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**The evolution of luxury brands presence
in Chinese e-commerce market - Kering case**

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Introduction in Chinese

近几年中国奢侈品市场变化非常快。它发展因经济和社会的快速发展而加快，带动了电子商务和中国奢侈品消费者的肯定和演变。2020年，新冠肺炎进一步加速了世界奢侈品经济的变革，它是奢侈品市场数字化实施的基础。大流行对奢侈品牌造成了很大影响，城市封锁导致供应链延迟、时装周取消以及由于旅行相关购物下降而导致店内销售额下降。在2020年第一季度开云集团和LVMH集团销售额大幅下滑，但在同年第三季度，这些奢侈品公司已经开始逐步复苏。为了对新冠肺炎引发的危机，奢侈品牌开始制定新的社交媒体策略并扩大在线业务，以此来维持与客户的关系并弥补损失。此外，他们引入了全渠道战略以满足奢侈品消费者的新需求。最早在中国奢侈品市场加速实施这个新战略的品牌之一是古驰。这个品牌属于开云集团，多亏它的存在，在疫情过后这家奢侈品公司能够取得非凡的业绩。后面会提到，论文以古驰为例，该品牌能够根据中国奢侈品市场的不同变化立即调整其战略，这样古驰日常增加它的中国成功。

第一部分首先考察导致全球奢侈品经济变革的主要因素，电子商务。一方面，电子商务的发展是奢侈品经济增长的一大步，另一方面也加剧了假冒问题的增加，因此在2000年代初，很多品牌不愿意在中国开设网上商店。为了解决假冒问题，中国政府决定加强对知识产权的保护。它出台了新的法律、行政措施和司法解释。然而中国政府的行为不足以消除假冒伪劣。为此，中国最重要的电子商务平台，阿里巴巴，决定尝试独自面对这个问题。它出台了很多打击假货的政策。此外，它还与奢侈品牌合作打假，于2017年成立了AACA（阿里巴巴打假联盟），这个电子商务平台与700多个奢侈品牌合作。由于这一举措，奢侈品牌在中国电子商务中的存在从因假冒而保持警惕的地位转变为强大的在线存在。

第二部分首先解释奢侈品牌决定开网店的第二个原因，也就是说中国奢侈品消费者的演变。这群人包括千禧一代和 Z 世代。他们越来越愿意在线购买奢侈品。根据麦肯锡的研究，他们是中国中产阶级中重要的一部分，也是花钱最多的群体。得益于他们，到 2025 年，中国消费者在奢侈品上的支出将占全球市场奢侈品消费的 40%。网上购物的肯定带来了重大影响，一方面是奢侈品牌不得不引入全渠道方法在中国市场革新战略。另一方面，阿里巴巴-天猫不得不改进其平台以满足新的奢侈品消费者和奢侈品公司的需求。也就是说，他们想使用阿里巴巴的新工具为客户提供独特的在线购物体验。第二章的中心部分解释天猫新奢侈品平台，重点介绍了最重要的一个，天猫奢侈品馆。阿里巴巴-天猫奢侈品馆已成为奢侈品公司在线销售产品的基础平台。目前拥有 200 多个品牌，2017 年至 2019 年增长 30%。这些年来阿里巴巴从未停止过对渠道的完善。天猫旗舰 2.0 的推出让品牌为客户提供个性化服务，天猫奢侈品 SOHO 保证对于企业而言，在大流行期间有效管理库存的可能性。这些倡议是阿里巴巴集团创新精神的证明。最后一部分分析了导致奢侈品牌在中国电子商务平台上的存在增加的最后一个原因，也就是说新冠肺炎。根据贝恩公司的研究，2019 年至 2020 年所有国家的奢侈品销售额均出现大幅下滑，唯一报告良好结果的国家是中国。为此，对进入中国电商市场仍持谨慎态度的品牌决定在天猫奢侈品馆开设网店。其中之一是古驰。

第三部分以开云集团-古驰在中国的存在作为一个奢侈品牌在中国奢侈品市场演变的例子。一开始，因为 2015 年与电子商务巨头的纠纷古驰不想进入阿里巴巴门户网站。平台的假冒问题让古驰对在线销售产品感到犹豫，但最终得益于阿里巴巴推出的反假冒政策以及第二章分析的中国电子商务市场的变化，古驰决定进入天猫奢侈品馆。这样古驰肯定了中国最重要的电子商务平台与开云集团之间的新合作。

总的来说，论文以开云案例为重点，分析了奢侈品牌在中国的发展演变。通过对开云集团经验的分析，论文希望让企业了解进入中国电子商务市场以应对新冠肺炎带来的危机并拓展业务的重要性。奢侈品公司需要创新战略，并意识到出现在阿里巴巴平台上的重要性，这意味着成为主导世界奢侈品经济的奢侈品市场的一部分。

我认为，如果奢侈品牌走向数字化并继续创新其在线业务，他们的未来将是辉煌的。很多研究人员觉得如今有“数字选择”的情事。根据这个理论企业要么去数字化，要么他们就会消失。我完全同意这一肯定，因为数据估计，到 2025 年，在线销售额将占全球奢侈品市场总销售额的三倍，更准确地说，所有个人奢侈品销售额的五分之一将发生在网上。但对我来说，“走向数字化或死亡”这句话并不完整，我会说“在中国走向数字化，否则死亡”。到 2025 年，全球一半的奢侈品购买将发生在中国，所以如果一个品牌没有出现在中国的数字平台上，它就永远没有机会在全球范围内扩展其品牌。

Introduction

During the last years, Chinese luxury market has changed very fast. Its development was speeded up by the rapid economic and social growth which led to the e-commerce affirmation and the evolution of Chinese luxury consumers. In 2020, the world luxury economy transformation and growth were accelerated even more by Covid-19 which has been fundamental for the implementation of digitalization in luxury market. The pandemic had a big impact on luxury brands, the city lockdowns caused supply chain delays, fashion week cancelations and the decrease of in-store sales because of the fall of travel related shopping. Kering and LVMH groups suffered dramatic drop during the first quarter of 2020 but in the third quarter of the same year, these luxury companies have already started a gradual recovery. In order to face the crisis caused by Covid-19, luxury brands started to develop new social media strategies and expand their business online, in this way they could maintain the relationship with the costumers and supplement the losses. Moreover, they introduced omnichannel strategies with the purpose of satisfying the needs of the new luxury consumers. One of the first brand which accelerated the implementation of this new strategy in the Chinese luxury market was Gucci. This brand belongs to Kering group, and it is mainly thanks to its presence if the luxury company was able to obtain extraordinary results after the pandemic. As it will be noted later, in this thesis Gucci is taken as example of a brand which has been able to immediately modify its strategy according to the different changes of the Chinese luxury market.

Before analysing Covid-19 consequences on luxury market and the new luxury market characteristics, the first chapter of this thesis examines the evolution of the principal element which brought to a change in the global luxury economy that is e-commerce. On one hand e-commerce development was a big step forward for luxury economy growth, but on the other hand it contributed to the increase of counterfeiting problem, for this reason during the first decade of 2000s a lot of brands were reluctant to open an online store in China. In the last part of the chapter is analyzed how Alibaba, the most important Chinese e-commerce platform, faced the problem introducing a lot of policies against the sale of fake goods. Moreover, it collaborated with luxury brands to fight against counterfeiting founding in 2017 the AACA (Alibaba Anti-Counterfeiting Alliance), a collaboration between the e-commerce platform and more than 700 luxury brands. Thanks to this action, Luxury brands presence in Chinese e-commerce evolved from a wary position because of counterfeiting to

a strong online presence. Luxury brands decision of opening an online shop has also been driven by the evolution of Chinese luxury consumers who are more and more willing to buy luxury goods online. In the second chapter of this thesis there is a focus on new Chinese customers, Millennials and Gen Z. According to McKinsey research, they are the most important part of Chinese middle class, the ones who spend the biggest quantity of money, thanks to them in 2025 the Chinese consumers' spending on luxury goods will be 40% of global market luxury consumption. The affirmation of online shopping brought significant consequences, on one hand to luxury brands which had to innovate their strategies in Chinese market introducing the omnichannel approach. On the other hand, to Alibaba-Tmall which had to improve its platforms to satisfy the needs of new luxury consumers and luxury firms that want to offer unique online shopping experience to their clients. These consequences are explained in the central part of the second chapter while in the final part is analyzed the last reason which led to the increase of luxury brands presence on Chinese e-commerce platforms that is Covid-19. According to Bain & Company research all countries suffered a big decline in luxury sales between 2019 and 2020, the only country which reported a good result was China. For this reason, also the brands which were still wary of entering Chinese e-commerce market decided to open online stores on Tmall Luxury Pavilion. One of them is Gucci. In the third chapter of the thesis, Kering group-Gucci is taken into consideration as an example of the evolution of a luxury brand in Chinese luxury market. At the beginning, Gucci didn't want to enter Alibaba portal because of the 2015 dispute with the e-commerce giant. The counterfeiting problem which characterized the platform makes Gucci diffident about selling products online but in the end thanks to the policies against the sale of fake products introduced by Alibaba and the changes in Chinese e-commerce market that are analyzed in the second chapter, Gucci decided to enter Tmall Luxury Pavilion affirming a new collaboration between the most important Chinese e-commerce platform and Kering group.

To sum up, the thesis has the scope to analyze the evolution of the luxury brands presence in China focusing on Kering case. Thanks to the analysis of its experience, this thesis wants to make companies understand the importance of entering the Chinese e-commerce market to face the crisis caused by Covid-19 and expand their business. Luxury firms need to innovate their strategies and become aware of the importance of being present on Alibaba platforms which means being part of the luxury market that is dominating the world luxury economy.

Chapter one: Chinese luxury market

Luxury market in China has evolved a lot over the years. At the beginning, during the 1980s, international luxury brands' entrance into Chinese market was restricted by the Chinese government. In fact, despite the implementation of the open-door policy and economic reform there was limited luxury goods consumption in China.¹ From 1949 until the end of the Cultural Revolution in 1978, bourgeois lifestyles were prohibited, and all members of society were a part of the proletariat.² The beginning of China's opening up to the West dates back to 1978 with the reform introduced by Deng Xiaoping.³ It was called 改革开放 (reform and opening) thanks to this, western luxury brands started to enter China kicking off Chinese Luxury market. To be precise, luxury goods market started to develop in China in the early 1990s. That's when few international luxury brands such as Armani and Hugo Boss entered China's most important cities such as Beijing and Shanghai.

According to the Overview of Global and China Luxury Markets research "the development of the Chinese luxury goods market was relatively slow throughout the 1990s owing to the lower purchasing power of the Chinese households as compared to many other more established luxury markets, such as U.S., EU and Japan."⁴ It's in the 2000s when Chinese luxury market development was speeded up by the rapid economic and social growth. As a result, during this period a group of luxury brands, such as Chanel, Prada, Loewe and Dolce & Gabbana decided to open their first stores in the east country. But the most important factor which has led to the development of Chinese luxury market in the 2000s has been the evolution of Chinese luxury consumers. As entrepreneurial activity and financial success were encouraged under the reformed system, possessing visible luxuries became a way for Chinese consumers to compensate for their previous state of extreme frugality. By 2012, China overtook Japan to become the world's biggest luxury market and by 2017 accounted

¹ CAI C., *Overview of Global and China Luxury Markets*, in Merrill Lynch (Asia Pacific) Ltd. A Subsidiary, Bank of America Merrill Lynch, p.6, 2011, <http://www.fashionsummit.it/it/2011-options-of-luxury-the-voice-of-china/documenti/overview-of-global-and-china-luxury-markets>, accessed on 3 May 2021

² PERRY P., YE T., BARNES L., *The Evolution of Chinese Luxury Fashion Consumer: An Interpretive Study of luxury Value perceptions*, in Research Gate, p.3, 2020, https://www.researchgate.net/publication/337145100_The_Evolution_of_the_Chinese_Luxury_Fashion_Consumer_An_Interpretive_Study_of_Luxury_Value_Perceptions, accessed on 30 June 2021

³ SEGRE REINACH S, *La moda globale*, in Treccani, 2009, https://www.treccani.it/enciclopedia/la-moda-globale_%28XXI-Secolo%29/, accessed on 29 June 2021

⁴ CAI C, *Overview of Global and China Luxury Markets cit.*, p.6

for almost one-third of the global luxury market in terms of spend with further growth predicted to reach 40% of the global luxury market by 2024.⁵

The crucial year for Chinese luxury market was 2015. During this period, it declined from 2% to 113 billion RMB, as figure 1 shows, the sectors that have suffered the greatest impact were: watches, men’s wear and leather goods.⁶

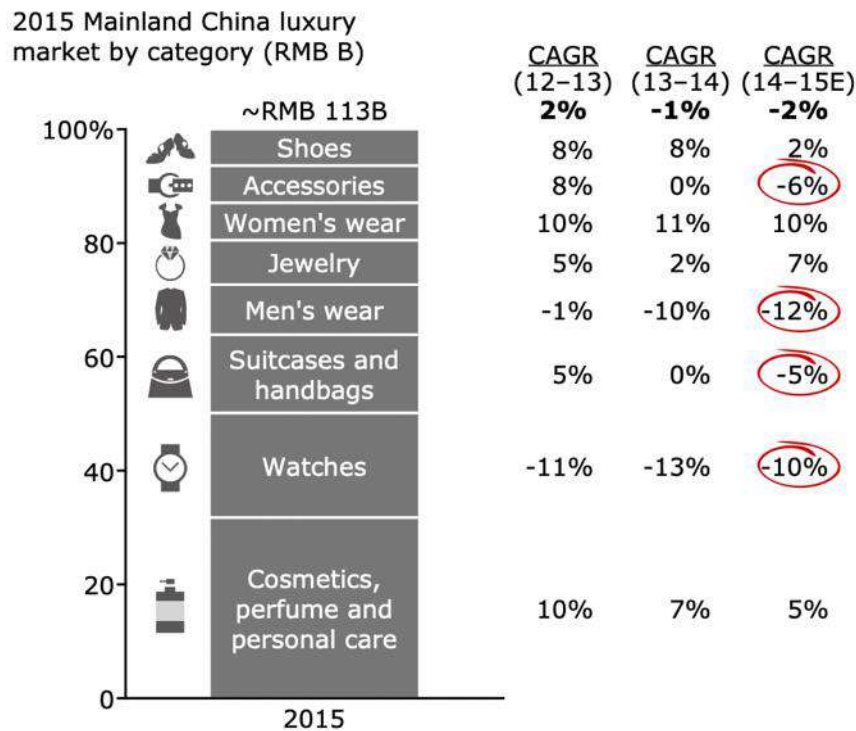


Figure 1- 2015 Mainland China luxury market by category (RMB B) (Bain&Company in “2015 China Luxury Market trends, can it rebound?”)

The reasons why there was this deceleration are described by “Aranca”, an important global research and analytics firm, it is the trusted research and advisory partner for over 2000 companies. In a 2016 report it is written that the first event which caused Chinese luxury market crisis was the economic growth slowdown which caused the reduction of Millionaires presence in China. According to the Hurun Research institute, the number of millionaires in

⁵ PERRY P., YE T., BARNES L., *The Evolution of Chinese Luxury Fashion Consumer: An Interpretive Study of Luxury Value perceptions cit.*, p.3

⁶ LANNES B., *2015 China Luxury Market trends, Can it rebound?*, in Bain&Company, p.2, 2016, <https://www.bain.cn/pdfs/201601210331128186.pdf>, accessed on 30 June 2021

China rose by 3,8% y/y, or 40,000, in 2014, to 1.09 million.⁷ The second reason was the Communist Party's crackdown on corruption in 2012. Bain & Company stated that the mainland's luxury market contracted 1% to CNY115 billion in 2014. The last reason which explains Chinese luxury market decline was China's currency devaluation. The effect of devaluation was dual, in fact while imported goods became dearer for Chinese consumers, the weaker currency curtailed Chinese tourism to expensive local such as South Korea and Japan, which also doubled as shopping destinations for buyers of imported luxury goods.⁸ The crisis of the Chinese luxury sector lasted three years and it was only in 2017 that Chinese luxury market started to rebound and grow. In fact, it's precisely in this period that there was the beginning of a luxury expansion that has never stopped. In 2017 the domestic market outgrowing overseas reached 20% growth, specifically categories such as cosmetics, women's wear and jewelry which as figure 2 shows, surpassed other categories' growth.

