hopping-and-shopping-chinese-luxury-consumers>

⁸⁰ Ctrip, the largest outbound service provider in China and China Tourism Academy (CTA), an institute directly under China National Tourism Administration (CNTA) <https://www.chinatravelnews.com/images/201802/fc66f776a9111201.pdf>

2) *The newcomers*. This category of upper middle class consumers are traveling abroad for the first time, often coming from tier 2 or 3 cities, and typically as part of a tour bus group. Organized tours remain the most popular way for Chinese to travel abroad, although the number of Chinese travelling independently is growing rapidly. Some 95 per cent of Chinese visitors to Louis Vuitton shops in Paris are on organized tours, most of which include shopping destinations as part of the official itinerary. These consumers are eager to shop in flashy flagship stores and they place particular value in the brand experience.

3) *New repeats*. For these consumers, annual travel to Europe and other destinations is becoming an important and valued part of their lives, allowing them to spend their newfound disposable income on seeing the world and experiencing the best retail experiences it has to offer. As these consumers become more comfortable with and knowledgeable about travel, they are moving away from organized tour groups and traveling independently.

For some Chinese, traveling abroad is also an occasion for have unique experiences during their travels, such as visiting historical sites, trying local cuisine, shopping for local products, and various other unique options.

"Travel allows me to broaden my horizons, while offering me a chance to experience other people's lifestyles and learn about different cultures."

"As the standard of living improves and our material needs are met, people will begin to focus on their emotional needs. After all, we only live once, and the world is so big, so we want to meet different people, to see different things and enjoy different lifestyles." Mrs Ding, 28, Shanghai " ⁸¹

"Actually, the cost of overseas travel is not so expensive, sometimes overseas travel even offers a higher value for the money. "

⁸¹ Nielsen Holdings plc is a global performance management company that provides a comprehensive understanding of what consumers want and buy. Nielsen, an S&P 500 company, has operations in more than 100 countries, covering more than 90% of the world's population.
<https://www.nielsen.com/content/dam/nielsen-global/cn/docs/Outbound%20Chinese%20Tourism%20and%20Consumption%20Trends.pdf>

"I like the sea, but there is no sea in Chengdu, so last year I chose to travel to Hainan where I spent about CNY 20,000 in one week. My friends travelled to Thailand, and the photos they took at beach were about the same as the photos I took in Hainan, they were all beautiful. However, it only cost them just over CNY 5,000 for a week's stay. So next time, I would choose to go abroad to explore the sea. I think the water will be very beautiful there." Mr Ke, 44, Chengdu⁸²

Among all Chinese tourists who travelled overseas in 2017, most of all had travelled to other Asian countries or regions and 51% to Hong Kong, Macao, or Taiwan,⁸³ while 38% had been to Europe, 25% to North America, and 20% to Australia/ New Zealand. Asian destinations are the most popular destinations among Chinese tourists due to some factors like simpler visa procedures, more affordable prices, and convenient transportation.

Japan, Thailand, and South Korea were the top three choices, followed by Singapore, Malaysia, and the Maldives. Hong Kong remains the most popular option among them. Also Europe in particular France, United Kingdom, Germany and Italy, is becoming more popular in their travels.

We can also compare Chinese tourists on the basis of their age. The younger post-90s group tends to consider the ease of visa procedures (47%) more than safety (39%) when selecting overseas travel destinations. Meanwhile, the post-70s generation pays more attention to beauty and uniqueness of tourist attractions (61%), and safety (51%), when choosing their overseas travel destinations.⁸⁴

Chinese tourists travel overseas mainly for leisure, such as dining and shopping. The post-90s generation is the most adventurous group.⁸⁵ The post-80s respondents are focused on "food" and "shopping", while the post-70s prefer a relaxing travel experience, with leisure as their primary goal when traveling overseas. There is a major distinction between the forms of travel chosen by Chinese tourists and non-

⁸² ibidem

⁸³ <https://www.marketingtochina.com/top-asian-destinations-for-chinese-luxury-shoppers/>

⁸⁴ <https://www.nielsen.com/content/dam/nielsen-global/cn/docs/Outbound%20Chinese%20Tourism%20and%20Consumption%20Trends.pdf>

⁸⁵ Stefanutto, Rinaldo. 16 October 2017. "Cosa cercano e come viaggiano i Millennial travellers cinesi." <https://www.travelforbusiness.it/2017/10/16/cosa-cercano-e-come-viaggiano-i-millennial-travellers-cinesi/>

Chinese tourists. Most of the non-Chinese tourists choose to travel independently, while Chinese tourists choose different options: some of them like to travel independently but other love to go with an organized group of people.

In terms of average total annual spending, as we can see in the figure 2.1 below, Chinese tourism consumption has risen steadily. In 2017, outbound Chinese tourists averaged USD 5,565 per person, with estimates for 2018 average spending expected to reach USD 5,715 – a growth of 3% year-on-year. In terms of on-location spending at the travel destination, Chinese tourists spent an average of USD 3,064 per person on their most recent overseas travels. For example, Chinese tourists spent an average of USD 4,462 per person in the United States and USD 3,754 in Europe. By contrast, in Thailand, they have many comparative advantages in terms of costs, and Chinese tourists there spent an average of USD 2,026 per person, while those visiting the popular shopping destinations of Japan and South Korea spent an average of USD 3,000 per person.

Figure 2.1 Average annual spending Average on location spending

AVERAGE ANNUAL SPENDING OF CHINESE TOURISTS ON OVERSEAS TRAVEL EACH YEAR PER PERSON



AVERAGE ON-LOCATION SPENDING OF CHINESE TOURISTS ON OVERSEAS TRAVEL PER PERSON
(Excluding tour group fee and costs of transportation to and from the destination)



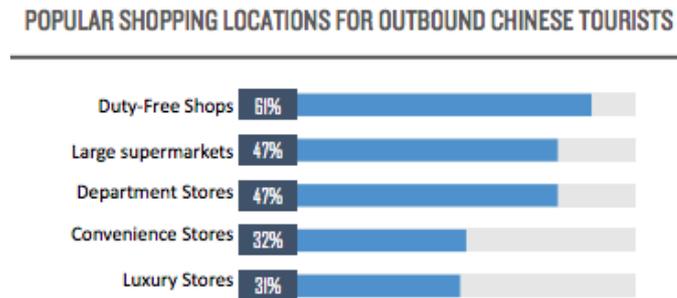
ON-LOCATION SPENDING OF DIFFERENT DEMOGRAPHIC GROUPS DURING OVERSEAS TRAVEL PER PERSON



Source: <https://www.nielsen.com/content/dam/nielsen-global/cn/docs/Outbound%20Chinese%20Tourism%20and%20Consumption%20Trends.pdf>

Chinese tourists choose different places to shop in different countries or regions. Duty-Free shops are the most popular but in the United States, the proportion of Chinese tourists shopping at luxury stores and discount retail stores is higher than that of other overseas travel destinations.

Figure 2.2 Popular shopping location



Source: <https://www.nielsen.com/content/dam/niensglobal/cn/docs/Outbound%20Chinese%20Tourism%20and%20Consumption%20Trends.pdf>

While traveling overseas, discounts, price, quality, and the payment methods are the biggest factors influencing the spending decisions of Chinese tourists. When traveling abroad, non-Chinese tourists are most concerned about cost, while other factors have a relatively limited influence. For Chinese tourists, the absolute price of goods and their travel budget has far less influence on shopping decisions compared to their non-Chinese counterparts. Product quality is also a key attribute Chinese tourists consider when shopping overseas. The payment methods are equally important as the absolute price and the relative price of the goods. It does not matter which age group they belong to because the question of which payment methods local merchants will accept is crucial to all Chinese tourists when making their shopping decisions.

2.3.1 PAYMENT SYSTEM

The payment system in China is divided between 3 platforms: We Chat Pay, Alipay

and Union Pay with the debit cards. In particular, this huge market share is divided between Alipay with 54% and We Chat Pay with 38%⁸⁶.

We Chat quickly became one of the major e-commerce platforms in China, along with Taobao, Tmall and JD after launching its own payment system.⁸⁷

"Chinese mobile payments will become more popular. Seeing the logo of Alipay or We Chat Pay and knowing that they are accepted in some stores abroad, we feel very comfortable. I am very proud of Chinese innovation and feel that the world is accepting it."⁸⁸ Mss Yang, 30, Shanghai

"I've made a comparison between different methods of payments. I found that using a credit card abroad means that you might have to go through two currency conversions from renminbi to dollars while being charged a processing fee. The money saved via using Alipay is just like a discount, which makes me feel comfortable buying more."⁸⁹ Mss Ding, 28, Shanghai.

2.4 TOP DESTINATIONS

Among the top destinations we can find Hong Kong. Chinese tourists are attracted by recreation and shopping. They tend to visit theme parks, such as Hong Kong Disneyland and Ocean Park Hong Kong. Hong Kong is an ideal travel destination for families with children. During their most recent trip to Hong Kong, the per capita consumption of Chinese mainland tourists averaged more than USD 2,487. Compared to spending habits in other destination countries or regions, Chinese mainland visitors buy skin care products and cosmetics, electronics, watches, jewellery, and handbags from duty-free stores, electronics stores, and gift shops

⁸⁶ <http://www.eggsist.com/articoli/i-sistemi-di-pagamento-in-cina/>

⁸⁷ Sampi published in 2016: *The Five Most Useful Features of WeChat for Marketers*

⁸⁸ <https://www.nielsen.com/content/dam/nielsen-global/cn/docs/Outbound%20Chinese%20Tourism%20and%20Consumption%20Trends.pdf>

⁸⁹ Ibidem

more frequently in Hong Kong not only because of the exclusivity of the products but also because the most part of the imported goods are tax free.⁹⁰

Taiwan has attracted many Chinese mainland tourists with its natural beauty and strong cultural atmosphere. Sun Moon Lake, Alishan National Scenic Area, and Chihsingtan Beach are the top three scenic spots for tourists. The most popular cultural attractions are the Taipei National Palace Museum and Taipei 101. In addition to visiting these attractions, trying out local food is another common reason for Chinese mainland tourists to travel to Taiwan, and the many snacks at the local night markets, in particular.⁹¹

Chinese tourists traveling to Europe spend an average of USD 3,754 per person, excluding tour group fees and costs of transportation to and from the destination. France for example, has lot of historical and cultural attractions, such as the Louvre Museum, the Notre-Dame de Paris, and the Eiffel Tower.⁹² The number of Chinese tourists who visit for educational activities and exchanges, medical care, and sporting events are all significantly higher than those of other tourist destinations. Chinese tourists traveling Europe also prefer to shop in the local luxury shops.

Chinese tourists who travel to the US, especially New York also travel overseas more frequently than the average Chinese tourists, and local consumption per capita for Chinese tourists (USD 4,462) is the highest among all the most top overseas travel destinations.⁹³ Chinese tourists prefer to visit the Statue of Liberty, Times Square, and Disneyland. Meanwhile, the proportion of Chinese tourists spending at outlet malls, luxury stores and electronics stores is higher than those visiting other countries or regions.

⁹⁰ <https://www.viaggio-in-cina.it/hong-kong/shopping.htm>

⁹¹ <http://www.taiwan-hotels.net/shopping/>

⁹² <https://www.vivaparigi.com/parigi-i-turisti-cinesi-sono-i-piu-spendaccioni/>

⁹³ <https://www.nielsen.com/content/dam/niensenglobal/cn/docs/Outbound%20Chinese%20Tourism%20and%20Consumption%20Trends.pdf>

Figure 2.3 Top destinations and top channels



2.5 E-COMMERCE

Reading some articles we can understand that Daigou was a consequence. It was created by the Chinese consumers need to make sure that the goods they buy were authentic. Most of Chinese consumers buy the product online. Chinese e-commerce is the strongest in the world.

“China’s e-commerce industry is the strongest one and has spent the past decade growing. In 2015, China’s ecommerce spending will represent 15.9 per cent of all retail sales, and by 2017 that’ll go up to 23.8 per cent. By 2018, it could hit over US\$1.5 trillion in spending, representing nearly 30 per cent of all retail purchasing.⁹⁴ But it isn’t all so positive, because according to a new report released by the law enforcement and inspection team of the National People’s Congress Standing Committee, fake products are still a serious problem. According to the *Beijing Business Times*,⁹⁵ the report was compiled from the group’s inspections of 14 different e-commerce product categories in 2014. It found that only 58.7 per cent of the inspected goods were genuine, and the other 41.3 per cent were counterfeit. The

⁹⁴Millward, Steven. 2 Nov 2015. “China’s ecommerce spending to blast past \$1 trillion in 2017” <https://www.techinasia.com/china-ecommerce-spending-to-blast-past-1-trillion-in-2017>

⁹⁵去年网购正品率不足六成 假冒现象严重. 2015 年 11 月 03 日 01:35 北京商报 <http://tech.sina.com.cn/i/2015-11-03/doc-ifxkhqea2968358.shtml>

last could include dangerous fake products like cosmetics with unlisted ingredients as well as brand-name clothing. The report also says that the consumer's complaints are up. The China Consumers Association handled more than 20,000 shopping-related consumer complaints last year, and 92.3 per cent of those were about online purchases. Around 40 per cent of China's ecommerce products are fakes."⁹⁶

2.5.1 THE IMPORTANCE OF THE CHINESE E-COMMERCE

In China, e-commerce represents the market with the highest growth rate. The number of users who buy online is growing and in the coming years is expected to exceed the US. The development of e-commerce is due to the increasing confidence of consumers in this sales channel but also to the growing number of operators active on the web and especially foreign investments, which have found fertile ground for their products in this market.

The Chinese online sales platforms are different, many of which have surpassed the Western giants Amazon⁹⁷ and E-bay⁹⁸ by turnover and number of users. The most important Chinese platforms are: "Taobao.com"⁹⁹ (Consumer to Consumer "C2C"), the biggest Chinese e-commerce company, born in 2003, presents a huge assortment of products: from clothing, to home stuff, electronic items, toys and any type of object. Tmall.com¹⁰⁰ (Business to Consumer "B2C"): it is a platform that is part of the giant Alibaba, which makes available its infrastructure to host virtual showcases for its products that can be viewed and purchased all over the world. JD.COM¹⁰¹: a Beijing-based company founded in 1998, specializing in the sale of household items, toys, books, food and air tickets. Yihaodian.com¹⁰²: founded in 2008, it is the most

⁹⁶ TechnAsia reported in 2015: "More than 40% of China's ecommerce products are fakes, says government report."

⁹⁷ <https://www.amazon.it/>

⁹⁸ <https://www.ebay.it/>

⁹⁹ <https://world.taobao.com/>

¹⁰⁰ <https://www.tmall.com/>

¹⁰¹ <http://www.jd.com/>

¹⁰² <http://www.yhd.com/>

known business-to-consumer (B2C) platform and specializes in online sales of foodstuffs from all over the world.”¹⁰³

2.5.2 COUNTERFEIT GOODS

Figure 2.4 *Made in Italy vs. made in China*



Source: <https://forum.termometropolitico.it/682203-difendere-e-rafforzare-le-produzioni-italiane.html>

As we all know China is famous for their counterfeit goods. The Alibaba¹⁰⁴ ecommerce platform would be full of counterfeit products. The value of the false amounted to 1.7 trillion dollars in 2016, and a growth of 70 per cent is estimated over the next five years. According to Milena Gabanelli, a Corriere della Sera journalist, if a company realizes that its product is falsified in China and sold at bargain prices on Alibaba, it has few steps to protect itself. In fact, Chinese law is not clear and the owners of the brands do not have to sue and challenge the enormous resources of Alibaba.

Even the latest draft of the Chinese law on counterfeiting, which has been under discussion for five years, reports that: "Faced with a report of counterfeiting, if the

¹⁰³ 2 marzo 2016 <https://www.retexspa.com/china-mag/e-commerce-vendita-cinesi>

¹⁰⁴ <https://www.alibabagroup.com/en/global/home>

seller is not true and produces documentation, no one goes to court" The standard does not provide a responsibility for the platforms. This is because Alibaba brings 12 million jobs to China.

In Detroit, last June 2017, Alibaba chief Jack Ma admitted he had a problem with counterfeiting. But according to Gabanelli the responsibility would be of the Chinese government.

The online sale of counterfeit products damages small and medium Italian companies. Who has the strength to impose a change of course, the owners of the major world brands and trade associations? The phenomenon could get worse because Alibaba's growth forecasts are huge. The Colossus capitalizes in trillions of dollars by 2020 and is making acquisitions and investments in all sectors and around the world.¹⁰⁵

On 18 March 2017, also the New York Times publishes a report on the serious problem of counterfeiting in China.¹⁰⁶



Figure 2.5

Alibaba's flood of fakes

Source: The New York Times

¹⁰⁵ Liberatore, Livia. 22 gennaio 2018, di <http://www.wallstreetitalia.com/alibaba-vende-prodotti-contraffatti-per-quasi-2-mila-miliardi/>

¹⁰⁶ Schuman, Michael. March 18, 2017 <https://www.nytimes.com/2017/03/18/business/alibaba-fake-merchandise-e-commerce.html>

Alibaba is a company valued at \$260 billion, with hundreds of millions of buyers using its sales platforms. The company has 60,000 employees and that is worth 450 billion dollars. Every day, and only in China, it delivers 30 million packages and processes 832 million orders.¹⁰⁷ Alibaba's growth forecasts are huge: it is counting on capitalizing \$ 1 trillion by 2020, beating Apple, Alphabet, Amazon, Facebook, Tencent.

Figure 2.6 *Alibaba Group*



Source: www.alibaba.com

Its founder Jack Ma declared in Newsweek¹⁰⁸: "China has changed thanks to us for the past 15 years. Now we hope that the world will change thanks to us in the next 15".

The giant is making acquisitions and investments in all sectors and around the world: from companies that deal with distribution to chains of shops and supermarkets, from the press to the media, from lotteries, to sports, to health services. If you can also buy a payment service company (such as Western Union for example), it will be easier to build a platform outside of China, thus opening the door to a far greater international sale of counterfeit products. From one day to the next, things could go 10 times worse.

¹⁰⁷ <https://www.statista.com/statistics/364780/number-of-orders-alibaba-singles-day/>

¹⁰⁸ <https://www.newsweek.com/2017/05/12/alibaba-jack-ma-silicon-valley-fix-china-us-trade-deficit-594421.html>

Millions of Chinese shop there for things as varied as snacks and knickknacks and phone charging cables, while global brands flock to its high-end sales platform, Tmall. Alibaba has long faced accusations that its sales platforms are a haven for fakes, and big organizations have been effective at bringing the problem to the fore. Following complaints from industry groups, the office of the United States Trade Representative last year added Taobao to its list of “notorious markets” for counterfeit goods, after removing it four years earlier.

A survey conducted by Chinese television CCTV in 2015 revealed that 68.2% of clients received counterfeit goods from Taobao. Even the B2C Tmall, which only sells products distributed directly by the big brands, has been plagued by problems of credibility and scandals regarding false customer feedback.¹⁰⁹

2.5.2 SHUADAN

'Shuadan' is how it is called the popular method used by traders to generate fictitious sales records and to improve their rankings, usually by using fake customers paid specifically to leave positive reviews. When it comes to baby food, the product authenticity and quality are fundamental. Driven by a series of scandals on fake milk powder¹¹⁰, and a greater availability of money than ever before, Chinese parents are willing to pay a higher price to import milk powder, in the hope of providing their children with the same formula of high quality nutrients that foreign children enjoy. This trend has become so important that Hong Kong has been forced to approve a new law to limit the amount of milk powder that a person can buy and bring to Chinese soil, so inhibit parallel trading activities

2.5.3 DIFFICULTIES FOR SMALL ENTERPRISES

¹⁰⁹ <https://techboom.it/ecommerce-in-cina/>

¹¹⁰ Corvino, Valentina. 13 aprile 2016. “*Latte in polvere contraffatto, nuovo scandalo in Cina.*” <https://ilsalvagente.it/2016/04/13/latte-in-polvere-contraffatto-nuovo-scandalo-in-cina/>

As I already said, the online sales of counterfeit products damage small and medium Italian companies. The U.S.T.R. notorious-markets report cited the extra challenges that small and medium enterprises face in dealing with fakes on Taobao. Smaller firms have a harder time qualifying for Alibaba's streamlined program for removing fakes, the report said, which means small firms often encounter more bureaucracy and longer response times than some large ones. The report said that businesses regularly experience problems with Alibaba's reporting system, including persistent error messages that block submissions. For small enterprises, fighting fakes on Alibaba's sites "can become expensive, it can become frustrating, it can take time away from your sales, marketing and other creative endeavours". An Alibaba spokesman said that suggestions that small businesses do not get its attention are "false" and that they can qualify for the streamlined process if their submissions prove reliable. He added that its process for removing suspect listings is in place to address the large number of fraudulent claims the firm receives.

The consumer, looking for the lowest price for each product, actually feeds the parallel production of the fake. Small and medium-sized Italian companies find their brands everywhere, from 1688.com (the platform that sells wholesale, but where they can also buy retail consumers) to Taobao or other Alibaba platforms. There are big producers who for years have been selling, for example, backpacks for Millennials, they also declare their turnover, and it's all counterfeit stuff. Nobody raises a finger, just because there is a perception that it is useless, complicated and expensive. Our small and medium-sized businesses can only lower prices in order to survive. Which means lowering salaries, and minimizing the contributions and rights, the hard-won ones: holidays, sickness, and motherhood. You leave the healthy territory of free competition, to enter the sick territory of social dumping.

2.5.4 HOW DOES IT WORK?

Today it works like this: on the platforms, where every day thousands of new sellers arrive, nobody is obliged to show the license to sell a certain product. In practice, if one mark has not been registered in China, it is impossible to remove the advertising from the platforms, while it is likely that someone else has registered the same

brand. Chinese people know in real time every brand existing on the international market. Only holders of online shops on the Alibaba platform are required to register in China, with a bureaucracy that takes almost 2 years.

The law is not clear, and it is not appropriate to sue because the compensation is low, Alibaba has huge resources and great lawyers, which have a big influence on local courts, and usually the companies themselves want to do business through the Alibaba group and if they denounce it, it becomes more difficult.

2.5.6 WHAT IS DOING THE GOVERNMENT?

The corporate owner of the Gucci and Yves Saint Laurent brand names, Kering, sued Alibaba two years ago over the prevalence of fakes on its services.¹¹¹ Alibaba, which is fighting the suit in a New York federal court, says it has no basis.^{112,113} In a report submitted to the U.S.T.R. in October, Alibaba boasted about the technology and resources it uses to clean counterfeits from its platforms. The company says its systems are powerful enough to scan 10 million product listings each day. As a result, Alibaba said, it proactively removed 380. "There are few companies that have taken the combination of steps Alibaba has taken, and has concrete plans to take, and certainly none that have put in place measures on the scale of Alibaba's," the company told the U.S.T.R.¹¹⁴

Last June, in Detroit, the head of Alibaba, Jack Ma, admitted:

"Counterfeiting is our cancer".¹¹⁵

¹¹¹https://www.repubblica.it/economia/finanza/2015/05/17/news/kering_fa_causa_ad_alibaba_vede_prodotti_con_marchi_contraffatti_-114586177/

¹¹² <https://it.fashionnetwork.com/news/Un-giudice-americano-respinge-parte-delle-accuse-di-Kering-contro-Alibaba,720646.html#.W9wuymJKiu4>

¹¹³ <https://www.italiaoggi.it/news/contraffazione-kering-avvia-negli-usa-causa-legale-contro-la-cinese-alibaba-201505180845215091>

¹¹⁴ The Office of the U.S. Trade Representative (USTR) is responsible for developing and coordinating U.S. international trade, commodity, and direct investment policy, and overseeing negotiations with other countries. <https://ustr.gov/about-us/about-ustr>

¹¹⁵ <https://qz.com/1010934/in-detroit-jack-ma-called-counterfeit-goods-the-cancer-of-alibaba/>

In August, he signed an agreement with the luxury giant Kering, founded by the French entrepreneur François-Henry Pinault. For its part, the group, owner of luxury brands such as Gucci, Saint Laurent and Bottega Veneta, has withdrawn the allegations against Alibaba presented at the New York court. Who should intervene is the Chinese government, which on one hand loudly declares its intention to protect foreign companies, but in the antechamber says: "We do not give too much protection to brands, otherwise it skips the entire false industry and Alibaba brings 12 million jobs ». Proof of this is the fact that China has been developing an e-commerce law for 5 years, and in the last draft it says: "In the face of a counterfeiting report, if the seller guarantees that it is not true and produces documentation (in turn false, ed), nobody goes to court. " A standard that doesn't imply any responsibility for the platforms, nor the obligation to deepen the tests. And the problem is not just Alibaba: while you are surfing the internet you can see the advertising of a product, by clicking on a site, an e-mail, a social media or WhatsApp, where you can buy the same product (fake).