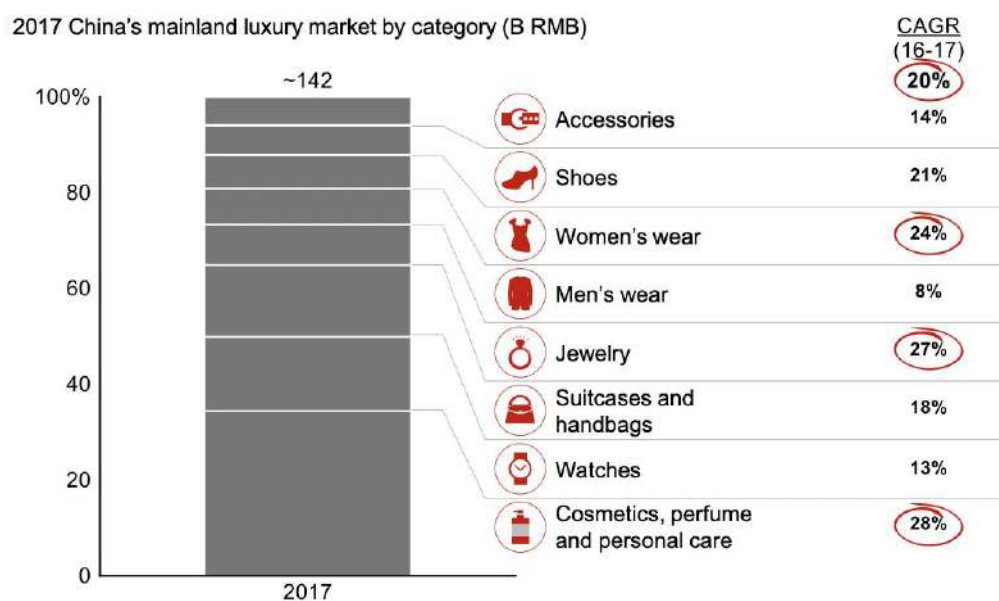


Figure 2-2017 China's mainland luxury market by category (B RMB) (Bain&Company in "2017 China Luxury Market Study")

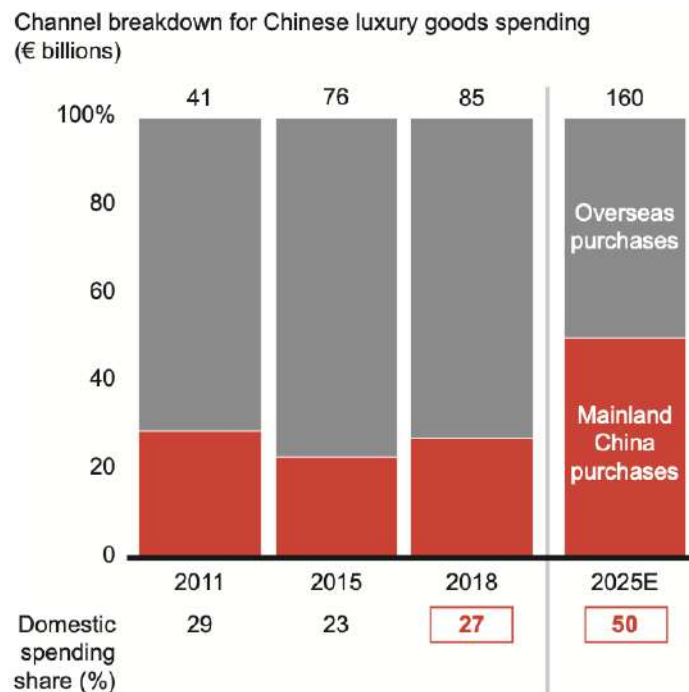
The reasons why these categories have experienced a big growth are on one side the government policies that encouraged domestic consumption combined with leading brands' strategies to monitor price difference with overseas markets, and on the other side the

⁷ CHITRE T., *China's luxury market, losing sheen?*, in Aranca, p.2, 2016 , <https://www.aranca.com/assets/uploads/resources/special-reports/Chinas-Luxury-Market-Losing-Sheen.pdf> ,accessed on 30 June 2021

⁸ CHITRE T., *China's luxury market, losing sheen?*, cit., p.3

increase of new consumers, in particular Millennials (aged 20-34) who nowadays are the major contributors to luxury market growth.⁹

In recent years, Chinese luxury market is growing exponentially, in 2020 it achieved 48% growth. According to Bain & Company 2020 report, China is on track to become the biggest luxury market by 2025.¹⁰ The report also analyzes which are the factors that powered China’s luxury goods market in 2020. The first one was REPATRIATION, it is written that since 2015, reductions in import duties, stricter gray market controls, brands price harmonization and pandemic-related travel restrictions have helped mainland China’s portion of Chinese global luxury purchases to increase constantly.¹¹ Chinese consumers made 27% of their luxury



Sources: Bain Luxury Goods Worldwide Market Study, 2018; Bain analysis

Figure 3- The repatriation of spending will continue in the coming years (Bain&Company in “What’s Powering China’s Market for Luxury Goods?”)

⁹ WORLEY N., *After a three-year deceleration, domestic China luxury market started to rebound in 2016 and achieved 20% growth in 2017*, in Bain&Company, 2018, <https://www.bain.com/about/media-center/press-releases/2018/china-luxury-report-2018/>, accessed on 29 June 2019

¹⁰ THOMAS L., *Global luxury sales are on track for a record decline in 202, but business is booming in China*, in CNBC, 2020, <https://www.cnbc.com/2020/11/18/china-to-become-the-worlds-biggest-luxury-market-by-2025-bain-says.html>, accessed on 6 June 2021

¹¹ LANNES B., ZHANG C., *China’s unstoppable 2020 Luxury Market*, in Bain&Company, 2020, <https://www.bain.com/insights/chinas-unstoppable-2020-luxury-market/>, accessed on 30 June 2021

purchases in China in 2018, up from 23% in 2015 but as figure 3 shows, this share will increase to 50% by 2025.¹²The second one was the presence of MILLENNIAL AND GEN Z shoppers, the third one was the increase of DIGITALIZATION while the last one was HAINAN DUTY-FREE SHOPPING which is an initiative introduced by the authorities of Hainan. In this region people can buy “tax-free” goods, so with lower prices, an action which provides benefits to local people on one hand, and which increases tourism on the other hand.¹³ The presence of Millennial and Gen Z in Chinese luxury market and how it is influencing Chinese luxury market as well as digitalization will be discussed in the second chapter.

1.1 Luxury brands presence in Chinese market

According to KPMG research “Luxury brands in China”, the first luxury brands started to enter Chinese market in 1990s because “it’s at that time that Chinese consumers became wealthier and more accepting of Western retail formats with international supermarket chains, department stores and mass retailers paving the way for luxury retailers.”¹⁴ As figure 4 shows, the first group of brands which opened their stores in China comprises: Ermenegildo Zegna, Dunhill, Hugo Boss, Gucci and Armani. The second group entered China between 1995 and 2000 and it includes: Gucci, Hermès, Lancôme. These brands have been attracted by the growing income and purchasing power of Chinese citizens that were starting to define a market characterized by consumers of luxury goods. There is also a third group which entered Chinese market from 2000s, some brands are: Prada, Chanel and Versace.¹⁵ It’s very important to know when luxury brands entered Chinese market because trade liberalization was a gradual process in China so if a luxury brand opened its first store in China in 1990 the limitations imposed by Chinese government were more than the ones in force in 2000. The most significant action which contributed to China’s economic and commercial opening-up was China’s entry in WTO in 2001.

¹² *What’s Powering China’s Market for luxury Goods?*, in Bain&Company, 2020, https://www.bain.com/contentassets/213c04063adc4497b8f329c1f17a7594/bain_report-chinas_market_for_luxury_goods_2019.pdf.pdf, accessed on 30 June 2021

¹³ HUA X., *Cina: a Hainan cresce il commercio duty-free*, in ANSA, 2020, https://www.ansa.it/sito/notizie/mondo/dalla_cina/2020/07/06/cina-a-hainan-cresce-il-commercio-duty-free_2b0dbb2c-7f67-48b3-8eb3-d9a8216fa101.html, accessed on 30 June 2021

¹⁴ DEBNAM N., SVINOS G., *Luxury brands in China*, in KPMG, p.2, 2007, https://www.claridenglobal.com/knowledge_at_clariden/CM_Luxury_brand.pdf, accessed on 17 May 2021

¹⁵ MOSCA F., RE P., *International Development Strategies of Luxury-goods Players in China*, in Chinese Business Review, Vol.13, p. 369, Torino, David Publishing, June 2014

Timeline of the Entrance of the Leading Luxury Apparel Brands in the Chinese Apparel Market (China)

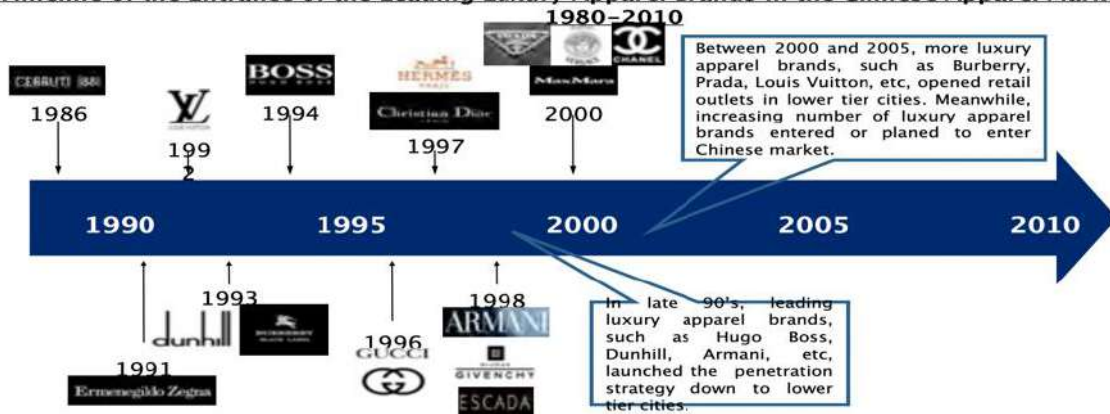


Figure 4- Timeline of the Entrance of the Leading Luxury Apparel Brands in the Chinese Apparel Market (China) (Bank of America Merrill Lynch in “Overview of Global and China luxury Markets”)

From that moment the collaboration between international luxury brands and China became easier and it made possible for companies to operate in retail sales by setting up joint ventures with Chinese partners.¹⁶

When western luxury brands decided to expand their business in China, they used different strategies to target the market which determined their success in the East. The research made by Fabrizio Mosca and Piergiorgio Re “International Development Strategies of Luxury-goods Players in China”, makes possible to understand how brands such as Ermenegildo Zegna, Gucci and Armani entered Chinese market and started to collaborate with Chinese partners. The study revealed that luxury brands used both direct and indirect distribution options, specifically they changed it according to the period of entrance in the Chinese market. During the first period brands used the “indirect export” because this entry strategy enables the company to build its presence in the new market without transferring any of its own know-how and without having to set up a specific operation for sales on the overseas market, entrusting this existing local organizations.¹⁷ This approach is useful when the company doesn’t know very well the market where it will expand its business but, in this way, it can check the potential of the market and better understand the needs and the

¹⁶ Ibidem

¹⁷ Ibidem

characteristics of the potential consumers. In the second period, when the limitations were already less stringent, luxury brands used “direct entry” strategy, this means that the company builds an entity in the outlet market and invest a lot in human resources in order to have and maintain a direct contact with the foreign market. Finally, during the last period luxury brands started to mix direct and indirect strategies in order to obtain the best result in its expansion abroad. Targeting China luxury brands also developed different strategic agreements which have facilitated their entrance. As the table of the figure 5 shows, the two most used strategic agreements were franchising and joint ventures. The franchising method gives advantage to brands because using it the company can penetrate and expand its presence in the overseas market while retaining a good level of control over critical operations, at the same time benefitting from the financial resources, the know-how and the organizational skills of the franchisee company for the management of distribution and sales. While joint ventures were a good choice because it gives potential new entrants the opportunity to acquire experience and expertise in the overseas market, let them know more about the nature of the market and costumers needs.¹⁸ The brands which used these kinds of strategic agreements are for example Gucci and Armani which nowadays dominate Chinese luxury market.

Chinese Market Entry Strategy

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

Figure 5- Chinese Market Entry Strategy (Chinese Business Review in “International Development Strategies of Luxury-goods Players in China”)

¹⁸ MOSCA F., RE P., *International Development Strategies of Luxury-goods Players in China*, cit., pp. 376-377

After the first period characterized by a retail system presence of luxury brands in Chinese market with a lot of boutiques opened between 1990s and 2000s, in recent years, as figure 5 shows, there has been an evolution of the luxury brands presence in China caused by the unstoppable digitalization of Chinese market and e-commerce development.

Chinese e-commerce started to develop in China between 1996 and 2000 and some years later luxury brands started to open their e-commerce sites in Chinese platforms. Gucci is one of the first brand which opened its online site in China, but it will be analyzed later. As it's written in the table , apart Gucci there are two other luxury brands which opened online websites in China in the first decade of 2000, the first one was Ermenegildo Zegna which in 2003 acquired 50% of the local company sharemoon as an e-commerce platform. While the second luxury brand which obtained success in Chinese market thanks to its online presence was Armani. It opened its first Chinese website in 2010 for sales of its own products.

From 2000 to now the number of luxury brands which are present in Chinese e-commerce has increased year by year also thanks to the introduction by Chinese most important e-commerce platform, Alibaba and JD.com, of specific platforms for luxury brands that are: Tmall luxury Pavilion and Top Life. Nowadays, these platforms are the most important elements for luxury brands presence in China and they will be analyzed in the second chapter when it will be presented the new trends of Chinese luxury market. In the next chapter there is a focus on Kering presence in Chinese market since Kering group will be taken as a case study in the third chapter.

1.2 Kering group-Gucci presence in China

Kering group is an international luxury goods holding company headquartered in Paris. It was founded in 1963 by Francois Pinault, but it's in 1999 that Kering entered the luxury sector through the acquisition of a 42 percent stakes in Gucci Group NV. From that moment, it continued to develop and evolve becoming in 2018 a pure player in luxury sector.

Nowadays, Kering has three divisions: Couture & Leather Goods, Watches & Jewelry and Kering Eyewear. There are a lot of brands which are part of these divisions, among them there are: Saint Laurent, Bottega Veneta, Balenciaga and Alexander McQueen but Kering's golden goose has always been **Gucci**. Before explaining why Gucci is so important for Kering group here it's reported Kering group and his brands history in order to better understand its development in luxury market. The first Kering's Maison which opened its own company in

1791 is Girard-Perregaux. It is a well-known luxury brand which produces Haute Horlogerie. The second one, Le Locle, was founded in 1846, it produces the same products of Girard-Perregaux but with recent materials. In 1858 Frédéric Boucheron opened its first shop in Paris, Maison Boucheron immediately became one of the most prestigious of the city for its luxury jewelry and watches. In 1917 Cristobal Balenciaga founded Balenciaga Maison in Spain but it's when he opened its first Maison in Paris that the luxury brand began its journey in the world of high fashion. In 1921 Guccio Gucci opened a shop in Florence. The Maison became soon the symbol of Italian luxury, based on two founding values: extraordinary Italian craftsmanship combined with a very contemporary creative vision. Brioni it's another important Maison founded in Rome in 1945, it is well known for its excellent tailors and because in 1952 it organized the first man fashion show. In 1961 Yves Saint Laurent founded its first Maison with Pierre Bérgé in Paris, it became one of the most important fashion brands of the 20th century. 1966 it's the moment of Bottega Veneta, then of Pomellato in 1967 and finally of Alexander McQueen in 1992.¹⁹

Most of the brands which are part of Kering group were already well known in the market before becoming part of this group but thanks to this they obtained more success and had the possibility of expanding their business all over the world. As said before, the entrance of Kering group in luxury sector started in 1999 with the acquisition of Gucci. From this moment the group started to acquire all the luxury brands mentioned before becoming a world luxury group.

Before 2013 the group was called PRR, it's in this year that Pinault decided to change the name to Kering which becomes 开运 "Kai Yun" in Chinese. This name is not chosen at random, on the contrary in Chinese 开运 means "open sky" which is a synonym for good luck. The meaning of a brand 's name which decides to enter Chinese market is very important to have success in business affairs, especially in China and Kering has a point on this.²⁰ Focusing on Kering presence in China, at the beginning the luxury group adopted a "freedom within a framework" strategy, this means that Kering's subsidiaries had a lot of autonomy. In fact, in 2013 the holding company had only 98 people who worked directly for it in Hong Kong and in mainland China, while its 14 luxury brands employed more than 3,300.

¹⁹ *Il Gruppo, La nostra storia*, in Kering.com ,2021, <https://www.kering.com/it/il-gruppo/cultura-e-patrimonio/la-nostra-storia/?page=50> , accessed on 2 July 2021

²⁰ HILL A., *Kering takes new luxe to China*, in Financial Times, 2013, <https://www.ft.com/content/db847778-d1bd-11e2-b17e-00144feab7de> , accessed on 3 July 2021

According to a Financial Times article “Kering takes new luxe to China” “ Kering also offers direct practical support to its brands in China. Property experts scout for the best locations: the presence of Gucci’s flagship store in Shanghai’s Golden Eagle shopping mall helped secure a favorable location next door for sister company Bottega Veneta. “Group media buyers support smaller brands, and its lawyers protect their intellectual property which is important in a market where counterfeiting is still a big problem.”²¹

The brand which obtained most success in Chinese territory is Gucci and it’s for this reason that it is considered Kering’s golden goose. Thanks to the expansion of the Chinese luxury market, in 2020, Gucci contributed 63% of revenue to Kering’s Luxury House business. Gucci opened its first store in Shanghai in 1997 but now has more than 50 retail locations in mainland China. It is the most important Kering brand in Chinese territory, Chinese customers especially country’s millennials spend a lot of money buying Gucci products.²²

In recent years because of the large development of e-commerce in China, Gucci has invested a lot in a “digital first” approach. In 2017 Gucci opened its first official Chinese site, later opened a page on WEIBO, a mini program on WECHAT and it is present on XIAOHONGSU. Finally, on December 21st, 2020, the brand launched two flagship stores on China’s Tmall but before this success the company had to deal with a big problem which has delayed its entrance in the biggest Chinese e-commerce platform: counterfeiting.²³

Gucci is not the only brand which delayed its entrance on Tmall also other brands like Yves Saint Laurent and Alexander McQueen entered this famous Chinese platform only after the introduction of some important policies against counterfeiting. In the second chapter, it will be analyzed how Alibaba is fighting against this problem while in the third chapter thanks to the study of Alibaba and Gucci case, it will be explained how the business relationship between Alibaba and Gucci has changed in the last years. Apart from Gucci, in 2018 Kering expanded its online presence in China thanks to the first Kering Eyewear Flagship store on JD.com. They decided to open it due to the e-commerce development in China and because

²¹ HILL A., *Kering takes new luxe to China*, cit., 2013

²² ROLL M., *Kering- Evolution of a Global Luxury Company*, in MartinRoll Business & Brand Leadership , 2020 , <https://martinroll.com/resources/articles/strategy/kering-evolution-of-a-global-luxury-brand-company/> , accessed on 10 May 2021

²³ FONTANA A., *Gucci in Cina: il Made in Italy che piace punta sul digital first*, in Bridging China, 2021, <https://bridgingchinagroup.com/gucci-in-cina-il-made-in-italy-che-piace-punta-sul-digital-first/#> , accessed on 23 April 2021

they wanted to offer a new shopping experience to their Chinese costumers.²⁴ Also in 2018, Yves Saint Laurent started selling online through JD.com. The most of Kering brands are now present on Chinese e-commerce platforms also thanks to the last event which influenced Kering online presence in China, COVID-19. Due to the crisis caused by the pandemic, a lot of Kering's brands started to launch livestreaming fashion shows on social media such as Weibo and Douyin which let the company to get closer to younger consumers. Gregory Boutte a chief client and digital officer of Kering Group said that in 2020 the Asia-Pacific region's online contributions grew a lot doubling from 3 percent in 2019 to 6 percent in 2020. Moreover in 2020 Gucci has signed a contract for a major strategic partnership with Tencent, with multiple implications tailored for the Tencent platform. Finally, Gregory Boutte affirmed: " I'm very optimistic about the growth of e-commerce and digitalization in China. The digital ecosystem and the customers are very open and prone to making those big innovations that are going to continue driving the growth there."²⁵

1.3 Chinese e-commerce development

As it's underlined in the previous paragraph the real revolution for luxury brands presence in Chinese market was the e-commerce development. For this reason, in this part there is a detailed analysis of e-commerce evolution in China. It goes from an initial stage in which Chinese government had the most important role in creating an environment where Chinese e-commerce could develop to recent years cross-border e-commerce growth.

1.3.1 Chinese e-commerce: government support

Chinese government had a key-role in e-commerce success. Thanks to the policies it introduced during the last years, China is going to become the biggest e-commerce power in the world. In this paragraph are presented the most important decision taken by the PCC. In 1990 data communications started to become more and more important, moreover there was an overload of the public telephone network which makes government understood that the creation of a second network was necessary. The first person who decided to introduce a new project to improve information infrastructure, develop information economy and build

²⁴ *Kering Eyewear Apre il Primo Online Flagship Store in China su JD.com*, in Kering.com, 2018, https://keringeyewear.com/newsroom/news/3946?lang=it_IT , accessed on 3 July 2021

²⁵ WANG Z.Q., *Kering ramping up digitalization in China*, in China Daily Global, p. 009 ,2021, <http://epaper.chinadaily.com.cn/a/202105/18/WS60a2fa2aa31099a2343562f0.html> , accessed on 3 July 2021

administrative capabilities, was Hu Qili. In 1993 he proposed the “Three Golden projects”, the goal of this idea was to build a national information highway in order to improve modernization and economic development, drive development of IT services in China and try to use it to unify the country and the government.²⁶ Chinese government invested a lot of money on the implementation of the “Golden projects” and the result was great. Thanks to them China have succeeded in the building of the technical infrastructure and regulatory frameworks that became the foundation of Chinese e-commerce. The real breakthrough in e-commerce policies and legislation was in 2004 with the introduction of the “Electronic Signature Law of the People’s Republic of China”. This was China’s first national e-commerce legislation, which was implemented in order to regulate e-commerce and the security of electronics transactions by standardizing the act of electronic signatures, validating the legal effects of electronic signature, and safeguarding the lawful rights and interests of parties concerned.²⁷ Until 2005, the government always formulated a plan every five years in order to encourage e-commerce development but from 2006, they decided to promulgate five-years plans. One of the most important projects is “E-commerce Development Plan During the 11th Five-Year Period” which was introduced in 2007. The plan defined e-commerce services to include web-based transaction services, business outsourcing services and

	11 th five-year plan	12 th five-year plan	13 th five-year plan
E-commerce applications	Popularize	Deepen	
E-commerce regulation		Standardize	Open
E-commerce platform	Construction	Upgrade	
Traditional industries			Integration

Figure 6-Evolution of the five-year plans (WTO in “China’s e-commerce development and policy relevance”)

²⁶ XIANG J.Y.,JING L.B., *Electronic Commerce in China: Current Status, Development Strategies ,and New Trends* ,in ResearchGate,p.78, 2014, https://www.researchgate.net/publication/272888019_Electronic_Commerce_in_China_Current_Status_Development_Strategies_and_New_Trends , accessed on 4 July 2021

²⁷ XIANG J.Y., JING L.B., *Electronic Commerce in China: Current Status, Development Strategies, and New Trends, cit.*, p.80

information technology system outsourcing services. These services comprise web-based procurement, sales and related authentication, payment, web-based product design, data hosting, application systems and others.²⁸The most significant goals of this plan were the construction of public e-commerce service projects and the promotion of the formation and development of e-commerce service formats with third-party platform services. The second relevant five-years plan it's the 12th. Its main objectives were the research and acceleration of e-commerce market transformation, the popularization of e-commerce application and the creation of a strong institutional and social environment to support e-commerce security and improving the efficiency of resource allocation.²⁹Finally, the last five-years plan is the 13th which aim is integration. The integration between e-commerce and agriculture, manufacturing, logistics and other sectors which leads to the transformation and the upgrade of the traditional industries. In figure 6 are summed up the most important aims of the three plans presented above.

After e-commerce development and affirmation through the new policies, cross-border e-commerce started to spread in China, for this reason in 2015 Chinese government promulgated some norms in order to support it. According to "cross-border e-commerce in China" research, these measures include" encouraging enterprises to engage in international trade through e-commerce, strengthening major e-platforms, enhancing Customs and quarantine procedures, improving cross-border payment services, providing financial support to e-commerce companies and promoting the functions of trade associations.³⁰Another step forward for cross-border e-commerce development was the government approval of seven new free trade zone for a total of 11. They are Shanghai, Tianjin, Fujian, Liaoning, Guangdong, Zhejiang, Henan, Hubei, Sichuan, Shaanxi and Chongqing.³¹ Moreover in 2016 Chinese government enacted a new integrated tax policy for cross-border

²⁸ JIANG Y., ZHANG L., JIN Y.H., *China's e-commerce development and policy relevance*, SMEETS M., *Adapting to the digital trade era: challenges and opportunities*, WTO publication, p. 147, 2019, https://www.wto.org/english/res_e/booksp_e/10_adtera_chapter_06_e.pdf, accessed on 5 July 2021

²⁹ JIANG Y., ZHANG L., JIN Y.H., *China's e-commerce development and policy relevance*, SMEETS M., *Adapting to the digital trade era: challenges and opportunities*, cit., p. 148

³⁰ WU H., IRELAND R., *Cross-border e-commerce in China*, in WCO research Unit, 2017, <https://mag.wcoomd.org/magazine/wco-news-84/cross-border-e-commerce-in-china/>, accessed on 5 July 2021

³¹ DING F., HUO J.Z., CAMPOS J.K., *The development of cross border e-commerce*, *Advances in Economics, Business and Management Research (AEBMR)*, volume 37, in Atlantis Press, p. 375, 2017, https://www.researchgate.net/publication/320970072_The_Development_of_Cross_Border_E-commerce, accessed on 5 July 2021

e-commerce which modified China's tax policy for retail import in cross-border e-commerce. The new policy allows only a maximum value of 2,000 RMB for each transaction and a maximum of 20,000 RMB per person per year in cross-border e-commerce retail imports. Before 8 April 2016 when customers bought goods online via cross-border e-commerce platforms, reporting what is affirmed in the "Cross-Border E-commerce: China Policy Update", they paid taxes according to "personal postal articles tax", based on the principle of "reasonable quantity for personal use" when they bought several items in a single order for less than 1,000 RMB and when they exceeded the 1,000 RMB limit. Thanks to the new policy, cross-border e-commerce retail imports will no longer be subject to personal postal articles tax but will be levied an integrated tax which includes import tariffs, VAT and consumption tax.³² Finally, in November 2018 Chinese government took the last decisions for cross border e-commerce regulations. They decided that it won't be necessary the registration for first-time imports through cross border e-commerce platforms, instead these goods will receive more comfortable regulation as imports for personal use. Moreover, they added 63 tax categories of high-demand goods to the group of goods which enjoy zero tariffs. Finally, the quota of goods eligible for the preferential policies was raised from 2,000 yuan to 5,000 yuan per transaction, and from 20,000 yuan to 26,000 yuan per head per year.³³

These are the most important policies Chinese government introduced to support cross-border e-commerce. So, overall, the government had a fundamental role in e-commerce development promoting the development of the basic e-commerce infrastructure, popularizing e-commerce training and activities. It collaborated with non-governmental organizations to facilitate the penetration of e-commerce awareness, knowledge and skills. Finally, as it's written in "China's e-commerce development and policy relevance" ,it provided policies and legal guarantees for a safely e-commerce development.³⁴

³² TSANG A., *Cross-Border E-commerce: China Policy Update*, in HKTDC research 经贸研究, 2016, <https://research.hktdc.com/en/article/MzYzMDMyMjg3> ,accessed on 5 July 2021

³³ ZHANG Y., *Policies refined to boost cross-border e-commerce*, in The State Council The People's Republic of China, 2018, http://english.www.gov.cn/premier/news/2018/11/21/content_281476400253110.htm , accessed on 6 July 2021

³⁴ JIANG Y., ZHANG L., JIN Y.H., *China's e-commerce development and policy relevance*, SMEETS M., *Adapting to the digital trade era: challenges and opportunities*, cit., p.151

1.3.2 Chinese e-commerce: first stage

E-commerce growth in China started in 1993 with the implementation of the “Golden Projects”. Due to these projects the number of internet users reached 600,000 in 1997. Between 1999 and 2000, innovators started to think that if they combined the traditional business model with Internet, they could obtain a lot of profits and new opportunities, and this is how Chinese e-commerce started.³⁵ The number of people who began to use internet grew a lot between 1996 and 2000 also thanks to a promotional campaign about e-commerce launched in 1998. In 1996 there was the first online transaction and in 1999 the foundation of the most important e-commerce platform in China, ALIBABA, which then opened Taobao platform in 2003. According to statistics, in this period were established the 5,2 % of all current e-commerce platforms.³⁶

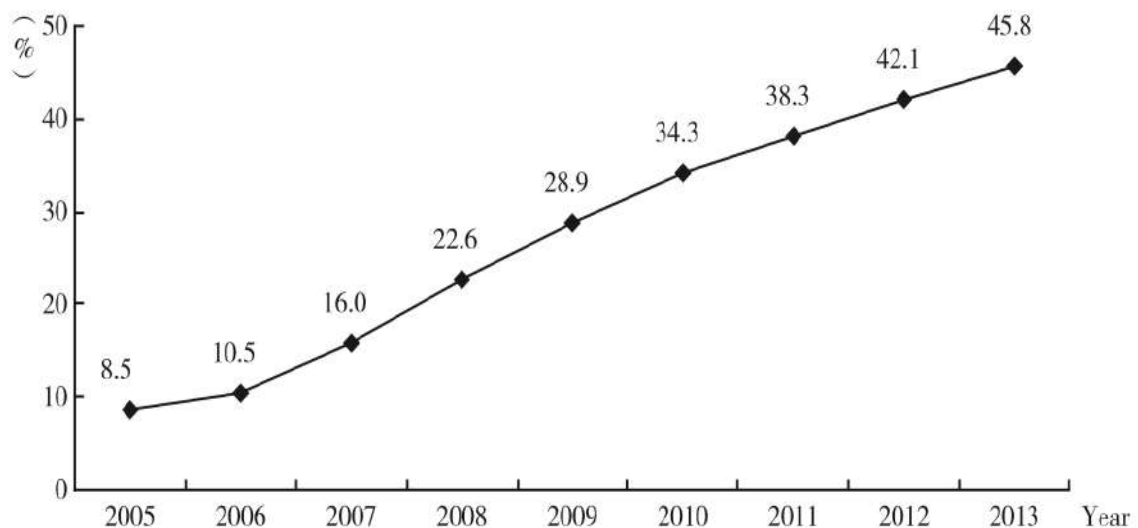
E-commerce was divided from the beginning into three e-commerce models: B2B, B2C and C2C. In 1999 B2B e-commerce emerged for the first time in China, in this kind of business small and medium-sized enterprise (SME) play the most important role and have most of the market turnover. As it is defined in “Investopedia”, it consists of transactions between a manufacturer and a wholesaler or a wholesaler and a retailer. On the other hand, B2C model identifies the transactions which happen directly between companies and customers. And the last one C2C includes all the transactions between a customer and another customer who sell and buy products online. The first B2B e-commerce business in China was created in 1996 and it was called “Nanjing Focus Technology Development Company” while the first vertical B2B site was launched in 1997 but the most important step for B2B e-commerce was the foundation of Chinese B2B’s pillar, Alibaba. In 2000 was also established “Joyo”, the most important B2C industry in China. But B2C and C2C models started their real expansion in the second stage of e-commerce development which is described in the next paragraph. This initial stage ended with the foundation of the “China Electronic Commerce Association” in 2000 which identified E-commerce as a specific industry.³⁷

³⁵ Shanghai shehui kexueyuan. Jingji yanjiu suo, lianheguo gongye fazhan zuzhi 上海社会科学院. 经济研究所, 联合国工业发展组织, *Jin zhuo guojia zhongxiao qiye dianzi shangwu fazhan baogao*, 2017; *Yingwen*, 金砖国家中小企业电子商务发展报告, 2017, 英文, 2018
³⁶ YUE H.F., *National report on e-commerce development in China*, p. 1, 2017, <https://www.unido.org/sites/default/files/files/2018-01/WP17.pdf> , accessed on 6 July 2021

³⁷ YUE H.F., *National report on e-commerce development in China*, cit., pag.2

1.3.3 Chinese e-commerce: second stage

The second stage of e-commerce evolution in Chinese market is identified as the “acceleration stage” and it began in 2000. It is called acceleration stage because it’s in this period that the most important e-commerce platforms started to invest more money to develop their business. In 2002, the U.S. company eBay invested \$30 million for a 33 percent stake in Each Net, this action represented the first foreign company entering China’s e-commerce sector. Moreover, in 2003 Alibaba Group founded Taobao, in this way it officially entered the C2C market. In 2004 JD.com started to develop its business in order to enter the e-commerce sector.³⁸ In the same year Amazon bought Joyo Net and the name was changed to Amazon. In October 2004, Alibaba inaugurated Alipay service to promote online payments and reduce the wariness of people. Finally, in June of the same year in Hangzhou took place the first network business conference which affirmed the entrance of C2C model in China.³⁹ In this period China’s e-commerce services moved from enterprise services to personal services reaching more and more people. As figure 7 shows, according to China Internet Network information Center (CNNIC), the number of Internet users in China were 210 million people in December 2007 and reached 618 million in 2013. Moreover, according to iResearch, “the total transaction value of China’s e-commerce market was more than 1.6 trillion US dollars, with a 22.6% annual growth.”⁴⁰



³⁸ GUPTA R., *The upward march of China’s e-commerce industry*, in China.org, 2018, http://www.china.org.cn/opinion/2018-11/19/content_73617592.htm , accessed on 6 July 2021

³⁹ YUE H.F., *National report on e-commerce development in China*, cit., pag.2

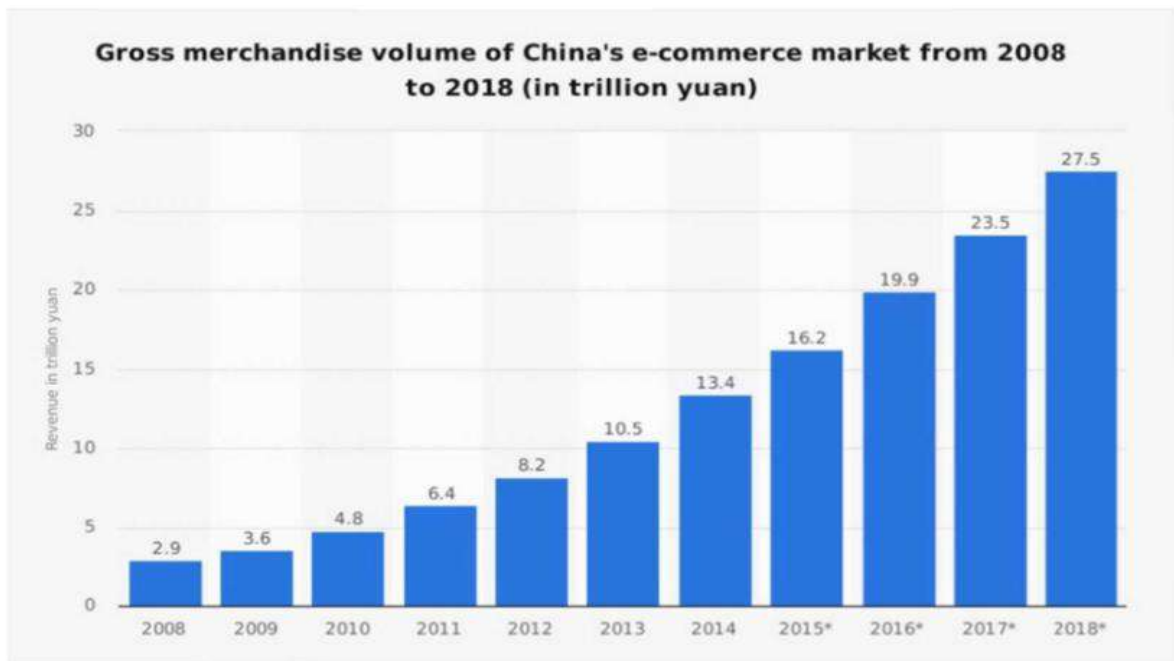
⁴⁰ XIANG J.Y., JING L.B., *Electronic Commerce in China: Current Status, Development Strategies, and New Trends*, cit., p.74

Figure 7- Internet penetration rate of China (Research Gate in “Electronic Commerce in China: Current Status, Development Strategies, and New Trends”)

The acceleration which characterized this period was possible also thanks to the policies enacted by the Chinese government to support e-commerce development which have been explained in the first paragraph.