How much is the fake market worth? The value of the false amounted to 1.7 trillion dollars in 2016, and a growth of 70% is estimated in the next 5 years.¹¹⁶

2.5.7 RESPONSABILITY OF THE CHINESE GOVERNMENT

If the controls do not start from China, there is no hope of halting global counterfeiting and the highest responsibility lies with the Chinese government, which should introduce clear and effective rules for the protection of all brands and consumer safety, and also tax the profits of online sales. Those who have the power to impose a change of course are also the owners of the big world brands and the trade associations, which instead of thinking about themselves (in fear of retaliation or bad publicity), should invest in serious research on economic and social impact; and then lobbying their governments, urging them to put pressure on the Chinese government. All over the western world the shopping centres are closing and

¹¹⁶ <https://eu.usatoday.com/story/tech/news/2017/01/16/alibaba-cracks-down-17-trillion-fake-goods-market/96633850/>

governments are aiming at the development of e-commerce, where of course there is not only false sales, but skips all intermediation, to facilitate simplification.

2.5.8 THE COUNTERSENSE OF TAXATION

According to Jack Ma, tax evasion is not only illegal, but also above all immoral and he has declared that every company must pay its share through taxes, since companies can only work thanks to the infrastructure paid by citizens. According to the South China Morning Post, a newspaper owned by Alibaba, the e-commerce giant and its financial subsidiary Ant Financial paid, in 2016, a total of 3.5 billion dollars in taxes, continuing to be the largest contributor to the China.¹¹⁷

But the parent company, Alibaba Group Holding Limited, is based in the Cayman Islands where no type of taxation is provided for companies.¹¹⁸

2.5.9 LITTLE PROGRESS

As Jack Ma said, counterfeit goods do not depend only on the Chinese government but also on multinational companies. They want to produce in China, attracted by low costs, end up bringing the materials and knowledge necessary for the false market.¹¹⁹ The man specifies, however, that Alibaba would be in the forefront to counter the "fake", employing 2,000 employees and collaborating with the Chinese authorities, contributing last year to the arrest of 300 people and the closure of 46 illegal activities.¹²⁰

¹¹⁷ <https://www.scmp.com/business/article/2059001/tech-giant-alibaba-paid-238-billion-yuan-tax-china-last-year>

¹¹⁸ Gabanelli, Milena. Corriere della Sera. 22 gennaio 2018. *"Il mercato del falso online vale 1.700 miliardi l'anno: che impatto ha su ognuno di noi?"*
https://www.corriere.it/dataroom-milena-gabanelli/mercato-falso/22e69d88-fb9b-11e7-b641-cb41c1023d03-va.shtml?refresh_ce-cp

¹¹⁹ Timpone, Giuseppe. 16 Giugno 2016 *"Prodotti cinesi contraffatti sono migliori degli originali, parola di Alibaba. La contraffazione cinese è colpa delle nostre multinazionali. Lo spiega il fondatore di Alibaba, Jack Ma"*

¹²⁰ <https://www.investireoggi.it/risparmio/prodotti-cinesi-contraffatti-migliori-degli-originali-parola-alibaba/>

Despite what many believe, Alibaba is fighting against counterfeiting especially in the watchmaking industry and in a much more aggressive manner than its American rival Amazon. Swatch CEO Nick Hayek¹²¹, in a heated interview with CNBC, has praised Alibaba for his effort to "actively combat fake products". According to Hayek, Alibaba is more alert to fraudulent sellers. "The Chinese are doing it. They fight against this fake system and the first successes are coming ". However, at least in the Western market, there is no clear awareness of what is happening in China. Many of the European buyers, for example, believe that Chinese e-commerce platforms are not making a real fight against forgery, while few believe that companies are really doing an active campaign. At the root there is therefore a problem of communication. This problem does not only refer to Chinese platforms to Western consumers but also non-Chinese customers know nothing about the new rules introduced in China.

Starting from this last point, the Central Government in recent years has greatly increased the rules regarding the protection and violation of intellectual property rights. Not only that, many were the sanctions and confiscations of products and goods in the last year. It is essential to get the Chinese platforms involved. For example, few are aware of the Anti-Counterfeiting Alliance, founded in 2017 with 30 brands. It's an ad-hoc portal created by Alibaba and supported by major brands such as Louis Vuitton.¹²²

Today, the AACA claims over 105 brands. So three-fold increase in the number of members since the organisation launched in January 2017.¹²³ It aims to protect IP rights of brands operating on platforms Alibaba, Aliexpress, Taobao and a number of other sites. The idea is for these brands to work together, along with Alibaba Group, in projects such as proactive monitoring for counterfeits online, working on offline

¹²¹http://www.swatchgroup.com/it/profilo_del_gruppo/organi_direttivi/direzione_generale_del_gruppo/nick_hayek

¹²² <https://www.thedrum.com/news/2017/01/17/alibaba-gets-support-louis-vuitton-samsung-and-mars-big-data-anti-counterfeit>

¹²³ McEleny, Charlotte. 08 May 2018. "Alibaba's anti-counterfeit group now has 105 brand members, including L'Oreal and Bose." <https://www.thedrum.com/news/2018/05/08/alibaba-s-anti-counterfeit-group-now-has-105-brand-members-including-loreal-and-bose>

investigations and enforcement and sharing knowledge about industry trends, strategies and litigation tactics.¹²⁴

Undoubtedly communication and understanding of intellectual property protection problems take a long time for brands and retailers to appreciate and understand them. And a first change came from the e-commerce platforms themselves. Taking the Hangzhou colossus as an example, Alibaba, after creating the Anti-Counterfeiting Alliance, has intensified its dialogue with some of the major luxury brands including Louis Vuitton and Kering. Also the company of Jack Ma has also updated its platform of protection of intellectual property in August with the aim of speeding up the process of detection of counterfeit goods. In the hope of reaching the high-end customers in a more careful and targeted manner, Alibaba launched its Luxury Pavilion on Tmall.¹²⁵ This platform was created to offer a tailor-made service, tailored to the needs, to maximize the user experience and the relationship with foreign brands.

The introduction of Tmall's Luxury Pavilion is aligned with the five top trends that are currently playing out in China's luxury consumption market:¹²⁶

- 1) Alibaba's New Retail initiative;
- 2) The restoring of luxury purchases to China;
- 3) The narrowing of the price differential of luxury goods in China and overseas, making the economics of luxury consumption in China more attractive than ever;
- 4) The shift of spending potential to the lower-tier cities;
- 5) Consumers' growing preference for experiential and lifestyle shopping.

Despite the internal portal of Tmall was born only in August 2017, the platform received a unanimous appreciation, both from the brands and from the buyers.

¹²⁴ <https://blog.redpoints.com/en/alibaba-continue-anti-counterfeiting-efforts>

¹²⁵ <https://www.alizila.com/alibaba-launches-luxury-pavilion-for-premier-brands/>

¹²⁶ <https://www.funglobalretailtech.com/news/five-reasons-tmall-luxury-pavilion-well-positioned-ride-chinas-consumption-wave/>

Brands like Loewe and Burberry have almost all embraced the new challenge of Jack Ma.¹²⁷

The government's new law seeks to make online retail platforms jointly accountable with sellers for the distribution of fake goods. It is due to be implemented on January 1, 2019.

Under the new legislation, e-commerce operators will be required to act quickly when a violation has been reported.

Failure to take "the necessary measures" in "a timely manner" will lead to a fine of between RMB50, 000 (\$7,328) and RMB500, 000 (\$73,282). However, for serious violations, a fine of up to RMB2 million (\$293,130) can be imposed.¹²⁸

2.6 THE BLACK MARKET

Totally different from the grey market is the black one. As I already said China is sadly famous for its counterfeit goods sold on Internet. But famous is also for its fake markets that are a big problem. If we go to Shanghai or Beijing we surely try to go in one of this fake market and the atmosphere is totally crazy.

If you are surfing on internet and you type the word "fake market in China" you can immediately see a list of the best fake in Shanghai¹²⁹ or Beijing¹³⁰ recommended by Trip advisor; and a list of what is better to buy, how to behave, how not to be cheated by sellers, how to bargain.

¹²⁷ Venza, Stefano.07/05/2018. "Lotta al falso: Alibaba batte Amazon." <http://it.cifnews.com/lotta-al-falso-alibaba-batte-amazon/>

¹²⁸ *China raises anti-counterfeiting pressure on e-commerce platforms.* 03-09-18
<https://www.trademarksandbrandsonline.com/news/china-raises-anti-counterfeiting-pressure-on-e-commerce-platforms-5309>

¹²⁹ https://www.tripadvisor.it/ShowUserReviews-g308272-d3374126-r545116940-APAC_Yinyang_Market-Shanghai.html

¹³⁰ https://www.tripadvisor.it/ShowUserReviews-g294212-d325810-r198233008-Silk_Street_Pearl_Market_Xiushui-Beijing.html

The first rule is regarding the price and the art of haggling; the second is to pay attention to the quality. The third rule concern the importance of pay using the local currency. The fourth admonish to do not follow vendors to an isolated place.¹³¹

These shops are everywhere. In Beijing the Silk Market is famous in all over the world. In Shanghai for example, there are also markets located in famous zone like Nanjing road, or we have the Taobao city, next to the museum of science and technology and so on. In the fake markets you can find everything you need.