1.3.4 Chinese e-commerce: third stage

The third stage goes from 2008 to 2015. This phase is defined as “evolution phase” by some researchers and “standardization stage” by others. These different points of view depend on which characteristics of this period of e-commerce development are taken into consideration by researchers. In the first case they give more importance to the data and the innovations which gave a further contribution to e-commerce development. Indeed, as figure 8 shows, between 2008 and 2015, the gross merchandise volume of China’s e- *Figure*



8- Gross merchandise volume of China’s e-commerce market from 2008 to 2018 (in trillion yuan) (Research Gate in “The comparative History and Development of E-commerce in China and the United States”)

commerce market increased a lot reaching the 16.2% in 2015, 13,3% bigger than 2008. In this period the competition between e-commerce enterprises started to become stronger and each platform tried to improve its business. For example, in 2013 Alibaba launched its

B2C platform, Tmall, which became the most important B2C platform in China. Moreover in 2009 3G was officially introduced in China, this innovation has meant that the use of mobile phone to undertake e-commerce transactions has grown exponentially. The statistics showed that the number of users click for online shopping reached 100 million.⁴¹ On the other hand, the ones who defined this period as the “standardization stage”, based their research on the policies enacted by the government to promote e-commerce development which gave more stability to e-commerce environment. The most important policies have already been discussed in the paragraph dedicated to government support to e-commerce but there are few other actions which are considered relevant for the “standardization stage”. The first ones are the 2009 “E-commerce model specification” and “online shopping service standard” issued by the ministry of Commerce. Then in 2010, the State Administration for Industry and Commerce issued “Online commodity trading and relevant service behavior management interim measures”. Finally, in 2014, the General Administration of Quality Supervision, Inspection and Quarantine issued the “E-commerce work product quality improvement action plan” and the People’s Bank of China enacted the “Guidance on the development of mobile payment business of people’s Bank of China”.⁴² All these policies have been fundamental to guarantee a regulated improvement of Chinese e-commerce and it’s thanks to them that it definitively affirmed its presence in the East.

1.3.5 Chinese cross-border development: fourth stage

The fourth stage is defined “globalization stage”, the reason for this is the development of cross- border e-commerce which goes from 2014 to nowadays.

The cross-border e-commerce consists of buying foreign products which are considered better than the local ones using foreign websites. During this period the most important cross-border e-commerce retail sales platforms, such as Tamll.HK, Kaola, Jumei, Matou and Red, had an incredible growth.⁴³

In 2014 a lot of regions in China started to develop a cross-border strategy. After this decision, the cross- border e-commerce business scale had a 39% increase a total of 3.75 trillion, of which exports was 3.27 trillion, and increasing 37%, of which imports was 0.48 trillion and increasing 59%. Cross- border retail was 0.45 trillion, an increase of 44%, in

⁴¹ JIANG Y., ZHANG L., JIN Y.H., *China’s e-commerce development and policy relevance*, SMEETS M., *Adapting to the digital trade era: challenges and opportunities*, cit., p.143

⁴² YUE H.F., *National report on e-commerce development in China*, cit., pp. 3-4

⁴³ Ibidem

which exports was 0.32 trillion, an increase of 30% and imports was 0.13 trillion, 60% of increase.⁴⁴

As figure 9 shows, in the following years the cross-border transaction value continued to grow thanks to the increasing number of customers who bought goods on foreign e-commerce platforms. So, the increase of cross-border e-commerce is directly connected with the increase of online customers who started to trust online commerce. The large number of online customers had meant that companies began to open their online stores to expand their market and reach more people.

The researchers who wrote the “China cross-border e-commerce guidebook” in 2019, divided the cross-border e-commerce evolution in three eras according to online customers growth. The first and the second eras are before the 2014 when cross-border e-commerce still wasn’t defined but there were some prototypes of cross-border e-commerce platforms. While the third stage which started in 2014, identifies the era in which it started its development, and it arrives till now. The first one is called “Daigou era”, it goes from 2005 to 2007 and it is characterized by a limited number of online customers who were mainly students, relatives, or professional buyers called “Daigou”. The second era goes from 2007 to 2014 and it is called “Haitao era”, in this period people who bought on cross-border e-commerce platforms such as Ymatou and Haitao.com increased, moreover there were better logistics methods and affordable shipment prices to China. The last era which goes from 2014 till now identifies the moment in which cross-border e-commerce started to be more regulated and stable. The most important law for the regulation of this CBEC was introduced in 2019.

⁴⁴ XUE W.X., LI D.D., PEI Y.L., *The Development and Current of Cross-border E-commerce*, in WHICEB 2016 Proceedings, p. 132,2016, <http://aisel.asinet.org/whiceb2016/53> , accessed on 10 July 2021

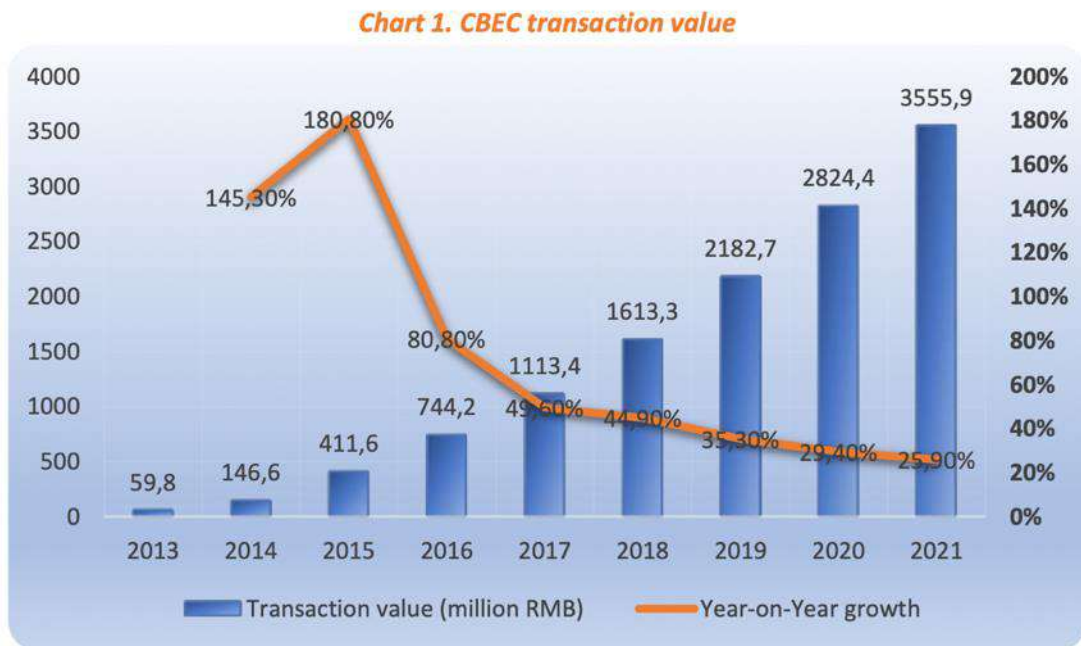


Figure 9-CBEC transaction value (China Cross-border e-commerce guidebook in “Consulate-general of the kingdom of the Netherlands in Shanghai”)

According to it Daigou sellers who used illegal ways to sell goods had to register themselves as a market entity to maintain their market share.⁴⁵ This law and its content will be discussed better in the next paragraphs but it’s important to underline from now that it was a big step forward in the fight against counterfeiting which is the major problem connected to cross-border e-commerce and it is also directly connected with luxury brands presence in China because it delayed their entrance on Chinese e-commerce market.

1.4 IP violations in Chinese e-commerce luxury market

Nowadays China is the world largest e-commerce market. Its annual growth rate is expected to go from CNY 13.8 trillion in 2021 to CNY 19.6 trillion in 2024.⁴⁶ As it is the largest e-commerce market consequently it is also the largest counterfeiting market. According to the statistics 54% of fake goods are sold and come from Chinese e-commerce platforms. On this basis, it is easy to understand that IP violations is one of the biggest problems in China. The

⁴⁵ BOES S., *Cross-border e-commerce guidebook*, in the Kingdom of the Netherlands in Shanghai, p.6, 2017, <https://www.rvo.nl/sites/default/files/2019/11/Cross-border%20E-commerce%20Guidebook%202019.pdf>, accessed on 10 July 2021

⁴⁶ *E-commerce market in China will reach US\$3 trillion in 2024, forecasts GlobalData*, in GlobalData, 2021, <https://www.globaldata.com/e-commerce-market-china-will-reach-us3-trillion-2024-forecasts-globaldata/>, accessed on 13 July 2021

most important IP rights are copyright, patent and trademark. In the following paragraphs they will be analyzed with a focus on trademark infringement because it is the one which influenced the most luxury brands presence in China, Kering group included.

According to a research made by Ke-Xin Yang and Jing-Jing Zheng on Intellectual Property Management of E-commerce Enterprises, the IP consists of new ideas, original expressions, distinctive names, and appearance that make products unique and valuable.⁴⁷

In recent years, for luxury brands protect the uniqueness of their products became the first thing they must do when they expand their business, especially in China where counterfeiting problem is particularly widespread.

Copyright protects the producers of any original work. According to the “Copyright protection in China, a guide for European SMEs”, “it is an automatic right that arises the moment a work is created, this means that the creator will automatically enjoy copyright protection in all 164 member countries of the Berne Convention for the protection of literary and Artistic Works including all European union countries and China.”⁴⁸ On the other hand, patent protection is in the second position after trademark for luxury brands protection in Chinese market. It safeguards the shape, the pattern, the colour and the pattern of a product, so for example the innovative style of a Gucci bag which has to enter the Chinese market. But patent protection has specific rules in China, brands must be registered for legal protection, and they must have novelty in China otherwise they are ineligible for defence.⁴⁹ When a luxury brand decides to safeguard its business using copyright and patent protection, it already completed an important part of the IPR protection strategy, but to have a total defence against IP violations it must protect its trademark. In the next paragraphs there will be a detailed description of trademark infringement and counterfeiting which is the biggest problem for luxury brands business in China.

⁴⁷ YANG K.X., ZHENG J.J., *Intellectual Property Management of E-commerce Enterprises- From a policy Driven Perspective*, in Atlantis Press, Advances in Economics, Business and Management Research (AEBMR), volume 54, p.143, 2018

⁴⁸ *Copyright protection in China, a guide for European SMEs*, in China IPR SME helpdesk, p.1,2012, https://www.china-iprhelpdesk.eu/sites/all/docs/publications/EN_Copyright_guide_Aug_2010.pdf, accessed on 13 July 2021

⁴⁹ JURGENSON H., *IPR Protection in China for the Fashion Industry*, in Your IP Insider, 2017, <http://www.youripinsider.eu/ipr-protection-china-fashion-industry/>, accessed on 13 July 2021

1.4.1 Trademark infringement

According to the United States Patent and Trademark Office (USPTO), a trademark can be any word, phrase, symbol, design, or a combination of these things that identifies a good or a service. It's how customers recognize a brand in the marketplace and distinguish it from the competitors.⁵⁰ When a luxury brand starts to produce goods with marks that are like the ones of another brand, the brand which copied the trademark is accused of “trademark infringement”.

Trademark infringement has always been a problem in China and with Chinese e-commerce development it became bigger. There are several reasons which explain why this phenomenon happens so frequently in China. They will be analyzed in this paragraph together with the recent policies introduced by Chinese government in order to overcome IP infringements.

The principal reason why trademark infringement increased with e-commerce development is related to the difference between how the transactions happen in traditional economy and e-commerce. As figure 10 shows, while in traditional economy the transfer, the payment and the delivery of the goods take place simultaneously, in e-commerce there is the participation of other service providers such as the professional e-commerce platform in the information transfer phase, the bank or other third-party online payment in the payment phase and logistic services during the delivery of goods. This e-commerce's characteristic causes the most of issues, contrary to traditional economic mode where the only important thing is the product, in e-commerce knowing the trading partners, selects them and collect information about them is fundamental. Moreover, because of the presence of third-party service providers, joint infringement became very frequent. Trademark infringements in e-commerce are divided in: “trademark infringement relating to physical goods” and “trademark infringement relating to transaction information”. Considering the trademark infringement relating to physical goods, there are some steps a company can make in order to solve the infringement problem when counterfeiting goods are sold through e-commerce

⁵⁰ USPTO (United States Patent and Trademark Office), *What is a trademark?*, <https://www.uspto.gov/trademarks/basics/what-trademark>, accessed on 14 July 2021

	Information Transfer	Payment	Delivery of Goods
Traditional Economy	Product packaging, Product brochure/introduction, Trade fair;	Cash, Credit card, Check, etc;	Spot trading, Third-party logistics company;
e-Commerce	Own web page, Search engine, Professional e-commerce platform;	Bank or other third party online payment;	Logistics services.

Figure 10- Traditional Economy vs. e-commerce (China Law Insight in “Common Issues of trademark infringement in e-Commerce and Enforcement”)

mode. According to the “Common Issues of Trademark Infringement in e-commerce and enforcement” , first of all, “it has to identify the infringers, it can try to obtain information about the third-party service providers through internet real name authentication or through sample purchase. Secondly, it must determine jurisdiction, the basic principle to determine it, it’s that the people’s court at the place of domicile of the defendant or at the place where the infringement occurs has the jurisdiction over the case.”⁵¹As to the place of domicile of the defendant, if the identity of the defendant could be determined, the jurisdiction can be determined by acquiring the domicile information according to the identity of the defendant. Finally, if the jurisdiction is decided according to where the plaintiff or the defendant is located because there occurred the infringement, to establish if the trademark infringement was related to physical goods or to transaction information is fundamental. In the first case the principle according to which the jurisdiction is established at the place where the infringing act is committed, so the one which is used in traditional economy, is still applicable. On the other hand, if the trademark infringement is related to

⁵¹ QU M., WANG S., KING & WOOD MALLENSONS’S IP LITIGATION GROUP, *Common Issues of Trademark Infringement in e-commerce and enforcement*, in China Law Insight, 2015, <https://www.chinalawinsight.com/2015/01/articles/intellectual-property/common-issues-of-trademark-infringement-in-e-commerce-and-enforcement/> , accessed on 14 July 2021

transaction information, the plaintiff can also consider using the location of the server of the website to establish jurisdiction.⁵²

Trademark infringement relating to physical goods includes two kinds of infringement, the first one is the sale of parallel imported goods in e-commerce platforms. Parallel imports refer to the import of a product by third parties, without the consent of the rights holder or authorized user where the product's rights are protected in two or more countries.⁵³ In China there aren't laws against parallel imports, in fact if the same trademark is registered in two different countries but it belongs to the same entity, this is not considered a trademark infringement. So, if the third-party who sells goods is legally registered there's no problem, the problem emerges if it sells goods using illegal ways as there isn't a law which regulates this. The second issue linked to trademark infringement relating to physical goods is the sale of goods in e-commerce platforms breaching the trademark license agreement. This situation happens when for example the seller decides to sell the goods using e-commerce but according to the agreement, he could only sell them directly or when he decides to sell them in another territory which isn't included in the agreement.

According to the trademark infringement relating to transaction information, the first illegal action which belongs to this category, is the use by a company of another company trademarks as searching webpage keywords. The second is the illegal use by a company of other's trademarks as the name, signage, decoration or advertisement of the online shop. The third one is the use of other's trademark in product descriptions for promotion saying for example "Cartier style". Another illegal action is using other's trademarks as domain names and conduct e-commerce for relevant goods, so using the name of another brand or a similar one even if it is already registered. The last one is the trademark infringement related to the ISP (internet service providers) joint liability which makes difficult to understand who really committed the infringement.

⁵² QU M., WANG S., KING & WOOD MALLENSONS'S IP LITIGATION GROUP, *Common Issues of Trademark Infringement in e-commerce and enforcement*, in China Law Insight, cit.

⁵³ SONG W.Q., *China's fashion and luxury brand challenge: trademark squatting and parallel imports*, in World Trademark Review, 2018, <https://www.worldtrademarkreview.com/brand-management/chinas-fashion-and-luxury-brand-challenge-trademark-squatting-and-parallel> , accessed on 14 July 2021

1.4.2 Trademark counterfeiting

Trademark counterfeiting and trademark infringement aren't the same thing. In this research the focus is on trademark counterfeiting which is trademark infringement's most widespread IP violation among luxury brands in China, for this reason is important to underline what is the condition which characterizes a "trademark counterfeiting". Trademark counterfeiting is always a trademark infringement, so all the cases analyzed in

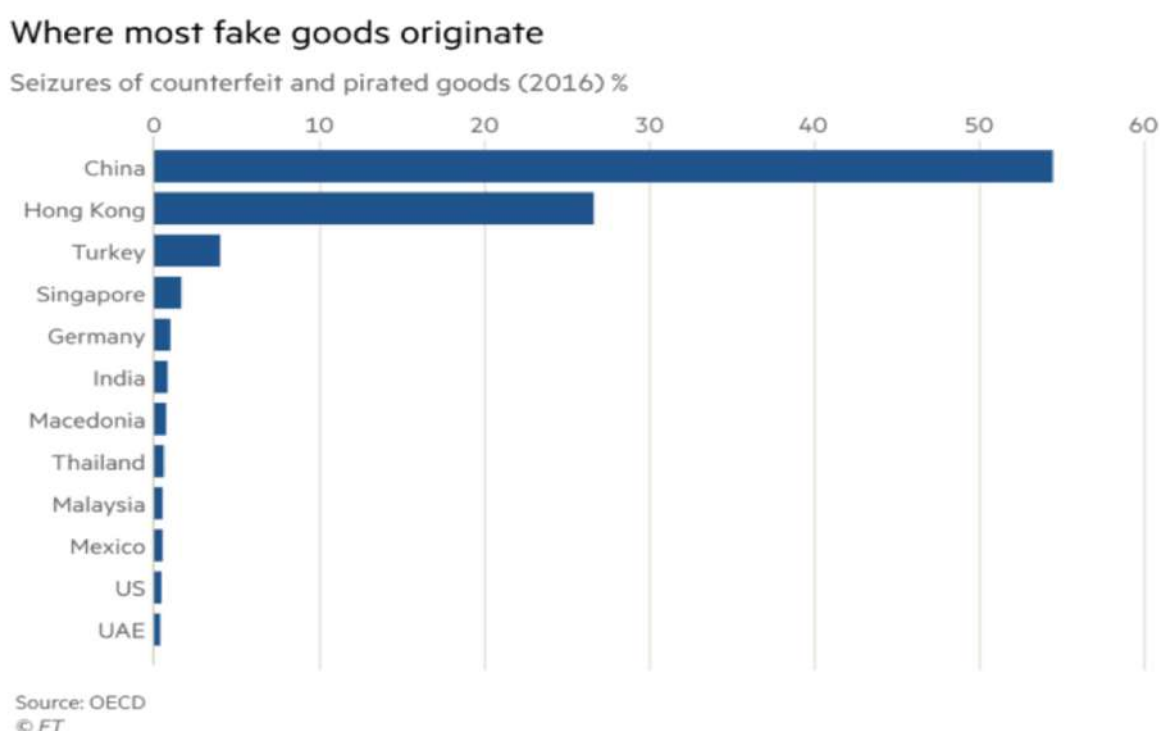


Figure 11- Where most fake goods originate (Daxueconsulting in "Behind the industry of counterfeit products in China and lawsuit success cases")

the previous paragraph referred to "trademark infringement relating to transaction information" can be trademark counterfeiting. But to have a "trademark counterfeiting" the copied marks must be identical to the real mark and not only similar as in trademark infringement.⁵⁴ Specifically, counterfeiting happens when one company decides to sell or produce goods using the trademark of another brand and with a lower quality. This action damages the original trademark owner's fame. In China counterfeiting products have always been present, but as it was underlined in the paragraph related to e-commerce development,

⁵⁴ JENNINGS J.S., *Trademark Counterfeiting: An Unpunished Crime*, Vol.80, No. 3, p. 805, Northwestern University Pritzker School of Law, U.S.A., 1989

it's with e-commerce that counterfeiting industry increased significantly. According to the research made by the Organization for Economic Co-operation and Development (OECD) in 2016, as figure 11 shows, 80% of counterfeit goods were originated in China, this is because in this country the demand for fake products is strong. In China the quality of the fake products and the way in which trademarks are falsified are high so it's difficult to recognize a fake product from an original one. For middle-class Chinese customers owning luxury products it's important not only to feel good but also to reach a higher social status that's why buying trademark counterfeiting products it's the solution for them. On the other hand, customers who can afford original products a lot of times decide to buy a counterfeit one because they think that has no sense to spend 15.000\$ for a Louis Vuitton bag when they can have the same bag at a lower price.⁵⁵ As it has been written before, the principal channel where Chinese customers buy counterfeiting goods are e-commerce platforms, that's why Chinese government decided to introduce new policies to protect IP rights on these platforms and fight against counterfeiting problem. In the same way, in recent years e-commerce platforms introduced a lot of new rules against counterfeiting. Later it will be analyzed Alibaba polices against the sale of fake goods as it is China most important e-commerce platform and the one which was involved in Kering case.

1.4.3 Chinese government latest actions against counterfeiting in e-commerce platforms

Chinese government policies against counterfeiting were introduced for the first time after China's 2001 accession to the World Trade Organization (WTO). Before this moment, China was the worst country in protecting IP rights but with this action it accepted to improve its protection and enforcement of IPRs including copyright, trademark and patent, through combination of revised laws, implementing and administrative measures and judicial interpretations.⁵⁶ From 2001 it has never stopped improving IPRs protection policies, but the most important actions Chinese government made are the ones to strengthen IPRs defence on e-commerce platforms. Between 2011 and 2015 luxury market increased a lot but the measures introduced to fight counterfeiting weren't sufficient and the problem started to become widespread in China. Even if in 2015 it was written a State Council document which included this point: "speeding up research on the protection of intellectual property in

⁵⁵ *Behind the industry of counterfeit products in China and lawsuit success cases*, in daxueconsulting, 2021, <https://daxueconsulting.com/counterfeit-products-in-china/>, accessed on 16 July 2021

⁵⁶ MERCURIO B., *The Protection and Enforcement of Intellectual Property in China since Accession to the WTO: Progress and Retreat*, Centre d'étude Français sur la Chine contemporaine, p.25,2012

Internet venues, e-commerce and big data, and developing policies to address issues in this regard and establishing a platform for trading intellectual property”⁵⁷, laws regulation and the infringement IP rights weren’t strong enough and they didn’t have a robust enforcement mechanism.⁵⁸The biggest problem before 2019 was that until that moment all the policies against counterfeiting didn’t include online counterfeiting so there weren’t laws which regulated the sale of fake goods online. That’s why after six years of work to make it, in 2019 Chinese government decided to introduce a new e-commerce law which guarantees better protection to luxury brands on Chinese e-commerce platforms. The 1st January 2019 it was introduced for the first time a law which places legal responsibilities on e-commerce platforms for IP rights infringement. According to the article 9,” the e-commerce operators who must respect this law are: e-commerce platforms such as Taobao, Alibaba and JD.com, any vendor on any of these platforms and any other natural or legal persona, or unincorporated organization that engages in the operation activities of selling goods or providing services through the Internet or other information network ,⁵⁹including e-commerce platform operators, operators on platform and e-commerce operators selling goods or providing service via their self-built websites or other web service.”⁶⁰According to Michela Ferrante, a visionary business leader specializing in advising corporations on all issues related to IP rights protection and providing strategies that maximize the value of their IP assets, new e-commerce law has three specific aims. The first one is increasing the transparency and accountability of vendors, the second is empowering platforms and fostering cooperation with holders and the last one is punishing violations effectively. There are some articles which are more important than others because they sum up the most relevant rules that must be followed by the e-commerce operators in order to concretize the

⁵⁷ OECD, *Governance frameworks for combatting counterfeiting in China*, in *Governance Frameworks to Counter Illicit Trade*, OECD Publishing, Paris, p. 179,2018

⁵⁸ ARGENT F., *Online enforcement of counterfeit luxury goods: the China problem*, in the *Luxury Legal Post*, https://www.cov.com//media/files/corporate/publications/2014/12/online_enforcement_of_counterfeit_luxury_goods_the-china_problem.pdf, accessed on 17 July 2021

⁵⁹ FERRANTE M., *China’s new E-commerce Law: tools in the fight against IP rights infringement*, in *World Trademark Review*, 2020 <https://www.worldtrademarkreview.com/anti-counterfeiting/chinas-new-e-commerce-law-tools-fight-against-ip-rights-infringement>, accessed on 17 July 2021

⁶⁰ EUROPEAN UNION INTELLECTUAL PROPERTY OFFICE, *Study on online counterfeiting in China. Could the EU Memoranda of Understanding approach help, and if so-how?*, in *IPKey*, p.17, 2019, https://ipkey.eu/sites/default/files/ipkey-docs/2020/IPKeyChina_nov2019_Lessons-from-the-EU-experience-with-memoranda-of-understanding-in-tackling-the-online-sale-of-counterfeit-goods.pdf, accessed on 17 July 2021

three-e-commerce law aims. According to article 10,11, and 12 all vendors should go through market entity registration according to law and they must pay taxes and obtain relevant administrative licenses wherever required, finally article 13 states that” goods sold by vendors should comply with laws and administrative regulations. “⁶¹Moreover, according to article 17 “e-commerce operators shall comprehensively, truly, accurately and timely disclose the information goods or services, protect information rights and selection rights of consumers. E-commerce operators shall not deceive or mislead consumers through false or misleading commercial promotion by means of fictitious sale, making up users’ appraisal.”⁶²There are also some articles in which is specified how e-commerce platforms can help right holders protect their rights. As it’s written in article 31 “E-commerce platform operators shall record and retain information of goods and services and transaction information listed on their platforms, and ensure the integrity, confidentiality and availability of such information. The information of goods and services and transaction information listed on their platforms shall be retained for not less than three years with effect from the date of completion of transaction. Any failure to keep such records will result in significant fines.”⁶³Platform also must guarantee to customers the quality of the products they sold, so for example a platform that consciously sell counterfeit products or fails to take necessary measures to avoid this, will be responsible of its action with the customer. Moreover, according to article 41 platforms are obliged to define their own IP protection procedures, in the next chapter it will be described Alibaba’s ones. Alibaba together with JD are two of the platforms which already introduced their own policies to protect IPRs before 2019 e-commerce law. Finally, the last two important articles are the 42 and 43 which define how a right holder can notify to a platform that their IP rights have been infringed obtaining the remotion of the vendor from the platform. According to articles 42 and 43, “An IPR holder shall be entitled to notify the e-commerce platform operator to take such necessary measures as deletion, blocking, disabling the link, termination of transaction and service if the IPR holder believes that there is any infringement upon its or his IPR or IPRs. The e-commerce platform operator shall timely take necessary measures and forward such notice to operators on platform upon receipt of the same. Upon receipt of the forwarded notice,

⁶¹ FERRANTE M., *China’s new E-commerce Law: tools in the fight against IP rights infringement*, in *World Trademark Review*, cit.

⁶² EUROPEAN UNION INTELLECTUAL PROPERTY OFFICE, *Study on online counterfeiting in China. Could the EU Memoranda of Understanding approach help, and if so-how?*, cit., p.18

⁶³ Ibidem

operators on platform may submit a statement of no infringement to the e-commerce platform operator. Such statement shall include prima facie evidence on no act of infringement. Upon receipt of such statement, the e-commerce platform operator shall forward such statement to the IPR holder who issues the notice and informs the IPR holder of the right to file a complaint to relevant competent authority or bring a lawsuit before a people’s court. If the e-commerce platform operator has not received any notice within fifteen days as of the arrival of the forwarded statement at the IPR holder that the right holder has filed a complaint or lawsuit, it shall immediately stop the measures it has taken.”

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If an e-commerce platform doesn’t implement the measures to face IPRs infringements, it must make a rectification and if it doesn’t make the rectification in time it must pay from RMB 50,000 TO RMB 500,000. As figure 12 shows, after the introduction of the new e-commerce law, only in 2019 33 cases were solved thanks to this law but in order to make maximum use of this new instruments, rights holders should improve their collaboration with e-commerce platforms. Nowadays there are more and more luxury brands which decide to collaborate with Chinese e-commerce platforms against counterfeiting and this is the most important improvement that was brought by this law. Moreover, the fact that this new e-commerce law obliges the e-commerce platforms to introduce their own policies

Figure 3: Typology of Cases brought under the E-Commerce Law to date



⁶⁴ Ibidem

Figure 12- Typology of Cases brought under the E-commerce Law to date (IPkey.eu in “Study on online counterfeit in China: Could the EU Memoranda of Understanding approach help, and if so-how?”)

against counterfeiting, certainly, led to an improvement of the situation. Alibaba decided to introduce their own rules against counterfeiting before 2019 and this decision already made a lot of luxury brands trust on the platform and open their luxury shops on it. In this way luxury brands expansion on this Chinese e-commerce platform has been possible before the introduction of the Chinese government law. Finally, the last improvement made by the Chinese government according to the Trademark infringement was made on June 15, 2020. On this day the China’s National Intellectual Property Administration issued the Standard for Determination of Trademark Infringement which will be used as a guideline for law enforcement when handling infringement cases.⁶⁵ Specifically, it clarifies issues such as the similarity in goods and services and the concept of “confusion” (it’s when the infringement is demonstrated affirming that the trademark infringer is confusing consumers selling them goods that are like the original ones), so in which cases it’s necessary to proceed with law enforcement. This new standard it’s important for trademark owners who can now pass the “confusion” threshold⁶⁶ and be sure that the infringement will be recognized by the law.

The new laws enforced by Chinese government together with Alibaba policies have been fundamental to gain the confidence of luxury brands especially the ones belonging to Kering group. That’s why in the next paragraphs there is a detailed presentation of all Alibaba’s actions against counterfeiting. Chinese government laws and Alibaba policies have been the basis for Gucci entrance on Tmall that will be analyzed in the next chapter. Gucci presence on Tmall is the proof of luxury brands’ increasing trust on Chinese e-commerce platforms which will rise incessantly in the next years.

1.5 Alibaba and IPRs infringement problem

Alibaba had problems with counterfeiting from the beginning of its business. Before Alibaba, customers had to go to the remotest locations to buy counterfeit goods because state-

⁶⁵ TSUI A., *CHINA: New Standard on Trademark Infringement*, in international Trademark Association, 2020, <https://www.inta.org/perspectives/china-new-standard-on-trademark-infringement/>, accessed on 18 July 2021

⁶⁶ Ibidem

owned department stores didn't accept to sell fake goods. When Alibaba opened its e-commerce platform sellers of counterfeiting goods started immediately to use it in order to reach more customers and expand their illegal activities. Moreover, internet gave to counterfeiters the possibility of disappearing into the cyberspace when problems arose, and it could be difficult for them to justify their transactions on the net. According to PRC when Alibaba opened its platform it didn't accept the rules imposed by the Chinese government to protect right holders IPR and in some ways encouraged the sale of counterfeiting goods. PRC affirmed that Alibaba saw itself above the law and that it had an arrogant attitude.⁶⁷ The truth is that, as it was said in the previous paragraph, at the beginning the rules introduced by the government weren't sufficient, before 2019 there weren't specific laws regulating the online marketplace so the sale of counterfeiting goods increased year by year. This is the reason why Alibaba decided to introduce their own polices. They will be described in the next paragraph, while in this paragraph there's a short analysis of Alibaba problems with IPRs infringement. As said before, counterfeiting problem is present on Alibaba platform from 1999, that's when MNCs started to accuse the Chinese e-commerce platform. Because of the lack of response by Chinese government, MNCs started to report the problem to U.S. government. Therefore, Alibaba found itself for the first time on the Out-of-Cycle Notorious Markets list in 2011 but it was able to remove its name from this list in 2012, before its initial public offering in the United States in 2014. Even if it was able to exit the Out-of-Cycle Notorious Markets list in 2012, Alibaba was put on it many other times during the next years, precisely in 2014, 2016, 2017 and 2018. Moreover, in 2016 a group of 17 international trade association wrote a letter to USTR (Office of the United States Trade Representative) where they pointed out that Alibaba didn't do anything in order to solve the counterfeiting problem on its platform giving the possibilities to a lot of customers around the world to choose among thousands of fake goods.⁶⁸

⁶⁷ CHOW D. C. K., *Alibaba, Amazon and Counterfeiting in the Age of the internet*, vol. 40, in *Northwestern Journal of International Law & Business*, p.164, 2020, <https://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1852&context=njilb> , accessed on 20 July 2021

⁶⁸ Ibidem

The fact that Chinese government is not able to have an effective result against counterfeiting on Alibaba, is shown by the table of the Figure 13. The research conducted by

Table 1. Alibaba's IPR Cases.