In the fake market the art of bargaining is in force. Here, there are Apple phones that run Android operating system, fake Go Pro and iPods clearly fake, but they sound great. Everything is possible, even dressing from head to toe with signed, strictly false products. Gucci, Prada, Chanel, Jimmi Choo. You can find bags of all brands. Pile of "pure silicone" Iwatch bracelets and Apple covers that look very real, even with the logo stamped inside. All within a maze of underground streets, sheltered from rain and bad weather. And if the quality of that seam does not satisfy Western taste or if the plastic compared to Italian leather seems too "false", you are led, gradually, into small shops where the quality is always higher. And if you refuse a purchase, the merchant at first pretends to be annoyed by bargaining but then accept the price you proposed.¹³²

Lonely Planet's website advises going to "scavenge for bags, belts, jackets, shoes, suitcases, sunglasses, ties, T-shirts and electronics."¹³³

¹³¹ <https://www.saporedicina.com/english/fake-markets-china/>

¹³² Mauri, Sara. 06/04/2018. "*La Shanghai degli affari? Quella vera è sotterranea.*" <http://www.ilgiornale.it/news/shanghai-degli-affari-vera-sotterranea-1512687.html>

¹³³ <https://www.lonelyplanet.com/china/shanghai#tours>



Figure 2.7

Selling fake bags

Source:

<https://www.scpr.org/blogs/news/2012/04/27/5840/feds-issue-warning-following-bust-downtown-vender/>

The mall occupies an important place in the history of Chinese fakes. In Shanghai the most famous mall opened in 2006 became widely known as Taobao City.¹³⁴ In fact, Jack Ma's Alibaba Group initially had a deal to make it an authorized outlet for its then-fledgling online bazaar Taobao. The relationship is cited in a 2008 decision by a Hangzhou district court to endorse an agreement between Alibaba and the mall owner to end the relationship following a lawsuit filed by the online giant. Shop owners say they are feeling the government efforts to protect the intellectual property rights of big brands and every week the Shanghai municipal administration for industry and commerce come to their shops. Owners can be fined with 100,000 Yuan, so around 6,517 sterling. Also in Beijing, Officials of the Beijing Administration of Industry and Commerce raided the market and confiscated hundreds of fake Nike and Adidas suits and suits. The raid arrived two days before US trade secretary Don Evans arrived in China for a forum on the protection of intellectual property rights.¹³⁵

China is under intense pressure from the United States and the EU to crack down on its pirated goods industry. The United States claims that Chinese counterfeiters cost

¹³⁴ https://www.tripadvisor.it/Attraction_Review-g308272-d1603975-Reviews-Tao_Bao_City_of_Shanghai-Shanghai.html

¹³⁵ Eimer, David. 29 luglio 2007. "China crackdown on biggest fakes market" <https://www.telegraph.co.uk/news/worldnews/1558839/China-crackdown-on-biggest-fakes-market.html>

US companies more than £ 1.3 billion a year and 80% of all counterfeit goods seized in the EU last year are from China.¹³⁶

Another problem: the prosecution last year of 17 people related to the mall's operations, including Han City's supervisor, Li Ruguo, on charges of organizing the sale of knock-offs. The sentence of the court reach the agreement of probation and jail time of up to over four years plus fines, according to the website of the Supreme People's Court which didn't specify what happened to Mr Li. In the mall walls there is also another notice, dated in April, where is written that merchants are forbidden to sell products related 20 international brands, including Gucci, Chanel and Burberry.¹³⁷ But behind the brackets it's possible to find all these brands.

¹³⁶ Eimer, David 29 luglio 2007. "China crackdown on biggest fakes market"
<https://www.telegraph.co.uk/news/worldnews/1558839/China-crackdown-on-biggest-fakes-market.html>

¹³⁷ Wall Street Journal reported in 2016: "Shanghai Mall, Famous for Fakes, Set to Shut Down"

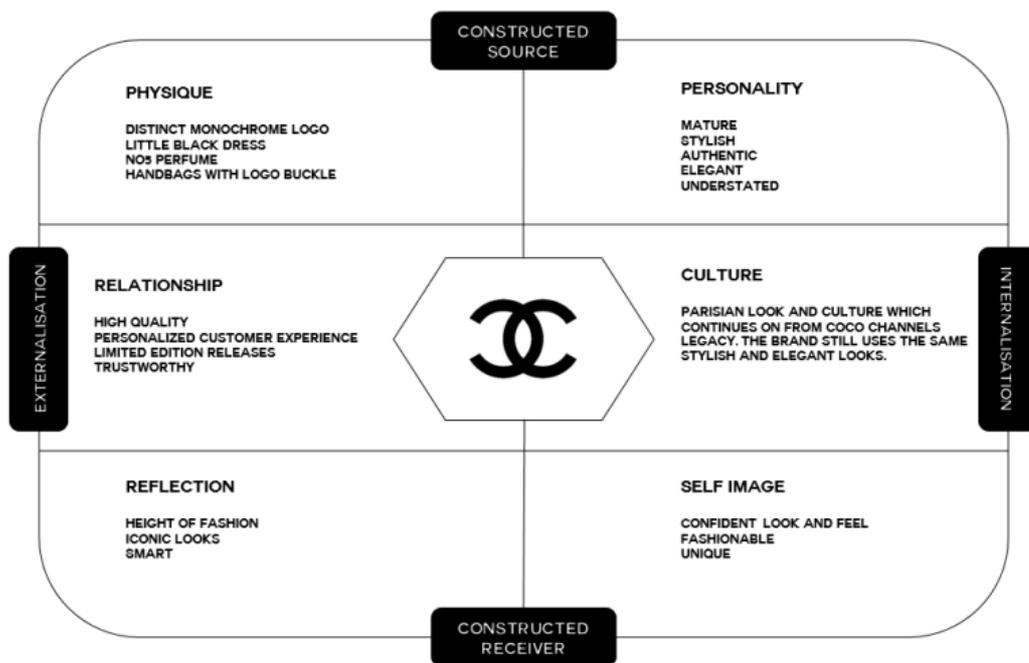
CHAPTER 3: THE CASE OF CHANEL

3.1 BRAND IDENTITY

In a highly competitive market various brands are concerned about obtaining strong customer base this is due to the fact that homogeneity in the markets has made it difficult for the luxury brands to differentiate their products. “The contemporary world of market proposed two major tools for effective brand management: brand identity and brand positioning. With respect to these aspects of brand management, Chanel has been prominent in the market with strong brand identity and personality, which has given the brand the leading position in the luxury market.”¹³⁸

Since the French brand has been found, it has been targeting multi-consumer segments. The year’s best Luxury Marketer is Chanel, due to its brand attributes and transparent strategy and advertising campaigns.

Figure 3.1 *Brand Identity Prism*



Source: <https://chanelwintersports.wordpress.com/brand-identity-prism/>

¹³⁸ <https://www.researchprospect.com/channels-brand-identity-and-personality/>

“Brand identity alters due to the brand meaning perceived by the consumers.”¹³⁹

Chanel has created a strong brand identity by incorporating uniqueness in its brand. For every buyer Chanel has some meaning that is why it is known as a top-of-the-mind brand. “According to the above Chanel’s brand identity prism, the brand’s proposed agenda about the “total look for women” has created a physique of the brand whereas the components like creative, perfectionist and daring have constructed a strong brand personality”¹⁴⁰.

The brand values catered by the brand have been sophistication and simplicity and the revolutionary images used by the brand gives the proposition of liberated lifestyle of women. “The brand’s reflection is the social communication of the attributes in a flattering manner, which increases the overall prestige of the brand in the market and amongst the consumers.”¹⁴¹ The reflection carried by Chanel has been the modern elegant woman who carries her style with class and elegance.

3.1.1 STORY OF THE BRAND

Figure 3.2 First boutique in Paris at n. 31 of Rue de Cambon



Source: <http://www.affashionate.com/2018/04/26/conosci-la-storia-del-logo-chanel/>

¹³⁹ Wheeler, Alina. “Designing Brand Identity: An Essential Guide for the Whole Branding Team”.

¹⁴⁰ Alston, I., (2014). “Coco Chanel”. TAJ Books International.

¹⁴¹ Dinghai, J. and Tingting, Y., (2014). Reflection and reconstruction on Keller CBBE pyramid model [J]. *Journal of Advertising Study*, 6, 007.

Gabrielle Bonheur Chanel was born the 19 August 1883. She had an unfortunate childhood, characterized by the death of her mother, the abandonment by her father who was a peddler, and the years entrusted to the Sisters of the Sacred Heart. She was surrounded by women dressed only in austere clothes, strictly white and black, and by the strict architecture of the abbey, so it was here that Gabrielle began to become Chanel: the antithesis of the opposite colours and the severity of the lines will be, tomorrow, the distinctive characteristic of her fashion.¹⁴²

When she was 18, Gabrielle was free to leave the orphanage and start living her own life.

She was employed as a shop assistant in the Maison Grampayre shop in Moulins and at the same time she was a singer in a cafe. And it is in that coffee shop that she met Étienne de Balsan, son of textile entrepreneurs, who invited her to move to her castle in Royallieu. The relationship six years long proved to be a very lucky meeting for the designer: Étienne was not only a lover, but also her first sponsor. Coco was very good at creating hats and, soon, women fall in love with Balsan's company. She moved to Paris in 1908 and then to Deauville, where, in 1914, she opened her first stores, followed in '16 by a high fashion show in Biarritz. The fashion of that time was still closely linked to retrograde concepts: the corset and the crinoline; cages in which women locked themselves up to the cry of an aesthetic balance as much sponsored as unhealthy. Chanel, that was a revolutionary, began to propose sports models, with simple and soft lines, beyond any constraint and in line with the new health trend of the beginning of the century.

In 1916 Rodier, a French textile industrialist gave her exclusive jersey, a fabric that proved to be the best interpreter of Chanel's creations due to its softness on the body and its innate ability to free the woman's physicality. The triptych skirt, pullover and cardigan became the first distinctive model of Chanel fashion, made especially in grey, beige and dark blue, as well as, obviously, the combination of black and white. In 1920 she opened her first boutique in Paris at n. 31 of Rue de Cambon. She created her first and famous perfume, the Chanel N.5, a timeless

¹⁴² Axel, Madsen.1990. "*Chanel, Una vita un'epoca.*" Novara, DeAgostini".

fragrance that, even today, is considered one of the best ever conceived. Subsequently, other perfumes are born, such as the N.22, the Gardenia, inspired by the designer's favourite flower that will also be repeated in costume jewellery, and the N.19.

She used to observe the clothing of the Parisian clerks and orders, characterized by black dresses with white collar and cuffs. And it is in the mid-20s that was transformed into the "petit robe noir", the little black dress with the simplest possible lines capable of making each woman equal to the others, albeit with immense style confirming her famous belief "fashion passes, style remains". A fitting example of this vision is the absolute success obtained by the Chanel suit, loved by women all over the world: in gabardine, tweed and, obviously, in jersey, a creation that is always the same for cutting and accuracy. After she focused on the creation of the accessories. In the '30s, we had the birth of Chanel 2.55, or the most copied bag in the world since the day it was created. But Coco did not mind at all because, as she herself said, being plagiarized is the greatest compliment one can receive: it only happens to the great ones.

In 1927 her creations also landed in London, with the opening of the first store in Mayfair. "Even Hollywood started to commission her clothes so she made another strong piece, the suit, for which she chose soft fabrics like tweed, gabardine and vicuña."¹⁴³

3.1.2 THE LAST YEARS

With the outbreak of World War II, Chanel was forced to withdraw from the fashion scene, but only for a while. Gabrielle came back when she was a 71-year-old woman and critics were waiting for her decline. But, she immediately presented her new collection with the knitted suit, the one that was worn by many women in the world, including Jackie Kennedy who, on the day of her husband JFK's assassination, wore a

¹⁴³ <https://www.lofficielitalia.com/moda/coco-chanel-storia-moda>

Chanel knitted pink suit so, high fashion intertwined with one of the most dramatic events of the twentieth century.

The 10 January 1971 Gabrielle Coco Chanel died at the age of 87 in her suite at the Hotel Ritz in Paris. A life fully lived, which had changed forever the international fashion and the conception of the female body. After her death, the fashion house was brought forward by Gaston Berthelot and Ramon Esparza, assistants of Madame Chanel, and then passed in 1983 under the creative guidance of Karl Lagerfeld, extraordinary designer who was able to make contemporary the stylistic codes of the fashion house without ever betraying Coco's vision.

“Coco Chanel, a strong determined and elegant woman revolutionized the world of haute couture by substituting sumptuous feminine dresses with simpler, linear and comfortable models.”¹⁴⁴ For the first time, she valued the woman's body also in the world of work. “Coco managed to give a style that was always accurate and refined through the use of a simple men's cut jacket and a skirt, allowing the wearer to show her femininity. With Coco Chanel, women have learned to go beyond conventions, to choose for themselves the life they wanted to live, to prefer the practicality and quality of the cut of a piece of clothing to useless frills.”¹⁴⁵ The style of Chanel was sober, practical, functional but at the same time extremely elegant, managing to enhance femininity, despite proposing a proper masculine dress, thus imagining an emancipated, free and self-confident woman.¹⁴⁶ Elegance is not the only factor that marks Chanel. The brand can be define as luxury, exceedingly good quality and important is also the attention to details.

¹⁴⁴ Ros Horton, Sally Simmons. 2007. *Women Who Changed the World.*. London, Quercus.