	Case subtype		Number	Win rates for right holders (%)		
	Alibaba as defendant	First defendant		51	88.2	
Joint defendant		143	1.4			
The third party		183	79.8			
Extent of home-court advantage	Hangzhou Courts			Non-Hangzhou Courts		
		Number	Win rates for right holders (%)		Number	Win rates for right holders (%)
	Nonlocal vs. Alibaba	156	35	Nonlocal vs. Alibaba	156	44
	Local vs. Alibaba	22	48	Local vs. Alibaba	43	54
Plaintiffs	Foreign		72	45.8%		
	Chinese		305	52.5%		

Figure 13- Alibaba's IPR Cases (International Journal of Communication in "Toward Fragmented Platform Governance in China: Through the Lens of Alibaba and the Legal-Judicial System")

Yu Hong and Jian Xu in the International Journal of Communication proves that when a local government is required to judge a case which involves Alibaba, most times the Chinese e-commerce platform is absolved, especially when Alibaba isn't the direct infringer, but it is an intermediary. When Alibaba it's defined as an intermediary, it means that the transactions happen on Alibaba's B2C or C2C platforms that are Taobao.com and Tmall.com. When a right holder sues a lawsuit against Taobao.com or Tmall.com it has 1.4% of winning rate which is 86,8% lower than the winning rate related to Alibaba as first defendant. Moreover, the data given in the table related to the winning rate of the right holders when the IPR dispute is handled by a Hangzhou court compared with the ones referred to the IPR disputes carried out in non-Hangzhou Courts, show that the winning rate is higher in non-Hangzhou courts, so the Hangzhou courts tend to rule in favor of Alibaba. In the research conducted by Yu Hong and Jian Xu they define two reasons which explain this courts' behavior. On one hand they say that during the years they deal with a lot of platform-related cases and so

they developed a sort of sympathy toward platforms and on the other hand, as it is the judge who defines if the platform should have known about the infringement case or not, they tend to defend Alibaba platform.⁶⁹ These data clearly highlight the government failure in defending international companies from counterfeiting problem on Alibaba. As shown by the data a large part of counterfeiting product were sold on Taobao and Tmall. According to some experts before Alibaba policies against counterfeiting more than 70% of the goods sold on Taobao were counterfeit in 2016, but in 2019 thanks to the policies against counterfeiting introduced by Alibaba, they were less than 30%.⁷⁰In 2016, Taobao's problem was that everybody could open an online shop and sell anything on the platform, so counterfeiters were free to sell whatever they wanted. But according to researchers in 2019 Taobao was able to detect 96% of counterfeit goods before selling them to the customers. Despite these positive data, 2021's statistics reveals that Taobao is still present in USTR blacklist because the number of fake goods present on the platform is still high.⁷¹ That's why the latest policies introduced by Alibaba together with the increasing collaboration with brands are fundamental to maintain the trust of the customers on the platform.

1.6 Alibaba policies against IPRs infringement

When Jack Ma founded Alibaba in 1999, the sold of fake products already existed but this platform gave the opportunity to counterfeiters to sell their fake products in an easier way, online. Online channels offer private virtual platforms where transactions take place. Most times consumers are the victims, but in some cases, they buy fake products voluntarily because they don't have enough money to buy the original ones. Year by year counterfeiting problem became bigger and bigger in fact Alibaba received a lot of accuses by Luxury brands as Kering which affirmed that Alibaba encourages the sold of fake products on its platform. Moreover, the laws introduced by the government weren't enough effective to solve the

⁶⁹ HONG Y., XU J., *Toward Fragmented Platform Governance in China: Through the Lens of Alibaba and the legal-Judicial System*, in International Journal of Communication, 2019, <https://ijoc.org/index.php/ijoc/article/view/12025/2804> , accessed on 20 July 2021

⁷⁰ FEI L.F., *Liability for an Online Marketplace provider's Trademark infringement- Practice and Latest Development of Chinese Law*, Max Plank Institute Property and Competition Law, Munich, in Research gate, p.571, 2013, <https://link.springer.com/content/pdf/10.1007/s40319-013-0062-1.pdf> , accessed on 20 July 2021

⁷¹ LITTLE T., *Notorious Markets List 2020: USTR resists call to include US platforms as Alibaba and Amazon remain*, in World Trademark Review, 2021, <https://www.worldtrademarkreview.com/anti-counterfeiting/notorious-markets-list-2020-ustr-resists-call-include-us-platforms-alibaba-and-amazon-remain> , accessed on 20 July 2021

problem. For this reason, the platform decided to act in order to eliminate counterfeiting. I will analyse the most important innovations and policies in favour of IPR protection introduced by Alibaba and how the situation changed in the last years. In general, the best practices introduced by Alibaba are a regular consultation with government and right holders which was established in 2016 and that now includes more than 120 international rights holders and 50 European members. The use of advanced technology, AI (Artificial Intelligence) is another important practice which is fundamental to block counterfeiting goods. Finally, the decision of Alibaba to collaborate with Net-A-Porter when it established the Tmall Luxury Pavilion has been an important step forward in the protection of IP rights on the platform.⁷² Being more specific, the first time in which Alibaba implemented IPR protection in a formal way was in 2002 when it allowed rights owner present IPR takedown requests by email. Then it introduced two IPR online protection platforms, the first one in 2008, it was called “AliProtect”, and it was made for AliExpress, Alibaba.com and 1688.com. While the second one was created in 2011, it was called “TaoProtect”, and it was addressed to Taobao and Tmall. Another important action in favour of IP protection it was made by Alibaba in 2015 with the “Good Faith Program”. Reporting what it’s written in Alibaba Group statement, the “Good Faith Takedown Mechanism” is a mechanism that is built based on mutual trust between Alibaba and intellectual property rights (IPR) complainants (including IPR owners, their agents or representatives, etc.) and aims to assist IPR complainants in protecting and enforcing their intellectual property rights on Alibaba intellectual property Protection Platform (“IPP Platform”). It is designed to enable faithful, prudent and diligent IPR complainants to enjoy more convenient and efficient enforcement experience on Alibaba IPP Platform. Currently, the Mechanism applies to complaints against product listings on the Tao Marketplaces (i.e., Taobao, Tmall and Tmall Global). “⁷³In 2016 Alibaba decided to put together AliProtect and TaoProtect in a new platform called IPP (Intellectual Property Protection Platform). Moreover in 2019 Alibaba decided to introduce specific penalty to the different types of infringements regarding trademark infringement, copyright infringement and patent infringement. According to trademark infringement, it distinguishes

⁷² EUROPEAN UNION INTELLECTUAL PROPERTY OFFICE, *Study on online counterfeiting in China. Could the EU Memoranda of Understanding approach help, and if so-how?*, cit., p.31

⁷³ Alibaba Group, *Rules of Good-faith Takedown Mechanism of Alibaba*, in Alibaba Group IP Protection Platform, 2020, https://ipp.alibabagroup.com/infoContent.htm?spm=a2o2l.10375063.0.0.5e7a4bcag5YXSO&skyWin dowUrl=ipp/gftm/rules_en , accessed on 21 May 2021

in two types of infringement: serious violation and general violation. The serious violation happens when a company uses a trademark that is identical or very similar to the registered trademark, in this case the company will be expelled from the platform after three violations. On the other hand, the general violation includes all the other cases of trademark infringement, and it has three steps of penalty. In the first step the violation occurs only one time and so there isn't any penalty point, in the second step there is a repeated violation, for this kind of action the platform gives to the company six penalty point. The last step occurs when the company receives 48 penalty points, and it is related to membership termination. According to Copyright infringement, there are four situations that are taken in consideration by Alibaba, and which lead to specific penalties if they occur. The first one is the violation of the product or its packaging, the second it's the production of physical products or their packaging with unauthorized copyrighted content, the third one is the use of unauthorized image on the product Detail Page and the last one is the use of unauthorized text on the Product Detail Page. In the same way as trademark infringement, these types of infringements are punished passing through three steps which are the same of trademark infringement, so also in this case the membership between the company and Alibaba finishes after 48 penalty points. The last kind of infringement is the patent infringement which has two types of violation as trademark infringement, serious and general. The first type is referred to design, utility model or invention patent violation based on case-by-case basis and if this situation happens the membership ends up after three violations. In general violation, there are the three steps penalty points as in trademark and copyright infringement to punish the infringement.⁷⁴ Moreover, in 2019 Alibaba made another step forward in the fight against counterfeiting that is the introduction of the IPR Protection Tech Brain. As it is written in the Annual Report on Intellectual Property Protection, "it is an algorithmic technology system that incorporates a large range of online and offline anti-counterfeiting features and leverages the extensive anti-counterfeiting experience accumulated by Alibaba over the past 20 years. "In 2020 Alibaba has never stopped to innovate the IPR Protection Tech Brain and in August 2020, as figure 14 shows, the image-detection AI feature of the IPR Tech Brain won two championships at the European Conference on Computer Vision (ECCV).

⁷⁴ *Enforcement Actions for Intellectual Property Rights infringements Claims on Alibaba.com*, in Alibaba.com, 2019, <https://rule.alibaba.com/rule/detail/11000393.htm> , accessed on 22 July 2021

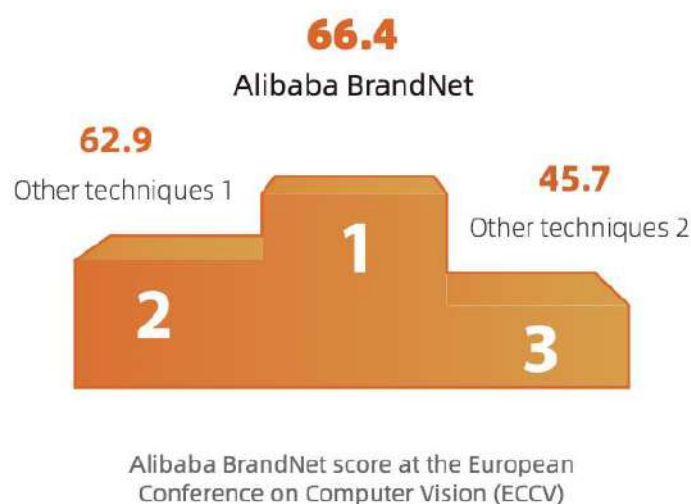


Figure 14-Alibaba BrandNet score at the European Conference on Computer Vision (ECCV) (Alibaba. Com in “Alibaba Group 2020 annual report on Intellectual Property Protection”)

While in October 2020, Alibaba’s security system passed the standards of FIDO (Fast Identity Online) Alliance. In this way Alibaba became the first Chinese company certified by this association. Moreover, in November 2020 at the “Chengdu international Digital Copyright Expo” Alibaba was identified as a “Copyright protection Technology Research and Promotion Base” for efforts regarding technology-based initiatives for copyright protection. In 2020 Alibaba detected 96% of suspected counterfeited products that have been removed before being sold. In fact, during this year the Chinese platform tried to improve the IPR Protection Tech Brain to protect the materials sold on Alibaba in response to the needs emerged because of COVID-19. As it’s written in Alibaba Group 2020 Annual Report on intellectual Property Protection “Alibaba was able to more precisely identify counterfeit-related offline leads for officers for such products, while also helping to protect these essential workers against infection risks by highlighting areas of high infection rates. In one month along during 2020, Alibaba helped public security bureaus (PSBs) in 30 cities across 14 provinces in China investigate and pursue 128 pandemic-related criminal cases. Moreover, in 2021, the latest update of AI platform was implemented to be able to identify counterfeit logos of luxury brands in 30-50 milliseconds. The system can recognize more than 1 million logos and once it identifies a counterfeit product, the platform blocks it immediately. In March 2021, thanks to this new technologies Southwest China’s Chongqing arrested the responsible of

Gucci and Louis Vuitton products online sale.”⁷⁵ After reporting Alibaba’s last year’s successes and innovations, it’s easy to understand its actual position in e-commerce market. Alibaba has obtained the trust of most of the international companies which now are collaborating with it to expand their market and overcome COVID-19 economic crisis. As the president of Luxury Law Alliance, Fred Mostert, said” Alibaba over the past three years has gone from being criticized for its efforts in IP protection to being viewed as a leader and innovator in the field.”⁷⁶

1.7 Alibaba collaboration with luxury brands against counterfeiting

The first action Alibaba made in order to show its interest in collaborating with international companies to fight against counterfeiting, was the decision to join the IACC in 2016. IACC is the International Anticounterfeiting Coalition Inc, it is based in Washington and has the aim of combating product counterfeiting and piracy. It is a non-profit organization, and it was founded in 1979. Nowadays it includes 250 companies, among them there are automotive, apparel, pharmaceutical, food, software, entertainment companies but also a lot of luxury brands such as Burberry Limited and Calvin Klein, Inc.. IACC tries to achieve its aim promoting laws and regulations against counterfeiting and supporting the government actions to protect right holders IPRs.⁷⁷As noted earlier, Alibaba officially entered this organization in 2016, but the collaboration between IACC and Alibaba had already begun in 2013 with the development of the IACC Market Safe Program which according to an Alibaba group statement “IACC Market Safe- A Partnership with The Alibaba Group”, “it was a strategic collaboration to help IACC members identify and take down infringing listings on Alibaba’s Taobao and Tmall marketplaces via an expedited removal procedure.” It had an efficient mechanism in order to identify infringing sellers and special policies to deal with counterfeiter’s tactics. Finally, it also facilitated the dialogue between brands and Alibaba to collaborate against counterfeiters.⁷⁸ When Alibaba and IACC launched this initiative, it

⁷⁵ *Alibaba’s AI platform recognizes counterfeit luxury products sold online amid booming industry in China*, in Global Times, <https://www.globaltimes.cn/page/202105/1223967.shtml> , accessed on 22 July 2021

⁷⁶ Alizila Staff, *Alibaba IPR Report Demonstrates Brand- Protection Leadership*, in Alizila, 2020, <https://www.alizila.com/alibaba-ipr-report-demonstrates-brand-protection-leadership/> , accessed on 10 May 2021

⁷⁷ *History & Mission, we’re about people coming together*, in IACC.com, <https://www.iacc.org/about/history-mission> , accessed on 22 July 2021

⁷⁸ *IACC MarketSafe- A Partnership with The Alibaba Group*, in IACC.com, 2016, <https://www.iacc.org/online-initiatives/marketsafe> , accessed on 22 July 2021

obtained a lot of success, for this reason they decided to improve it introducing some new features such as the possibility for small and medium sized enterprises to join the Market Safe program for free. In this way, the enterprises which didn't have the resources to improve their technologies against counterfeiters, could face this problem. Moreover, the enterprises which joint the program had a direct access to the Good Faith program so they could improve their relationship with Alibaba.⁷⁹After the implementation of this plan, 5000 sellers have been banned from Taobao and Tmall platforms because they sold counterfeiting goods and 160000 infringing products have been removed from the platforms. Before the Alibaba's official entrance into the IACC, there weren't problems for its collaboration with the organization but when Alibaba entered IACC in 2016, it acquired the possibility to access a network with more than 250 brands working together to improve IPRs protection and collaborate with them.⁸⁰That's when problems started to rise, especially for three brands that in this period saw Alibaba as their worst enemy and consequently didn't want to collaborate with it. They were Michael Kors, Tiffany & Co. and Gucci. The first and the second one considered Alibaba as a dangerous adversary, while Gucci couldn't collaborate with a platform that it had just accused for the sold of counterfeit products. This accuse is precisely the one which characterized Kering case that will be analyzed in the third chapter. So, Gucci and Michael Kors and Tiffany and Co. decided to end up their collaboration with IACC exactly after the entrance of Alibaba. In this period Alibaba wasn't consider a reliable platform by luxury brands that's why the real cooperation between the platform and luxury brands started only in 2017 with the introduction of AACA which will be analyzed later. The exit of Michael Kors, Tiffany and Co. and Gucci also influenced the continuation of the collaboration between Alibaba and IACC, in fact a month later IACC decided to suspend the official membership of Alibaba. Despite IACC decision Alibaba affirmed that it would continue to collaborate with the organization because the fight against the sale of fake products on its platform it's Alibaba most important goal.

⁷⁹ *IACC MarketSafe- A Partnership with The Alibaba Group*, in IACC.com, 2016, cit.