¹⁴⁵ Amè, Francesca. 4 settembre 2017. “Coco Chanel, la stilista che cambiò il modo di vestire (e di pensare) delle donne” https://www.iodonna.it/personaggi/interviste-gallery/2017/09/04/coco-chanel-la-stilista-che-cambio-il-modo-di-vestire-e-di-pensare-delle-donne/?refresh_ce-cp

¹⁴⁶ “Gabrielle Bonheur Chanel : storia e valori della Maison”. Giugno 12, 2017 <https://rossanastega.wordpress.com/2017/06/12/economia-aziendale/>

3.2 DESCRIPTION OF THE BRAND

3.2.1 PERSONALITY

Coco Chanel was a strong woman, courageous, determined, enterprising, emancipated and free, but also refined, elegant and simple. Most of Chanel's consumers are instinctive, courageous, creative, perfectionist but also sober women. Chanel is classy and elegance.

3.2.2 RELATIONSHIP

Chanel turns to an elite and tends to create a relationship with its clients where they can feel pampered and fully satisfied. In fact, when consumers feel satisfied, they perceive that the brand makes them feel better, they consider it tempting, convincing but above all rewarding.

3.2.3 CULTURE

The brand is known above all for the fact that it manages to combine refinement, innovation and simplicity. These characteristics reach the consumer thanks to communication (through testimonials that embody the same Chanel value system and to advertising with the same mood), to products (classic, quality and clean shapes), to sales points (sophisticated and highly available staff and competent) and to the applied price strategies (consistent with the luxury brand in terms of fashion and accessories, watchmaking and jewellery, but also more accessible as far as cosmetics and fragrances are concerned).

3.2.4 REFLECTED

Whoever wears or uses a Chanel product feels like a woman in step with the times and elegant. The part of consumers that belongs to the female elite through the Chanel product confirms its status by reaffirming itself. On the contrary, the part of

the consumers that aspires to become part of the female elite is as if it were part of that world for a few moments.

3.2.5 MENTALITY

Chanel's consumers are for the most part young and adult women (25-54 years old) with high educational qualifications, income and status. They are women with an attitude to enterprising and a strong sense of personal fulfilment, both professional and cultural. They generally buy in the best shops.

3.3 COMPONENTS OF SUCCESS

The luxury brand focuses on fashion, jewellery and fragrance of an impeccable quality.

The components of success are: product, distribution, price and advertising.

3.3.1 PRODUCTS

Chanel products can be classified as a pyramid where on the entry range we can find Chanel floraison, glasses, perfumes, cosmetics and so on. The “heart of the range” in the pyramid model is represent by different types of products: the small hand-made products or upper range products including ready-to-wear, leather goods, bags, watches, shoes and fashion accessories. “Watches and accessories are essential, extremely elegant and are predominantly in white and black. These are the products with which the brand develops the highest turnover along with cosmetics and perfumes. The tradition of French jewelry is a guarantee of the highest quality and a maniacal attention to detail. It is oriented towards extreme differentiation through the use of materials that come from exotic and distant places like the pearls of the southern seas.”¹⁴⁷

¹⁴⁷ “Gabrielle Bonheur Chanel : storia e valori della Maison.” Giugno 12, 2017
<https://rossanastega.wordpress.com/2017/06/12/economia-aziendale/>

On the top level, due to the unique functions like rare, made my hand, priceless and work of hart we can find the Haute Couture.¹⁴⁸

3.3.2 DISTRIBUTION

To keep the image of a quality product high, Chanel distributes in two direct ways. The first one is selective. So it refers to product available in a limited number of points of sale. The second is exclusive: so the product is available only at one or a few outlets. Chanel has more than 200 boutiques worldwide. The clothes belonging to Haute Couture can be purchased in the showroom or at the end of the fashion shows in a special structure that will have the purpose of perfecting the purchase. The Pret-à-porter is sold in stores, a strategy that increases the exclusivity of the product. Accessories are sold exclusively in Chanel stores. The jewellery is sold exclusively in certain boutiques. It is possible to buy watches in boutiques or in jewellery that respect the strategies.¹⁴⁹

3.3.3 PRICE

Chanel offers different products. We can find standard products with affordable prices for a large number of consumers, but also limited edition products with variable prices in relation to the materials used. Then we have the unique products with prices almost inaccessible.

3.3.4 ADVERTISING

Advertising is the stage where the symbolic values of Chanel come to life, which persuades and seduces the audience, transporting them to a surreal dimension. The

¹⁴⁸ Kapferer & Bastien, 2012. "The Luxury Strategy Break the rules of marketing to build luxury brands"

¹⁴⁹ "Gabrielle Bonheur Chanel : storia e valori della Maison." Giugno 12, 2017
<https://rossanastega.wordpress.com/2017/06/12/economia-aziendale/>

brand is famous for its gale dinners, exhibitions, fashion shows, magazines like Elle and Vogue and its testimonials. They also choose some Chinese models.

Figure 3.3 *Vogue China*



Source: <http://redshoes.capris.lt/?p=1061>

Figure 3.4 *Elle China*



Source: <https://www.fashiongonerogue.com/editorial/liu-wen-fashion-editorial-elle-china/>

3.4 BRAND WHEEL

The overall image that Chanel portray wants to show is luxurious, high class and innovative. The use of brand essence wheel is a marketing format created by Bates¹⁵⁰ (1995) for capturing and communicating the conceptual refinements of a brand.¹⁵¹

Looking at the brand wheel we can understand that the brand proposition is to be comfortable, affordable and classy. Important is to define the style and create desire now and forever. For the consumers the brand create fulfilment, rewarding and aesthetically pleasing because the brand is describe as elegant, innovative, unique

¹⁵⁰ <https://penhaligonchichester.wordpress.com/brand-essence-wheel-2/>

¹⁵¹ <https://chanelhomme1.wordpress.com/brand-essence-wheel/>

3.4.2 JUDGMENT

Consumers have a pre-conceived idea of Chanel as a brand; it has a positive brand status. Consumers can recognize it from its quilting textures and iconic jackets. To younger consumers the brand may be seen as overpriced and don't see the appeal as much as the older demographic. "The target markets however are aware that you will get what you pay for with the brand and a sustainable product."¹⁵²

3.4.3 FEELINGS

Most individuals have an opinion of Chanel and Karl Lagerfeld with his 25-year period of working with Chanel means he is vastly known as part of Chanel as a brand. Consumers also have a great sense of pride when they wear or own a Chanel item; they feel elite, fashionable and attractive. The high price and luxury mean Chanel owners feel at a higher status, more confident and wealthier.

3.4.4 PERFORMANCE

Chanel has a high global status in fact was the third most searched luxury brand in China in 2013. "It is also globally known for its iconic adverts because of its celebrity endorsement and location. It keeps with a sophisticated theme using Coco Chanel and this allows consumers to identify with the brand. The Chanel trademark gives customers the assurance of consistency in the quality and durability of products delivered. Chanel has implemented a digital marketing strategy, which allows customers to read their own journey through the brand. It creates an individual relationship with the customer and a new standard of service."¹⁵³

3.4.5 IMAGERY

¹⁵² <https://gemmaansell.wordpress.com/2014/04/24/chanel-3/>

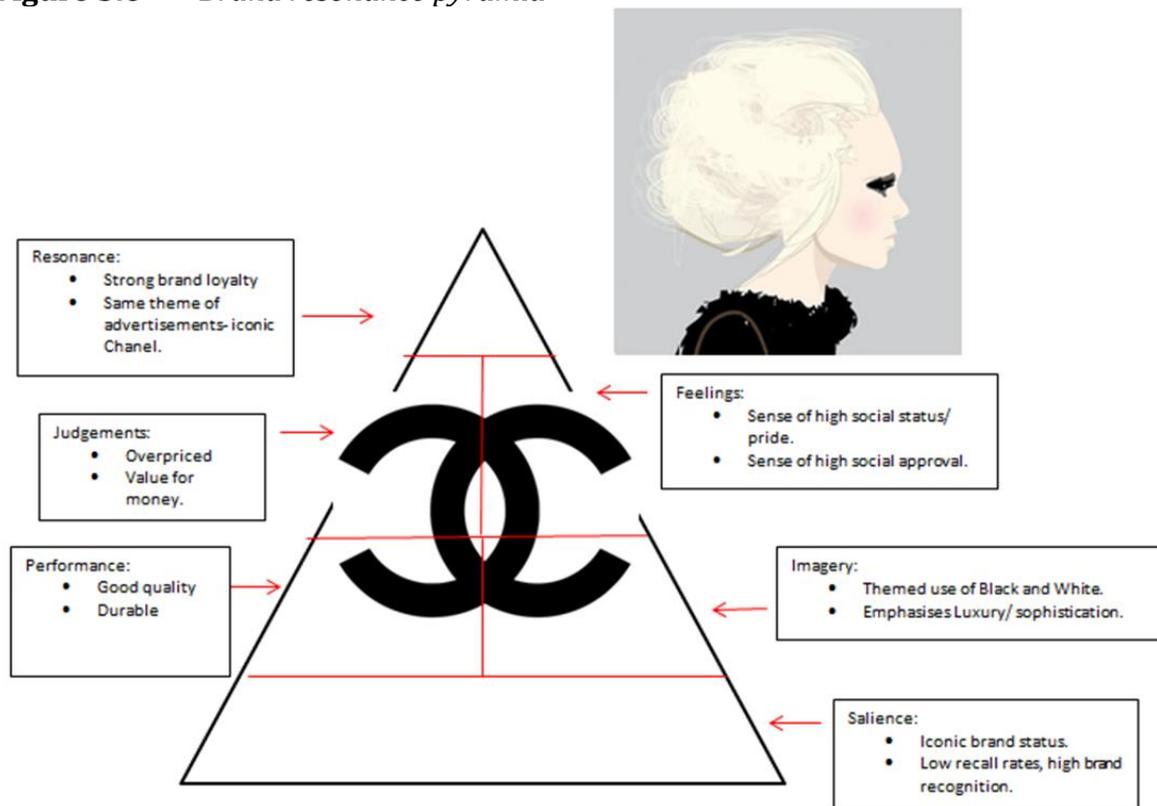
¹⁵³ <https://gemmaansell.wordpress.com/2014/04/24/chanel-3/>

Chanel has a strong brand image. Its theme of colours and appearance emphasise sophistication and brand recognition. The strong image is synonymous with quality, style and elegance. Consumers appreciate the brand as well as its craftsmanship and history. “Chanel don’t just sell a product they sell a lifestyle, they’re selling status and most importantly, they’re selling heritage”¹⁵⁴

3.4.6 SALIENCE

Chanel has a moderate brand salience, it has high brand recognition through use of its logo and scores low with brand recall status. Its presence of the logo and quilting on bags are highly recognisable to a consumer. Chanel is highly recognised for women’s handbags as in “2012 it was the third most searched for brands within the luxury industry”.¹⁵⁵

Figure 3.6 Brand resonance pyramid



Source: <https://gemmaansell.wordpress.com/2014/04/24/chanel-3/>

¹⁵⁴ Kattan, Huda 2013. https://en.wikipedia.org/wiki/Huda_Kattan

¹⁵⁵ <https://gemmaansell.wordpress.com/2014/04/24/chanel-3/>

3.5 SWOT ANALYSIS

Chanel is one of the most famous fashion houses that have adopted corporate strategies to pursue its objectives and achieve its advantageous position on the markets. The company strategy allows precisely planning the company's objectives based on what it has; in particular, Chanel offers unique products by exploiting the power of its brand and offering products of excellent quality.

Thanks to the Swot Analysis, the company can exploit its strengths, "hiding" the weaknesses, seize opportunities and limit the damages that could cause the threats present on the market. The Chanel brand has become one of the most recognizable names in the field of fashion.

The products have different positioning, pricing, distribution and communication strategies and include the fashion and accessories, cosmetics, perfumes, watches and jewellery sectors.

3.5.1 STRENGTHS

Chanel is well established and everybody knows about the brand. Its brand value is valued at \$9.6 billion. They have around 1800 employees. "Chanel's brand designer Karl Lagerfeld has been their head designer and creative head since 1983. He is one of the most famous designers in the world. Such great brains are behind the success of Chanel that has been keeping the brand up and running."¹⁵⁶

Chanel is known for its comfortable and functional clothes with the perfect style. Its clothes are pioneers of ready to wear clothing. Classic and timeless designs make a major part of their collection. The clothes offered are comfortable with the perfect style for rich urban customers. Chanel operates more than 200 boutiques worldwide with a wide range of products like perfumes, watches, skin care products.

3.5.2 WEAKNESS

¹⁵⁶ <https://www.marketing91.com/swot-analysis-chanel/>

Chanel is competing with many other premium brands, which means limited market growth. Although Chanel is at a healthy 80th rank in the world it still needs to do some efforts in order to become the leader in the premium segment.

3.5.3 THREATS

Competitors in the same business providing similar kind of clothes and accessories can reduce Chanel's market share. Economic slowdown and downturn also has an effect on production. Counterfeits and price wars are also a viable threat. This is a very prevalent problem, which hampers the sales of the brand. Other cheaper and lower brands tried to copy their timeless styles and selling at much affordable rates.¹⁵⁷

3.5.4 OPPORTUNITIES

Emerging markets have huge potential. Chanel should increase its presence in emerging markets and move away from the saturated developed markets. Chanel can start working on some new innovative products. It should become a brand of a young generation. This famous brand has not a strong presence online.

3.6 THE QUESTION OF E-COMMERCE

As we all know in China the most powerful way for selling goods is through Internet. E-commerce is essential. So from this point of view Chanel goes completely against the current.

While all the luxury brands are increasingly facing the universe of online shopping, Chanel doesn't and for now there is not the opportunity to purchase the products on the official website. The director of the fashion division of the fashion house, Bruno Pavlovsky¹⁵⁸, affirmed, "Fashion is for the dress and the clothes. You have to see them, listen to them, understand them" highlighted the strategic choice of the

¹⁵⁷ <https://www.mbaskool.com/brandguide/lifestyle-and-retail/2576-chanel.html>

¹⁵⁸ <https://www.businessoffashion.com/community/people/bruno-pavlovsky>

fashion house. The atmosphere of the boutique is enhanced, the Chanel clothes must be tested in the dressing rooms with modifications and adjustments made by tailors, in order to adapt them to the body of each customer. "Despite the profitability through online sales being very high for most companies operating in the luxury goods market, Chanel's unique culture and experience do not lend themselves to a type of sale like this."¹⁵⁹

"If you immediately, give everything to everyone you lose exclusivity". "I'm not saying that we will not get there one day, declared Bruno Pavlovsky at Bloomberg, but we will do it when we think that in e-commerce there is really a value added". Today, Chanel is available online with perfumes, makeup products and eyewear. In 2015, the French fashion house opted for a first online sales test, launching the Coco Crush capsule collection on Net-a-porter¹⁶⁰ in a special section that had been active for three weeks. For clothing, bags and accessories, however we have to wait. For Pavlovsky there are "non-immediate" plans, replaced at the moment by services that allow customers to 'book' online clothes for a test by appointment in store. According to the director of the house the level of service in e-commerce, today, is not high enough. One of the strengths of Chanel is the adjustment on the body, necessarily made by tailors in the dressing rooms. Our goal, for which we also use the web, is to ensure that more and more consumers come to the boutiques to see the products, touch them and above all try them. "It is a strategic choice - continued Pavlovsky - we prefer to sell our bags in boutiques."¹⁶¹

"Chanel is not a click. But when you think of a jacket that costs \$ 5,000 or a dress that costs \$ 10,000, the customer experience must be more than a click. You can click on everything, so this must be different."¹⁶²

¹⁵⁹ <https://www.pambianconews.com/2017/11/27/chanel-le-commerce-non-e-una-priorita-225693/>

¹⁶⁰ <https://www.net-a-porter.com/it/en/>

¹⁶¹ "Chanel preferisce dire no all'e-commerce, per ora." Novembre 28, 2017. <https://www.pellamiesposito.it/chanel-no-e-commerce/>

¹⁶² <https://it.fashionnetwork.com/news/Bruno-Pavlovsky-e-la-strategia-per-i-punti-vendita-fisici-di-Chanel,900547.html#.XDTW7c9Kiu4>

According to estimates by Bain, e-commerce will have an incidence of 10% in worldwide purchases of luxury goods at the end of 2017, a percentage that could reach 25% in 2025.¹⁶³

3.6.1 SMALL STEPS TOWARDS E-COMMERCE

In February, Chanel announced that it is investing in Farfetch¹⁶⁴, a European luxury e-commerce company that is often considered a competitor of YOOX Net-a-Porter (YNAP). Bruno Pavlovsky, president of Chanel's fashion department, said in an interview with the Financial Times that it is necessary to clarify that Chanel is not selling products on Farfetch, nor it is attempting to open its e-commerce platform. He said that the purpose of this investment is to enrich the consumer experience before and after the store. For example, if the customer's buying habits and preferences accumulated on Farfetch are used by the Chanel store, the store staff can "guess" and be completely prepared before the customer arrives at the store. If the customer appreciates privacy and wants to "just walk", the shop assistant can know in advance that the guest will be invisible and so he will let him relax freely. Chanel would not sell online packages, which does not mean they are indifferent to digital media and e-commerce.¹⁶⁵

In an interview Bruno Pavlovsky affirmed that the first thing he learned from e-commerce is that everything is about the products, so the products must be creative before start selling to consumers. At the same time, e-commerce services are also very important. Chanel spend a lot of time creating a network of boutiques around the world, and the digital is to support this network, improve and equip its value and create value for the efforts in the store. Therefore, Pavlovsky affirmed that Chanel

¹⁶³ <https://www.pambianconews.com/2017/11/27/chanel-le-commerce-non-e-una-priorita-225693/>

¹⁶⁴ www.farfetch.com

¹⁶⁵ Chanel 为什么要投资一家奢侈品电商? 2018-03-09 <https://36kr.com/p/5123043.html>

would certainly be more active in e-commerce services in the future to improve the whole chain of online and offline services.¹⁶⁶

Digitization is more about communication. When you buy a coat, for Chanel does not just mean selling a piece of clothing, but also try and feel it. And this can only be achieved in the store. Bruno Pavlovsky does not doubt that selling clothes online will not be the next step to take in the future. He believes that in the future Chanel has to show more online, to understand what customers want and provide other unique services.

For example, we can choose when customers can visit the store, and then make arrangements. Chanel idea also includes the possibility to offer the customer more choices through the network, and then let their dreams become reality in the store.

3.6.2 CONSEQUENCES OF E-COMMERCE

Does entering multiple brands in e-commerce mean that physical stores will no longer be evaluated? Zhou Ting¹⁶⁷ believes this is not the case. "In the process of entry into e-commerce, Chanel will be like two luxury brands, so the product line will be divided into two levels. Some will continue to maintain the image of high-end luxury brands with customization; those online will be forced to become popular, become high-end mass consumer goods and the price gap with other brands will shrink further."

Competition of luxury brands will turn into competition for customer data. However, Zhou Ting is cautiously optimistic about the preference of this luxury brand for its e-commerce channel. Believes that most of the results will not be satisfactory. Zhou Ting also said that with the gradual development of luxury e-commerce, luxury brand competition will no longer be a brand competition, nor channel competition, will directly turn into competition of customer data, and therefore customer loyalty will be a luxury. Quality competition will be crucial. "In

¹⁶⁶ Queennie Yang 2016年4月10日 CEO 访谈 | Bruno Pavlovsky : 耐心造梦是 Chanel 在中国的成功之匙 <https://cn.businessoffashion.com/2016/04/ceo-bruno-pavlovsky-on-china-market-cn-2.html>

¹⁶⁷ Zhou Ting, director of the Fortune Character Institute, a Shanghai-based research and consultancy group.

the future, many luxury brands will further seek a one-stop lifestyle service and will work to resolve all or most of customer needs independently."

In addition, experts also expect e-commerce to be a double-edged sword: based on big data, brands will gradually lose their premium capacity: competition between groups of luxury brands for raw materials and special production capacity it will heat up further. The integration of e-commerce channels will be the beginning of the integration and cooperation of groups of luxury goods, which could have mutual mergers and acquisitions. Finally, experts say that in the future luxury goods will be positioned more clearly in our hearts, from "expensive products and services" to "unique services and experiences". They will become "high-end products" that are more popular. The name of true "luxury" could belong to some ultra-high-end brands, which are raw materials and special service capabilities.¹⁶⁸

3.6.7 SOME DATA

The Financial Times estimates that Chanel's annual sales are around \$ 6 billion. The president said that 2017 is the best year in Chanel's history.

From the data point of view, Chanel has become one of the highest paid luxury brands in the world, far exceeding competitors such as Gucci and Hermès. In the last period Chanel has published for the first time detailed financial data to discredit the rumours of a future sale. It is said that the competitor LVMH will buy Chanel.

According to data released by the French luxury brand Chanel, total sales in fiscal 2011 increased by 11% year-on-year. Chanel's earnings report was surprising, especially because this was the first annual report released in 108 years. "Beauty products and perfumes are Chanel's most profitable business thanks to the increase in sales of accessories such as watches and jewellery, of which Europe is still the

¹⁶⁸ Chanel 将推出电商服务多个大牌密谋 “触电”. 2015 年 04 月 10 日 09:32:51.
http://www.xinhuanet.com/fortune/2015-04/10/c_127675887.htm

largest market with China. Asia is the second largest market, with sales up 16% from the previous fiscal year to \$ 3.75 billion.”¹⁶⁹

In the last period the only data on the value of the Brand come from the "most valuable global brands 2014" Online Report by BrandZ, the largest database in the world for the valuation of equity. Based on the ranking prepared each year by Forbes, the Chanel brand is worth 7 billion dollars. Chanel occupies the 4th place in the ranking published by Milano Finanza. Another interesting fact, although dating back to 2011, concerns advertising investment, which according to the ranking of the 50 top spenders occupies the 5th place with over 8 billion dollars of expenses.¹⁷⁰

3.7 CHANEL IN CHINA

In the context of China's economic slowdown, many overly expanded brands have attracted criticism: Chanel owns only 11 boutiques in China; its products are still coveted in China and around the world.

In the interview with the newspaper BOF (business of fashion)¹⁷¹ Bruno Pavlovsky reveals its successful strategies in the Chinese market. As we all know China has become the biggest market for luxury brand in the world.

Pavlovsky declared that Chanel manages 11 boutiques in 8 cities; the brand is growing very fast in Beijing and Shanghai and is starting to expand in other cities. For Chanel, the most important thing is to build a brand, which means the combination of fashion with luxury, then transform it into value and communicate it to consumers. “It is very important to constantly develop the high-end ready-to-wear sector, because if people think of Chanel, they have to think of fashion and when they think of fashion, they will think of high-end prêt-à-porter. So, if you want to be strong in China, you have to strengthen your clothes.”¹⁷²

¹⁶⁹如何“围观”Chanel 108 年来第一次发布的财报. 2018-06-22 20:56
<https://www.huxiu.com/article/249374.html>

¹⁷⁰ <https://coco Chanel web.wordpress.com/economia-aziendale/>

¹⁷¹ <https://www.businessoffashion.com/>

In 1999 Chanel enter China, at that time the main goal was to strengthen relationships with customers, and to be able to transmit and make known the true essence of the brand based on fashion and quality.

Bruno Pavlovsky declared many times that when clients enter a store, he wants them to feel comfortable, understand and reflect easily, take them to all the collections and become part of fashion history, so he thinks that Chanel has to make a strong fashion statement. This means making high-end prêt-à-porter, but also creating accessories: the accessories are the bridge between the high-end prêt-à-porter and Chanel world because the accessories are more about the fashion profile, not the fashion itself.