⁸⁰ *Alibaba Group Becomes the first E-Commerce Company to Join the International Anticounterfeiting (IACC), Alibaba to advance joint industry anti-counterfeiting efforts as official IACC member*, in Business Wire a Berkshire Hathaway Company,2016, <https://www.businesswire.com/news/home/20160413005701/en/Alibaba-Group%C2%A0Becomes-the-First-E-Commerce-Company-to-Join-the-International-AntiCounterfeiting-Coalition-IACC> , accessed on 22 July 2021

The evidence of this affirmation arrived in 2017 with Alibaba’s most important action for the collaboration between the platform and international companies, the creation of the AACA (Alibaba Anti-Counterfeiting Alliance). It is an alliance between Alibaba and international brands which has the aim of increasing anti-counterfeiting technology in order to continue the global fight against fakes. At the beginning there were only 20 members which were part of this alliance, among them there were Louis Vuitton, Samsung and Mars but nowadays it involves more than 190 members which represent more than 700 brands. AACA rights holders are divided into 14 industry working groups, by doing so, the different sectors can share information in an easier way. The protection utilizes artificial intelligence and more sophisticated anti-counterfeiting technology and covers everything from reactive takedowns to proactive monitoring.⁸¹As figure 15 shows, the positive effect of AACA was evident in 2018 when criminal investigations conducted by Alibaba and the members of the alliance



Figure 15-The Number of Suspect Products Continued to Decline (Alizila in “Intellectual property rights protection annual report”)

resulted in the arrest of 1,277 suspects and the closedown of 524 manufacturing and distribution location. The sequestration of counterfeit products produced a total of \$532.2

⁸¹ Alizila Staff, *Alibaba, Brands Step Up Cooperation on IPR Protection*, in Alizila,2018, <https://www.alizila.com/alibaba-brands-step-up-cooperation-on-ipr-protection/> , accessed on 6 May 2021

million (RMB 3.6 billion).⁸²The president of Alibaba intellectual-property-protection said that “to be responsible for such a large number of brands is a significant milestone for Alibaba Anti-Counterfeiting Alliance, and it speaks volumes about the confidence the members have placed in Alibaba, and each other, to make this alliance and partnership work”.⁸³Michael Kors vice president and General counsel, Krista McDonough affirmed” Michael Kors is pleased to have joined the AACA during 2019. We look to working together with Alibaba to enforce our intellectual property rights and pursue infringers in both online and offline channels”. As noted earlier, in 2016 Michael Kors decided to exit the IACC because of the entrance of Alibaba, so the fact that in 2019 the brand decided to enter AACA has a double value and underlines that luxury brands started to trust on Alibaba. The president of Daniel Wellington’s intellectual property and brand protection said “Since we joined AACA, we have been gladly seeing continuous improvement in anti-counterfeiting policy throughout Alibaba platforms. We have been working closely with Alibaba IP protection team and with support from Alibaba in technical and other aspects, efficiency as well as effect of our IP protection including anti-counterfeiting action are steadily enhanced”. MCM APAC brand protection director and legal counsel, Miller Wang declared that “In the past it was difficult to find the source of counterfeiting networks. After joining AACA, we have worked closely with Alibaba and achieved great results on not just online initiatives but also offline investigations. AACA offers amazing programs to proactively help brand owners, and it is a one-stop solution for IP protection. “The last testimony is from the vice president of Pandora, Maria Elms, she said” AACA is a very good channel for brand owners to have closer cooperation and better communication with Alibaba, which greatly increases the efficiency of brand protection work.”⁸⁴These testimonies are the proof of the trust that luxury brands started to give to Alibaba after the introduction of AACA. In 2020 AACA included more than 200 companies, had more than 193 rights holder members and it protected over 700 brands which are

⁸² *Alibaba Group 2018 Intellectual Property Rights Protection Annual Report*, in Alizila, 2019, https://www.alizila.com/wp-content/uploads/2019/05/Final_Alibaba_2018_IPR_Report.pdf , accessed on 6 May 2021

⁸³ CHEN L.Y., *Alibaba Anti-Counterfeiting Alliance Now Protects 450 Brands*, in Alizila, 2019, <https://www.alizila.com/alibaba-anti-counterfeiting-alliance-aaca-protects-450-brands/> , accessed on 6 May 2021

⁸⁴ Alizila Staff, *Alibaba IP Alliance Highlights Successes at Two-Year Anniversary*, in Alizila, 2019, <https://www.alizila.com/alibaba-anti-counterfeiting-alliances-successes-anniversary/> , accessed on 7 May 2021

located between Europe, North America, China and Asia-Pacific region.⁸⁵ Moreover in 2020 the AACA decided to launch the SAC, SME Advisory Committee, which has the aim to include SMEs in the Anti-counterfeiting alliance. According to Alibaba, SMEs are a fundamental part of the economy, and they need to be protected at all costs. SAC will include various business sectors such as: accessories, alcohol & tobacco, home, personal care, toys, smart devices, pharmaceutical products etc. and its members will meet in person twice a year. Alibaba is also collaborating with some association in order to implement host events for SMEs and let them meet more times. Bob Barchiesi, the president of IACC affirmed that the interest of Alibaba for SMEs is an important step forward in IPRs protection because most of times they don't have enough resources to face counterfeiting problem. In recent years Alibaba is definitely walking in the right direction detecting year by year more and more counterfeiters so even if the problem still exist, new technologies and initiatives will surely reduce the online presence of fake goods.

The decision of the Chinese e-commerce platform to collaborate with the rights holders and international companies to eliminate counterfeiting instead of doing it alone was the key for the change of Alibaba position in the global e-commerce market and the action which conquered the trust of international brands.

Chapter two: New trends in Chinese e-commerce luxury market

In recent years digitalization is spreading in China, as a result Chinese luxury market is evolving into a more digital and online format in order to meet the needs of new customers. The most important e-commerce platforms such as Alibaba started to develop and open new online platforms completely dedicated to luxury shopping. Nowadays, Millennials and Generation Z only buy luxury goods on internet using their mobile phones so opening online shops is luxury brands' best solution to reach them. In addition to opening online shops, luxury brands started to develop new strategies to engage new customers through social media and other digital technologies. The counterfeiting problem and IPRs infringement that characterized Alibaba's platforms in the past years, was overtaken by most of luxury brands

⁸⁵ LITTLE T., *Alibaba releases 2020 IP protection statistics as engagement with anti-counterfeiting alliance grows*, in World Trademark Review, <https://www.worldtrademarkreview.com/anti-counterfeiting/alibaba-releases-2020-ip-protection-statistics-engagement-anti-counterfeiting-alliance-grows> ,accessed on 22 July 2021

which nowadays look at Chinese e-commerce market with more confidence and as a good investment for the future. In this chapter it's described the second phase of luxury brands development in Chinese e-commerce platforms, a stage where counterfeiting is no longer a limit for their presence in China. It will be analyzed new luxury customers, who are they and how they define the new Chinese luxury market and the strategies used by luxury brands to reach them. Moreover, there is a detailed description of Alibaba-Tmall evolution which luxury platform is the one with the greatest number of luxury brands, as consequence it is the most used by Chinese young consumers. Finally, there is a focus on how COVID-19 speeded up luxury brands entrance on Tmall luxury platform which has been the salvation for a lot of them during the pandemic.

2.1 New luxury customers

The economic growth which has characterized China has allowed the development of the middle -class turning the country into one of the world's largest consumer markets. Moreover, the expansion of this social class has led to an increase of luxury consumption. At the beginning luxury consumers were only present in coastal areas as Beijing, Shanghai, Guangzhou and Shenzhen, then thanks to the economic development which characterized these areas, luxury goods started to be sold in the provinces of Gansu, Qinghai, Huizhou and other important cities. The expansion of the middle-class luxury consumption it will not stop, as a matter-of-fact McKinsey estimated that by 2022 the upper middle class will account for 54 percent of all urban households and 56 percent of urban private consumption.⁸⁶ As figure 16 shows, in 2025 the Chinese consumers' spending on luxury goods will be 40% of global market luxury consumption. Nowadays this middle-class consists of young consumers who are the ones that must be target by luxury brands. So, they need to understand their values, beliefs, attitudes and needs in order to develop strategies which could engage them and convince them buying their products. These new luxury consumers belong to two different groups, the first one is composed by the Millennials, so the ones born between 1981 and 1996 while the second group is called Generation Z and it includes the people born between 1995 and 2010. In the next paragraph there is an analysis of these two categories of new Chinese luxury consumers and how they are defining the new Chinese luxury market.

⁸⁶ ROVAI S., *The Evolution of Luxury Consumption in China*, in GLYN A., DOUGLAS B., *Luxury Brands in Emerging Markets*, p.132, PALGRAVE MACMILLAN, UK,2014

Chinese consumers' spending on luxury goods will continue to grow.

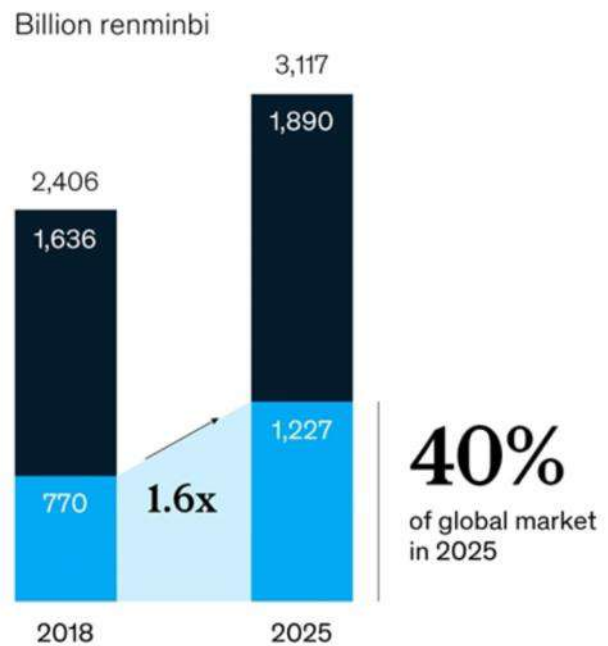


Figure 16- Chinese consumers' spending on luxury goods will continue to grow (McKinsey&Company in "The Chinese luxury consumer")

Nowadays this middle-class consists of young consumers who are the ones that must be target by luxury brands. So, they need to understand their values, beliefs, attitudes and needs in order to develop strategies which could engage them and convince them buying their products. These new luxury consumers belong to two different groups, the first one is composed by the Millennials, so the ones born between 1981 and 1996 while the second group is called Generation Z and it includes the people born between 1995 and 2010. In the next paragraph there is an analysis of these two categories of new Chinese luxury consumers and how they are defining the new Chinese luxury market.

2.2 Millennials and Generation Z

As noted before, according to Pew Research Center, millennials are those who born between 1981 and 1996 and they have specific characteristics.⁸⁷

⁸⁷ DIMOCK M., *Defining generations: Where Millennials end and Generation Z begins*, in Pew Research Center, 2019, <https://www.pewresearch.org/fact-tank/2019/01/17/where-millennials-end-and-generation-z-begins/>, accessed on 30 July 2021

They are hedonistic, extravagant and with a great connectivity which is the element that make them the most attractive group of consumers for luxury brands.⁸⁸ According to Bain & Company, 70% of China’s millennials own their own homes, so they can get funding from their parents if they want to buy luxury goods. Moreover, they are well informed about luxury innovative trends, for example they appreciate a lot the convergence of high fashion and sportswear. The research conducted by Bain & Company also affirmed that millennials are the big market for luxury sportswear products like Balenciaga’s Triple S sneaker and Louis Vuitton or Supreme accessories.⁸⁹ As figure 17 shows, they can spend a lot of money to buy luxury goods and moreover, unlike the elder generation, millennials are more willing to buy what they consider cool, they don’t give a lot of importance to the price of the products. They value newness more than discounts.⁹⁰

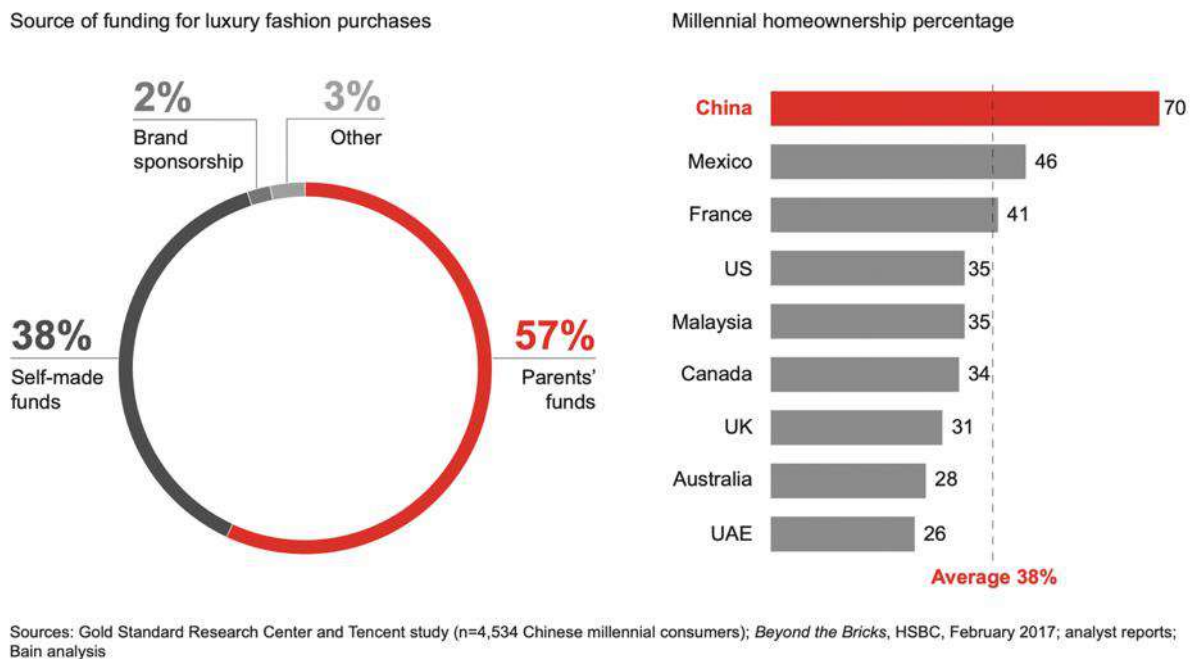


Figure 17- Chinese millennials are financially able to spend on luxury brands (Bain&Company in “What’s Powering China’s Market for Luxury Goods?”)

⁸⁸ LISSITSA S., KOL O., *Generation X vs. Generation Y-A decade of online shopping*, in ResearchGate, 2016, https://www.researchgate.net/publication/301832135_Generation_X_vs_Generation_Y_-_A_decade_of_online_shopping, accessed on 30 July 2021

⁸⁹ *What’s Powering China’s Market for Luxury Goods?*, in Bain&Company,p.3, 2019, https://www.bain.com/contentassets/213c04063adc4497b8f329c1f17a7594/bain_report-chinas_market_for_luxury_goods_2019.pdf.pdf, accessed on 30 July 2021

⁹⁰ *What’s Powering China’s Market for Luxury Goods?*, in Bain&Company, cit., p.3

On the other hand, there is the Generation Z which together with millennials constitutes the largest part of the Chinese luxury market consumers. According to McKinsey & Company, Gen Z includes people born between 1996 and 2010 and it's about 15 percent of China's population.

This generation is grown in a period of rapid economic development for Chinese territory, they are the digital natives and so they are used to rapid changes and innovations.⁹¹ Thanks to a research conducted by McKinsey in China, it was able to understand the new trends which define this new generation which consequently are the trends which define the new Chinese luxury market and the ones which must be taken into account by luxury brands when they target the Chinese market. The first trend which characterizes GenZ consumers is the fact that they are optimistic, impulsive and tend to outspend their budget. In fact, they are called "the moonlight clan" because they spend an entire monthly salary in a single lunar cycle. But GenZ don't care about this because they are extremely positive, the combination of impulsiveness and optimism leads to 36 percent of consumers to spend all the money they earn in a month. In fact, the 78 percent of them think that their salary will be higher in the future.⁹² The second trend is the desire for unique products and services, as a matter of fact in China customers prefer customized products so the ones which can be personalized. Brands which use this kind of strategy obtain a lot of appreciation by Chinese consumers. The third trend is the fact that Generation Z is more loyal to brands than previous generations. There is a 47 percent of young customers who affirm that they will always be loyal to their favorite brands and a 43 percent who say that they will always prefer a brand they know over an unknown one. In the next paragraphs it will be analyzed the new strategies used by luxury brands in order to keep high this interest of the young generations for luxury brands. The fourth trend regards the rise of the omnichannel shopping, it will be described in the next paragraph together with the new strategies because social media and omnichannel are the two factors which define nowadays luxury brands presence in China. According to McKinsey's research Gen Z consumers in China spend more money using the omnichannel than Gen Z consumers in other countries. Even if there are a lot of people who

⁹¹ ZHOU J., POH F., ZHANG C., ZIPSER D., *China's Gen Z are coming of age: Here's what marketers need to know*, in McKinsey & Company, 2020, <https://www.mckinsey.com/cn/our-insights/our-insights/chinas-gen-z-are-coming-of-age-heres-what-marketers-need-to-know> , accessed on 30 July 2021

⁹² ZHOU J., POH F., ZHANG C., ZIPSER D., *China's Gen Z are coming of age: Here's what marketers need to know*, cit.

only use online channels to buy goods, there is another group of consumers who also need a shop experience in order to decide which product they want to buy. This is the reason why on one hand there are a lot of brands which expand their business online and at the same time there are some brands which only had an online store that started to open offline shops to meet consumers' needs. The fifth trend identified by the research is that Gen Z has more trust on online platforms like Taobao where peer to peer transactions are possible because there is more transparency and higher quality assurance.⁹³ The last factor which characterized Gen Z customers is the power of the "online word of mouth", so opinions shared by families and friends on social media. Most of the purchases made by these new customers are influenced by the reviews they read online before buying the product. Nowadays social media are the place where costumers search information about the product, they read reviews written by people who regularly buy the good which they are interested in, or they listen to KOLs opinions that in recent years became the ones which can determine the success or the failure of a brand. This new phenomenon will be analyzed later together with social media strategies.⁹⁴ Because of the development of this new category of customers in addition to the new omnichannel and social media strategies, luxury brands must take in consideration all the trends that have been described before in order to target a market knowing the characteristics of its consumers.

2.3 Luxury brands presence in China nowadays

The development of Millennials and Generation Z customers completely changed luxury brands presence in China. As noted before, nowadays offline presence is not enough, and it doesn't meet customers 'needs raised by digitalization. In recent years most of luxury brands opened their online store on Tmall platform which is the one with the greatest number of brands and the first one which created an online space completely dedicated to luxury brands. In this way they could evolve their business and obtain a big success on Chinese market. While in the past luxury brands expansion on e-commerce platforms was a problem because of counterfeiting, thanks to the policies introduced by Alibaba that have been analyzed in the previous chapter and the technological development, a new era of Chinese luxury market has started. In the next paragraph it will be analyzed social media and

⁹³ Ibidem

⁹⁴ Ibidem

omnichannel strategies as the two elements which define luxury brands presence in China nowadays while later there will be a focus on Tmall platform and its luxury pavilion as the medium that concretely allows the development of luxury market in China.

2.3.1 Luxury brands' new digital strategies to engage Gen Z customers

Nowadays, the most important channel used by luxury brands in order to establish a relation with new luxury customers and expand their business in China is social media. Through social media they catch the attention of Gen Z customers who after seeing the products on social network can directly access the e-commerce platform of the brand where they can buy the goods. These new digital instruments create engagement with customers, they are the medium which guarantees the success of omnichannel strategy and consequently the success of e-commerce platforms as Tmall that will be analyzed later. In this paragraph there is a description of the most important Chinese social media and the strategies used by brands to create engagement with the customers which in recent years have been fundamental for the development of Kering group brands in Chinese territory.