3.7.1 HAUTRE COUTURE IN CHINA

Even haute couture in China has developed very well. It is available in Beijing, Shanghai and Hong Kong, so it can cover three regions of China. This is new for Chinese customers and for Chanel too. Advanced customization more than just a business, it's actually an exclusive service. Chanel's haute couture is also a way to understand the uniqueness of the brand. The setting of uniforms is more about creativity and specialty and is about the best service: this is offered only for a customer. All these values are important, and this is what custom clothing means.

The development of Chanel in China is steady and will go gradually. In China many luxury brands are in a critical situation and are closing their stores. Chanel, on the other hand, still maintains the value of the brand. This is because for Chanel what counts is creativity, even though it may be subject to many risks, but it can lead customers to an inspiration, to a direction. It can be a force to push them to where they want to go. The intent is also to build a solid relationship with the clients.

China has unique social networks like Weibo and WeChat, which are different from other countries in the world. Therefore, they are also focusing on this point to be

¹⁷² Queennie Yang 2016年4月10日。“BrunoPavlovsky: 耐心造梦是 Chanel 在中国的成功之匙。”
<https://cn.businessoffashion.com/2016/04/ceo-bruno-pavlovsky-on-china-market-cn-2.html>

able to communicate in the best shape. Chanel has also held many cultural events in China, such as the "Little Black Jacket" exhibition in Shanghai, Shanghai and Beijing and "Culture Chanel" in Guangzhou. The concept of Chanel's brand is very deep.

Chanel looks to the future, but has a strong connection with the past. This type of show serves in China to understand the brand. Even the marketing techniques and strategies adopted in China are very special. Above all, the choice of the ambassadors. Customers want to see important people who appreciate the brand.

3.7.2 ATTRACTING YOUNG GENERATION

In recent years in China, the collections are younger and more diversified to attract the new generation and different age groups. Even if the interest of the new generations changes rapidly Chanel is not going to change. Make consumers more loyal and keep their desire for the brand is becoming increasingly difficult. But Pavlovsky also admits that the brand will not change, it will not force anyone. Each customer has own tastes and must be respected for what it is without straining it.

As regards the way of attracting young people, there are conflicting opinions. Some people think that Karl Lagerfeld who has signed a lifetime contract with Chanel is old in the way of attracting young people, the reason is that Chanel is a great show, but does not carry forward product innovation. Other thinks that Chanel is paying attention to the youth market. "Last year, the Chanel Group spent a total of \$ 1.46 billion on marketing, fashion shows and events, with an annual growth rate of 15%. According to some opinions, this means that Chanel has felt the pressure to accelerate changes in the global luxury fashion industry and has begun to pay attention to a new generation of young consumers. And from the choice of Karl Lagerfeld's spokesperson, I can feel that it also means courting young people."¹⁷³

¹⁷³如何“围观”Chanel 108 年来第一次发布的财报. 2018-06-22 20:56
<https://www.huxiu.com/article/249374.html>

3.8 NORMALIZATION OF THE PRICES

In 2015 Chanel made one great thing. The brand decided to achieve global price coordination with the exception of Brazil for a question of excessively high customs duties. "What they decided to do was to supply products in the same way and at very close prices. The normalization of the price was the most important decision to lay the groundwork for the future."¹⁷⁴

"The reason we decided to do the price standardisation was to prepare ourselves for the next 20 years," Pavlovsky said. "The brand is quite strong; the year before we had double-digit growth in almost every market, so we can afford to make such a decision." So Chanel decide to act like Burberry, Cartier and Patek Philippe.

3.8.1 FAVORABLE REASONS

The move, which shocked consumers and competitors, was a response to fluctuating currencies, for example the euro tumbled sharply in 2015, as well as a nod to "borderless retail" and the increasingly global business of fashion. "The idea, which is very deep for Chanel, is about the customers," added Pavlovsky. "We want to be able to treat them the same everywhere, which was not the case before."

"Following the devaluation of the euro, in recent months it had happened that some Chanel products would cost in China and South East Asia twice as much as in Europe, favoring the spread of the production of fakes (a stock exchange that was sold in Europe at 3,500 euros, in China it could cost 6 thousand euros) and the grey market. Since the number of Chinese traveling in Europe to visit luxury shops avoiding those of Shanghai and Beijing was increasingly multiplying, it was decided

¹⁷⁴ Queennie Yang 2016 年 4 月 10 日。"CEO 访谈 | Bruno Pavlovsky : 耐心造梦是 Chanel 在中国的成功之匙。" <https://cn.businessoffashion.com/2016/04/ceo-bruno-pavlovsky-on-china-market-cn-2.html>

to level the prices, with the relative consequence of suffering a sharp increase in prices in Europe and a drastic drop in Asia.”¹⁷⁵ The fashion house could not continue not to intervene in a market, the Chinese one, which is in third place in the world at the expense of the United States and Japan. “And here is the idea born of the summits of Chanel: a sort of monetary snake to keep the prices under control. The goal is to ensure that those practiced in China are never more than 5% higher than those in euro. Not only. The initiative embraces the entire planet, because it aims everywhere to a price difference that does not exceed 10%.”¹⁷⁶

The price alignments in Europe and Asia are the first of many that Chanel plans to introduce until they’re fully prepared for global e-commerce sales of accessories and ready-to-wear. Additionally, closing the price gap between different countries not only secures the value of Chanel bags across the board, but also protects the consumer’s investment since price is so closely associated with brand prestige and appeal. If consumers spend less time shopping around for the best prices, they have a greater opportunity to engage with the brand and its history. “The shift is designed to ensure that customers are seduced by the brand and by the products and not just led by these price differentials,” Pavlovsky told WWD. “It’s to prepare the brand for the next 10 to 15 years. It’s more about the future than the past.”¹⁷⁷

Chanel's president of fashion says the company's new strategy of standardising product prices worldwide will prepare it for the next two decades and help it to develop its share of the Chinese market. While some competitors are already following Chanel's lead, analysts warn the strategy could backfire by devaluing the fashion house's image and making it appear less exclusive. Chanel announced last month that it would "harmonise" prices worldwide, starting with three iconic handbag models: the 2.55, 11.12 and the Boy bag. The subsequent rise in its product prices in Europe and the parallel drop in Asia prompted a massive surge in spending

¹⁷⁵ Chanel lancia l'e-commerce e intanto i prezzi in Europa lievitano. Aprile 10.2015
<http://www.lestanzedellamoda.com/chanel-shop-on-line-prezzi-aumentano/>

¹⁷⁶ ItaliaOggi. Sabato 21 marzo 2015. “Chanel abbassa i prezzi in Cina”

¹⁷⁷ <https://www.pursebop.com/chanel-adopts-new-pricing-scheme/>

on the mainland in the days that followed, with a Boy bag falling from 32,700 yuan (HK\$41,400) to about 26,000 yuan on the mainland, while in Europe the same item rose to €3,720 (HK\$32,200) from €3,100.

"We made a very important decision, to treat our customers the same way everywhere in the world. It was a big decision," said Chanel's president of fashion, Bruno Pavlovsky.

This is a bold move considering possible short-term profit loss from the European market. However, the harmonization sets the tone for positive outcomes concerning brand profit and image in the long-term.

Therefor the normalization of the prices brought these consequences:

- Korea, Vietnam, Thailand & Russia will see decrease in prices after April 8th
- Japan, UK, USA & Canada to remain the same.
- Europe prices increase¹⁷⁸

3.8.2 INCENTIVES

After the news of the price increase, outside Chanel shops there was a long queue. "The reason for the long lines was that customers who bought any of the three classic bags between March 3 and 16, before the price adjustment, will get a credit note that allows them to offset the difference on their next purchase. This is huge when considering the credit note is nearly \$1000, coupled with their price decrease; it's almost like getting a Classic Chanel bag at 50% off!"¹⁷⁹

3.8.3 NECESSARY DECISION

Zhou Ting, director of the Fortune Character Institute, a Shanghai-based research and consultancy group, said other luxury brands were likely to follow Chanel's

¹⁷⁸ <https://www.pambianconews.com/2015/03/18/svolta-chanel-prezzi-allineati-in-tutto-il-mondo-171337/>

¹⁷⁹ <https://www.pursebop.com/chanel-adopts-new-pricing-scheme/>

model and cut prices in China and Asia. "While overall luxury sales remain sluggish on the mainland, this would be an effective tactic to boost local sales in the short term, although it could also risk devaluing the brand by making it appear less exclusive in consumers' minds," Zhou said.

Pavlovsky said that last year, huge fluctuations in foreign exchange rates meant that some handbags had cost twice as much in mainland China as in Europe. "We had a signal that we could not continue to accept this kind of situation. Our customers are travelling everywhere and we want them to buy the brand because they love it, not because they can make some money this way or that way," he said.

Chanel's move has undercut what had become a lucrative practice for parallel traders. Some traders were even enticing Chinese students with free trips to Paris so they could buy handbags (Chanel requires ID on purchase and has a per person quota) and resell them back home at an inflated price.

Pavlovsky said the move also targeted websites, particularly in China, where Chanel could not be sure if products were "genuine, second hand or counterfeit". "It's just the beginning of our development in China," he said. Despite being one of the most coveted and recognised luxury labels in the country, Chanel has only 11 stores on the mainland and nine in Hong Kong.

Pavlovsky hopes that resolving the price mismatches will help "convert" Chinese customers from a "bag or leather goods mindset to a fashion mindset". Pavlovsky said he was in no rush to open more mainland stores, but wanted to upgrade existing ones to be "the best".

The company says price standardisation will be rolled out across other products this year. "This year's Cruise collection, which debuted in Seoul this week, will be the first full collection to sell at standardised prices. In coming years it will be difficult for others not to follow suit," said Pavlovsky.

Zeng Mingyue, a researcher at Beijing's University of International Business and Economics, compared the relatively quiet shops of luxury brands on the mainland with those in Europe, which were packed with Chinese. He said price standardisation was a "must". "Differential pricing will hurt the brands' image and make them lose the opportunity to build up a stable customer base in China," Zeng said.

3.8.4 CONSEQUENCE IN CHINA

"After the decision took by Bruno Pavlovsky about the standardization of the prices, in China, Chanel fever immediately exploded and in the stores in Hong Kong and Shanghai the bags went all sold out in one morning."¹⁸⁰ Also from 8 April across Europe has reached the increase of about 20% on the price lists of the stock exchanges: so the Chanel 11.12 will cost 4,260 euros and no more 3,550, while in China it will drop from 5,700 euros to 4,500 euros. We will pay the Boy bag 3,720 euros instead of 3,100.¹⁸¹ The goal of the fashion division of Chanel is to focus on customers who are seduced by the brand, their finishes and not the price difference.¹⁸²

3.9 CHANEL FASHION SHOW IN CHENGDU

¹⁸⁰ <https://www.bloomberg.com/news/articles/2015-03-18/lines-form-at-chanel-s-china-stores-after-euro-driven-price-cuts>

¹⁸¹ <https://www.businessoffashion.com/articles/news-analysis/lines-form-channels-china-stores-price-cuts>

¹⁸² Chanel lancia l'e-commerce e intanto i prezzi in Europa lievitano. Aprile 10.2015
<http://www.lestanzedellamoda.com/chanel-shop-on-line-prezzi-aumentano/>

Figure 3.7 *Fashion show in Chengdu*



Source: <https://senatus.net/album/view/14180/>

When China became an important market for luxury companies, some of them invited Chinese customers to fly abroad for their shows, while others brought their shows to local customers. After presenting in December 2009 its “Metiers d'art show” in Shanghai, and then staging its “Paris in Rome Metiers d'art show” in Beijing in May 2016, Chanel recently brought its latest show to Chengdu, in the Southwest China's Sichuan province. In May, Chanel presented this collection The Modernity of Antiquity by Karl Lagerfeld at the Galerie Courbe in the Grand Palais in Paris. Then, the fashion world was amazed by, not only Lagerfeld's designs, but also the setting, a replica of the Parthenon in Athens and the Temple of Poseidon in ancient Greece. On Nov 7, Chanel replicated the show in Chengdu for local customers and celebrities including the brand's Chinese ambassador Zhou Xun.

For the event, an old factory-turned gallery was turned into the Greek ruins, while guests sat beneath the Greek columns made of special stretched fabric. Models, both Chinese and foreigners, were dressed like Greek goddesses. Supple draping and elegant, fluid lines shaped silhouettes in tweed and jersey, silk and linen, lace and crepe. And raw fringes mingled with precious embroidery, while column-heeled

gladiators elevated the traditional Greek sandal. Olympic laurels became head ornaments while bracelets and golden cuffs adorned neck and arms. Lagerfeld wrote in the notes provided by Chanel: "The criteria of beauty in ancient, then classical, Greece still hold true. There have never been more beautiful representations of women or more beautiful columns. The entire Renaissance, in fact, was based on antiquity. It is really about the youth of the world in all its power and unpredictability - just like the unforgiving gods."¹⁸³

3.9.1 WHY CHENGDU?

Chengdu has been known throughout China for its high quality of life. "Outside china is known for its panda conservation efforts and the spicy hot pot, instead within China, it's considered the epicentre of modern art, hip-hop, and buzzy tech start-ups. The local government is also hard at work positioning the city as China's Silicon Valley. While Chengdu has just one full-service Chanel boutique, Chanel's presence there means the brand is paying acute attention to Chinese consumers."¹⁸⁴ In fact the boutique opened in 2014 was very successful. "The local customers love the brand. They understand the creativity of the brand. We want to celebrate the success, we want to continue and to develop the relationship with local customers," he says. Doing the Paris show in Chengdu with Chinese celebrities is a good way not only to influence existing customers, but also to develop new customers, he says. To connect with the show, from Nov 8 to 19 Chanel redecorated its boutique at the Chengdu IFS. The "Greek columns" in the store had Lagerfeld's sketches of the designs projected on them. There, customers could watch the videos of the show in Paris and the brand story. Though shopping online has become a trend, European luxury brands still care much about the customers' shopping experience in stores. "Social media is a way to communicate, to create a dream," says Pavlovsky. "We are not doing fashion e-commerce. E-commerce maybe efficient to sell products but is

¹⁸³ Chen Jie. China Daily, 2017-11-25 "*Chengdu gets Chanel touch.*"
<http://www.chinadaily.com.cn/a/201711/25/WS5a2768e7a3107865316d36aa.html>

¹⁸⁴ Noël Duan. November 8, 2017 "*Chanel Showcased In China's Next Fashion And Tech Capital—And No, It's Not Shanghai*"
<https://qz.com/quartz/1122542/chanel-reprised-its-cruise-2018-fashion-show-in-chengdu-chinas-next-fashion-and-tech-capital/>

not a good way to build brand image. "We don't sell huge amount of bags or shoes on line. We need the customers to understand the products."¹⁸⁵

It is foreseeable that the main luxury brand can trigger the follow-up effect of other luxury brands, once again establishing Chengdu as the "third luxury city" status after Beijing and Shanghai. In the "Business Weekly" recently published "2017 China's urban charm of the business list", Chengdu still top of the list "new first-tier cities", is considered more than the quasi-tier cities of Hangzhou and Shenzhen, "concentration of corporate resources The index reaches 100 points and has grown to become the fastest growing and fashionable city in China in an extreme period of time, however, long before luxury brands began to take Chengdu as a home to events, has become the most active market for luxury goods sales and a must for high-end commercial real estate."¹⁸⁶

The French brand has therefore decided to focus on China. After Shanghai and Beijing, Chengdu has become fundamental. In 2014 the first store was opened and a fashion show was organized. In 2017 Chanel returns to Chengdu to present the cruise 2018 collection by organizing a perfect replica show of the previous parade in Paris.¹⁸⁷

On Nov. 7, the French design house reprised its Cruise 2018 collection, originally shown in Paris, in Chengdu's Jinsong Oriental Art Exhibition Centre. Attended by high-profile guests such as Chinese-Korean pop star Victoria Song, Taiwanese cellist and actress Nana Ouyoung, and Vogue China editor in chief Angelica Cheung, the event followed Chanel's long tradition of bringing its Cruise and Métiers d'Art collections—shows that exist outside the traditional Fall and Spring showcases in New York, Paris, London, and Milan—to locales lesser known as fashion

¹⁸⁵ Chen Jie, China Daily 2017-11-25 "Chengdu gets Chanel touch."
<http://www.chinadaily.com.cn/a/201711/25/WS5a2768e7a3107865316d36aa.html>

¹⁸⁶在中国办秀不新鲜，但 Chanel 这次又选了成都 2017-11-08 <https://36kr.com/p/5101635.html>

¹⁸⁷Queennie Yang 2017 年 9 月 13 日 坐标成都，为什么 Chanel 又双叒叕要将大秀带到中国？

powerhouses. Since 2013, Chanel has unveiled such collections in Dallas, Seoul, and Havana.

At its Chengdu event, Chanel unveiled a Grecian-inspired collection, which was showcased on a set with Doric columns that itself had no reference to Chengdu, China, or East Asia. In his inspiration notes, Chanel creative director Karl Lagerfeld said that he is not interested in actual countries for inspiration: “It had nothing to do with a country. Reality is of no interest to me. I use what I like. My Greece is an idea.”

3.9.2 IMPORTANT GUESTS

Zhou Xun, Liu Wen, Liu Shishi and William Chan are all celebrities invited to China to participate in the Cruise parade.

Figure 3.8 *Chinese V.I.P. and Chanel ambassadors*



Source: <https://jingdaily.com/why-chengdu-spends-more-on-luxury-than-wealthier-cities/>

3.9.3 LIU WEN AND ZHOU XUN

Figure 3.9 *Liu Wen*



Source: https://deskgram.net/liuwenlw/taggedin?next_id=1644993986416468211

Liu Wen and Zhou Xun are two famous Chinese models chosen by Chanel to become ambassadors.

Liu Wen is a Chinese model and influencer. In 2012, *The New York Times* dubbed her "China's first bona fide supermodel".¹⁸⁸

She is the first model of East Asian descent to walk the Victoria's Secret Fashion Show.¹⁸⁹

The first spokes model of East Asian descent for the Estée Lauder Companies, and the first Asian model to ever make *Forbes* magazine's annual highest-paid models list. In 2017, Liu became the first Chinese model to ever appear on the front cover of *American Vogue*.

¹⁸⁸ <https://www.nytimes.com/2012/03/18/t-magazine/liu-wen-visits-china.html>

¹⁸⁹ https://www.thecut.com/2009/11/liu_wen_is_the_first_asian_mod.html

In September 2007, Liu caught the attention of the international fashion industry when she shot an editorial in clothes designed by Karl Lagerfeld and would later walk for the brand.

In February 2008, she appeared in four fashion-related articles for *Chinese Vogue*. She walked for Chanel, Jean Paul Gaultier, and Hermès in Paris.¹⁹⁰

Liu Wen attended the Spring Summer 2017 Chanel Haute Couture show¹⁹¹ and in 2018 she participated in the advertising spot for the makeup line called "Les Beiges"¹⁹²

Figure 3.10 *Zhou Xun and Karl Lagerfeld*



Source: <http://www.myvipsalon.com/content/custom/20160603/568ff1718d1b811.shtml>

Zhou Xun instead is a Chinese actress and singer. She is regarded as one of the Four Dan Actresses of China.¹⁹³ Xun has been a fixture on the film and music scenes in her

¹⁹⁰ <http://nymag.com/fashion/models/lwen/liuwen/>

¹⁹¹ <http://harpersbazaar.my/fashion/liu-wen-stars-new-chanel-grabrielle-campaign/>

¹⁹² <https://www.fashiongonerogue.com/chanel-les-beiges-2018-campaign/>

native China since the mid-'90s. As one of China's most visible stars, and the only actress to have won all three of the country's top acting awards, she is more than your average ingénue. Appearing onscreen since her teens, she first garnered international attention with her critically acclaimed role in *Suzhou River*, an artsy romance where she plays dual male and female roles. Since then, she's gone on to break box office records with her movies, becoming the most commercially successful Chinese actress of all time. Favouring idiosyncratic characters with complex backstories, she's built a varied and compelling résumé, playing the kinds of offbeat characters audiences love.¹⁹⁴

Since 2011, Zhou was formally announced as a new ambassador for Chanel. Chanel chief designer Karl Lagerfeld noted Zhou Xun for her strong fashion sense, describing the actress as "a synthesis of young Coco Chanel and Ballet Troupe Zizi Jeanmaire."¹⁹⁵

She is consistently glamorous, the kind of woman to top off casual jeans and sneakers with a bouclé jacket.

¹⁹³ http://ent.sina.com.cn/c_star/2000-07-18/10951.shtml

¹⁹⁴ <https://www.vogue.com/article/zhou-xun-chanel-paris-rome-front-row>

¹⁹⁵ 2011/10/18 "Zhou Xun per diventare l'ambasciatore cinese per Chanel"

CONCLUSION

The present research has tried to answer to some questions: why Chinese people fly abroad to buy luxury goods? There is the possibility to stop the “Daigou” phenomenon? Can a luxury Western brand manage to create strategies to impose itself in such an overcrowded market? Taking the example of Chanel.

The Chinese market is very complex. The large amount of fakes, the import duties very high, the lack of loyalty that people reserve for a brand and the continuous developments make very difficult for Western companies to impose themselves on such market. Even the grey market is a serious problem that takes away the strength of the brand. It is increasingly difficult to make sure that the luxury stores remain open in China if there are no buyers.

Chanel has tried to impose itself in this market. They focus on Chinese consumers more than all other brands. It seems almost absurd that a brand that does not even have an online platform in which is possible to buy products, can establish itself in a market dependent on online shopping. But Chanel is one of the few brands that has worried about Chinese buyers. In fact it is not fair that they have to pay a product 30-40% more than us. The normalization of prices enforced a few years ago is, in my opinion, the strength of the brand.

Chanel attracts Chinese attention above all for the concept it wants to express. A strong, emancipated woman with a great job and a forward-looking career cannot do without a Chanel bag. Chinese women are becoming increasingly important. In recent years they have been working harder and are a very powerful segment in luxury shopping world. If they are wearing a Chanel dress they will feel that nothing can stop them, they will feel that the men will not command them anymore, but they themselves will be able to decide their destiny. The concepts brought by the brand have definitely affected the world of fashion. Refinement, independence, beauty are the basic ones.

Price normalization also allows a decrease in the phenomenon of the grey market. People like to travel. Going to Paris to buy the bag of their dreams was also a reason

to visit the city. Now they can buy the products directly in their city so they don't have to worry more about the price and if they want to travel they can do it with another perspective. That is, to enjoy the city.

Moreover Chinese luxury consumers are constantly growing and evolving. Now more than ever, it is important for luxury companies to stop viewing Chinese consumers as homogeneous, but instead structure their business models according to the differences within various regions, social classes, and income levels in China.

Indeed, Chanel offers a wide range of products: from mass products to inaccessible ones. High fashion clothes of haute couture are sold with personal modifications only in stores. I think this is really a good tactic because it allows each person to own a particular suit. No dress will really be the same as that of another person.

The Chanel boutiques in China are not so many and are concentrated only in some cities to make the products even more exclusive. It is essential for the company to maintain the competitive advantage on the market and make it durable over time because only the companies that will enhance this function will be successful.

In conclusion we can said that the Chinese luxury market is not at all easy to conquer because it is characterized by different factors; by a socio-economic landscape structured on several levels, by an aspiring middle class difficult to understand and by a wide range of consumers from different tastes, levels of refinement and brand awareness. Therefore, even the biggest companies in the sector will have to study and understand who to propose their product to, even before starting their activity on the Chinese territory. Moreover the cities to be considered should not only be the principal but also those of the second or third level.

In order to better seize the opportunities deriving from the Chinese market, however, a structured approach is needed. Have an excellent cultural base of China to avoid big mistakes and an adequate understanding of the new Chinese consumers as well as a careful and detailed strategy distribution of their products, long-term oriented, are essential elements in order to achieve a distinctive competitive advantage in this market.

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