The first social media platform that it's taken into consideration is Wechat, it has the highest number of users, in total 1.2 billion. Wechat offers a lot of tools to luxury brands in order to promote their products, they can use posts, articles or mini programs. But the most important instrument which let brands keep the contact with customers is the instant chat which offers a personalized service to each client. According to a research conducted by Luxury Society in 2017, 86% of Chinese customers think that a customized experience is fundamental while they are living their purchase experience.⁹⁵ The second important social media is Xiaohongshu which is known in Europe and America as Little Red Book or Red. According to its official website, Xiaohongshu is a lifestyle sharing platform.⁹⁶ A more detailed definition is present in a research conducted by the department of business management of Sri Lanka University which affirms that Xiaohongshu is "most famous mobile application which is used in China, it is a cross border e-commerce and social media platform that trades luxury, beauty and fashion goods by inspiring shoppers to share contents, ideas, bargains

⁹⁵ LIU S., PERRY P., GADZINSKI G., *The implications of digital marketing on WeChat for luxury fashion brands in China*, in Springer, 2017, p. 398 , <https://link.springer.com/content/pdf/10.1057/s41262-018-0140-2.pdf> , accessed on 6 August 2021

⁹⁶ *Xiaohongshu is becoming a giant in both social media and e-commerce*, in Daxue Consulting, 2020, <https://daxueconsulting.com/latest-facts-and-insights-about-xiaohongshu/> , accessed on 3 August 2020

and shopping tips in the social community.”⁹⁷ It allows customers to share their experiences and their opinions about the products they buy on the platform and at the same time they can read information about the new arrivals. Xiaohongshu strong point is that it is able to engage customers creating a community while it gives the right relevance to the products sold on the platform so customers can find all the information, they need to complete their purchases. A lot of famous brands use Xiaohongshu to promote their products, among them there are Coach and Gucci. The first one usually launches its new collection on this platform while recently Gucci opened its first pop-up stores in Chengdu and Hangzhou on Xiaohongshu and it also launched its Chinese New Year campaign with Disney on the platform.⁹⁸ The third social media which has become fundamental for luxury brands to promote their products to Chinese customers is Douyin which is the Chinese version of Tik Tok. According to a research conducted by Xing Lu and Zhicong Lu, Douyin is “a short video and music video sharing mobile application that was launched in autumn 2016. It allows users to produce and browse quick-fire video clips lasting from 15 seconds to one minute, to share funny and even nonsense video online.”⁹⁹ This kind of content is more enjoyable for young customers because it gives them the information, they need using an informal way. Some of the brands which obtained more success in China using this platform are Moncler, Louis Vuitton, Fendi, Balenciaga, Dior and Gucci, so also Kering group brands. In fact, in the third chapter there is a focus on the digital strategies used by Gucci and other brands of the group as they have been fundamental for their success in Chinese market. The last social media which is relevant for luxury brands promotion is Weibo. Weibo is used as a store window for Tmall and JD by luxury brands. Between 2020 and 2021 Weibo social traffic

⁹⁷ RMMD P., *Impact of Xiaohongshu on Its User Based and Society: A Review*, Volume 2 Issue 11, p.285, in IRE Journals, 2019, <http://irejournals.com/formatedpaper/1701254.pdf>, accessed on 3 August 2021

⁹⁸ MA A., *What Chinese Online platform Is Right For Your luxury Brand?*, in Jing Daily, 2020, <https://jingdaily.com/chinese-online-luxury-platforms-tmall-jd-gucci/>, accessed on 4 August 2021

⁹⁹ LU X., LU Z.C., *Fifteen Seconds of Fame: A Qualitative Study of Douyin, a Short Video Sharing Mobile Application in China*, in Meiselwitz G. (eds) *Social Computing and social media, Design, Human Behavior and Analytics*, HCII 2019, lecture Notes in Computer Science, vol 11578, Springer, Cham, p. 2, https://www.researchgate.net/profile/Zhicong-Lu-2/publication/334344259_Fifteen_Seconds_of_Fame_A_Qualitative_Study_of_Douyin_A_Short_Video_Sharing_Mobile_Application_in_China/links/5d4d0577a6fdcc370a8734bf/Fifteen-Seconds-of-Fame-A-Qualitative-Study-of-Douyin-A-Short-Video-Sharing-Mobile-Application-in-China.pdf, accessed on 4 August 2021

reached 168.2 billion with an increase of 70.3 percent,¹⁰⁰ the reason that explains this expansion is Weibo large use of livestreams, collaborations with celebrities and KOLs presence.

These are the most important tools that are used by brands on this social media in order to attract customers, they are more developed on Weibo because of the high presence of KOLs but they are also common on Xiaohongshu and Douyin. According to a research of the International Journal of Cultural Studies, live streaming is “a broadcast video streaming services provided by web-based platforms and mobile applications that feature synchronous and cross-modal interactivity.”¹⁰¹The leader platform for the use of live streams by luxury brands is Douyin, according to Statista in 2019 Tik Tok live streams generated 40 billion yuan on Douyin.¹⁰² Luxury brands which use live streams to reach customers are increasingly and they are obtaining a great success because people who watch these live streams can ask questions and know better the products they are going to buy. It is a medium that directly connects the customer with the product.

Another important way to engage luxury customers is to collaborate with famous people to promote luxury brands’ goods. It relates to live streams because a lot of times people who show the products during the lives are famous, for example Dior regularly use Chinese celebrities in its Weibo page,¹⁰³but they can also appear in posts or videos. At the beginning western luxury brands tried to create a relation with Chinese customers using western famous people then they realized that in order to create an emotion on east customers they need to collaborate with people who were born in their same country. According to the research conducted by Shubin Yu and Yangjuan Hu about celebrity endorsement, there are three varieties of social influence which are called: compliance, identification and

¹⁰⁰ WU W.Z., *How Weibo Is Fueling Social Capital For Luxury Brands In China*, in Jing Daily ,2021, <https://jingdaily.com/weibo-panel-luxury-brand-influence/> , accessed on 4 August 2021

¹⁰¹ LV J.Y, CRAIG D., CUNNINGHAM S., *China’s livestreaming industry: platforms, politics, and precarity*, in International Journal of Cultural Studies, Vol 22(6), p.722, 2019, <https://journals.sagepub.com/doi/pdf/10.1177/1367877919834942> , accessed on 4 August 2021

¹⁰² MA Y.H., *Transaction value of livestream commerce on Chinese short video app Douyin (Tik Tok) in China in 2018 and 2019 with an estimate for 2020*, 2021, <https://www.statista.com/statistics/1174906/china-gmv-of-live-streaming-commerce-on-douyin/> , accessed on 4 August 2021

¹⁰³ YU S.B., HU Y.J., *When luxury brands meet China: The effect of localized celebrity endorsements in social media marketing*, in Journal of Retailing and Consumer Services, p.1, 2020, <https://reader.elsevier.com/reader/sd/pii/S0969698919300360?token=F466474A89ED26D10C2B725E53FAE40F10EC2E36643DF5B7D41E5B64C89B42C19E473B7F16AFA314B616299EA105F516&originRegion=eu-west-1&originCreation=20210803155435> , accessed on 4 August 2021

internalization. These three steps identify the level of engagement of the customers. In the first one, people appear to agree but actually they don't agree, in the second one they are influenced by someone who they respect while in the third step people agree with what the influencer is saying both privately and publicly. When customers like what they are seeing they react with likes and comments, this happens both in identification and internalization stage.¹⁰⁴ However, in recent years celebrity endorsement strategy has been surpassed by KOLs strategy. According to the research conducted by Yushan Zou and Fanke Peng "Key Opinion Leaders' Influences in the Chinese Fashion Market", Key Opinion leader (KOL) is a person who can influence the thoughts and actions of others. It expresses its opinions in public in a way that strongly influence customer behaviors and decisions.¹⁰⁵ The impact that

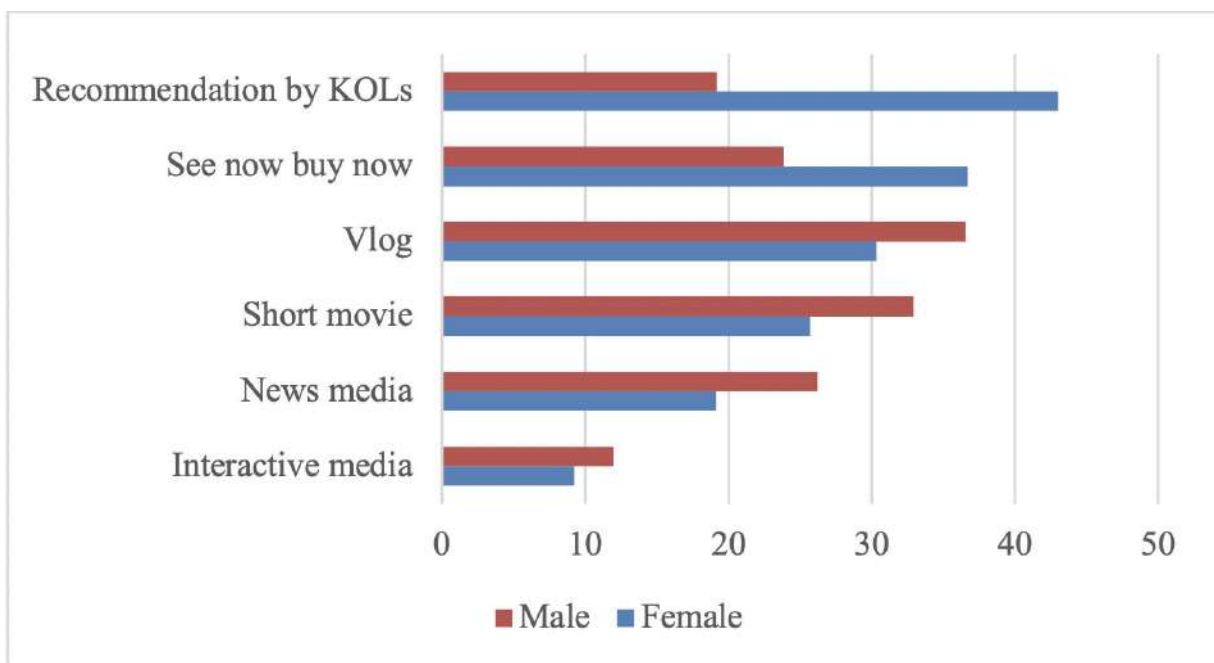


Figure 18- Preference of access to fashion information by different channels (Research Gate in "Key Opinion Leaders' Influences in the Chinese Fashion Market")

KOLs have on people making video on the most famous Chinese social media is high. For example, the 2018 Annual Survey Report on Chinese Fashion Consumption by Luxe.Co(Figure

¹⁰⁴ YU S.B., HU Y.J., *When luxury brands meet China: The effect of localized celebrity endorsements in social media marketing*, in *Journal of Retailing and Consumer Services*, cit.,p.2

¹⁰⁵ ZOU Y.S., PENG F., *Key Opinion Leaders' Influences in the Chinese Fashion Market*, in Research Gate, p. 1, 2019, https://www.researchgate.net/profile/Yushan-Zou-4/publication/333587243_Key_Opinion_Leaders%27_Influences_in_the_Chinese_Fashion_Market/links/5f8c3e9d458515b7cf8829c1/Key-Opinion-Leaders-Influences-in-the-Chinese-Fashion-Market.pdf , accessed on 5 August 2021

18), showed that 43% of female purchases have been influenced by KOLs recommendations.¹⁰⁶ This is because KOLs give to the customers real and direct information, moreover during live streaming they can communicate with them. So, the Key Opinion Leader becomes a sort of shop assistant to whom people can ask information from everywhere but who has an added value because it is a person that is estimated by the customers, so they believe more in his/her words or suggestions. According to Workman and Cho in “Gender, Fashion Consumer Groups, and Shopping Orientation”, there are three categories of KOLs who can influence customers, they are the fashion innovators, the fashion opinion leaders and the creative communicators. The first ones communicate using the latest news in the fashion world, the second ones use information that can be advice for customers while the last ones act using both fashion innovators and fashion opinion leaders’ strategies.¹⁰⁷ KOLs strategy together with the other ones analyzed in this paragraph are the most used tools by luxury brands to attract Chinese customers. Once they have obtained the engagement, customers can find the products clicking on video that are posted by luxury brands on social media which have a directly access to brand’s online shop on Taobao or Tmall platform. Even if online shopping is strongly developed in China nowadays, studies reveal that the offline experience is still important for Chinese customers, for this reason luxury brand, in addition to offering an online experience to their new clients, must think how let customers live offline and online shopping experience together. In recent years, the solution that has been developed by luxury brands is the omnichannel strategy which will be analyzed in general in the next paragraph while in the third chapter there will be a focus on Kering’s one.

2.3.2 Omnichannel strategy

The omnichannel retailing is characterized by the integration of online and offline channels. It is defined by Mosquera as “the synergetic management of the multiple available channels and customer touch points such that barriers between different channels disappear. Channels are managed not as silos but as a unit through integration and coordination so that consumers can easily switch from one channel to another at any stage of their journey without interrupting their transactions.”¹⁰⁸ The level of integration between the channels

¹⁰⁶ Ibidem

¹⁰⁷ Ibidem

¹⁰⁸ MOSQUERA A., OLARTE C., AYENSA E., J., *Understanding the customer experience in the age of omni-channel shopping*, Icono 14, volume 15(2) in Research gate, 2017,

defines the difference between multichannel and omnichannel strategy. In fact, the second one let the costumers live an experience that brings them nearer to the brand ecosystem. This is because it mixes different retail channels that are physical stores, online website, direct marketing, mobile platforms and social media.¹⁰⁹The most important thing which identifies this channel is that it not only takes into consideration the range of channels but the needs, communications and interactions between customers, brand and retailer.¹¹⁰This strategy has a big success in China because after the digitalization process of the country, understand and satisfy Chinese consumers needs became extremely important for luxury brands. For Chinese customers the online spaces aren't simply places where they can buy things, on the contrary on these platforms they live an experience. In order to make customers live a good experience luxury brands must take into consideration the after sales moment because research shows that what make customers buy again in a specific website is the satisfaction they feel after receiving a good that they only saw on the net.¹¹¹As said before, the number of people who buy online in China is increasing year by year due to Gen Z development, in fact they are the largest group of people who buy on online platforms. According to the research conducted by McKinsey & Company, 40 percent of Gen Z affirmed that they would look for luxury goods in store but at the end they will buy them online and as figure 19 shows, China is the only country with such a high percentage. What is relevant for luxury brands is that the in-store experience remains important for this reason the omnichannel strategy is the best solution. Moreover, there is a high percentage of people who prefer buy goods in store rather than online, this data points out once again that a

https://www.researchgate.net/publication/318305200_Understanding_the_customer_experience_in_the_age_of_omni-channel_shopping , accessed on 2 August 2021

¹⁰⁹ YE Y., LAU H.K., TEO L.K.Y., *Drivers and barriers of omni-channel retailing in China, A case study of the fashion and apparel industry*, in Research gate,p.4, 2018,

https://www.researchgate.net/profile/Ying-Ye-6/publication/326060521_Drivers_and_barriers_of_omni-channel_retailing_in_China_A_case_study_of_the_fashion_and_apparel_industry/links/6009debd299bf14088b18d0e/Drivers-and-barriers-of-omni-channel-retailing-in-China-A-case-study-of-the-fashion-and-apparel-industry.pdf , accessed on 2 August 2021

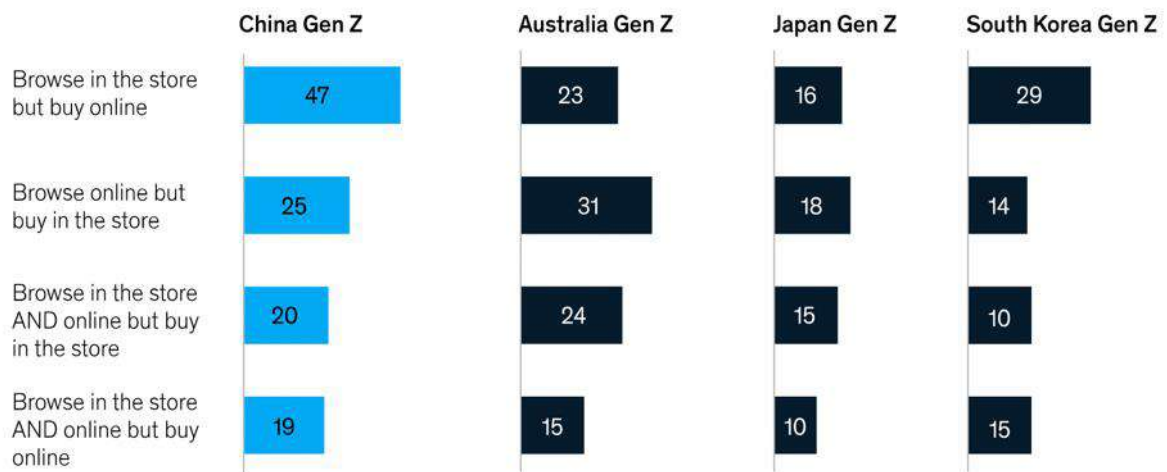
¹¹⁰ VERHOEF P.C., KANNAN P.K., INMAN J.J., *From Multi-Channel Retailing to Omni-Channel Retailing: Introduction to the Special Issue on Multi-Channel Retailing*, Volume 91, Issue 2, in Elsevier, 2015, <https://www.sciencedirect.com/science/article/pii/S0022435915000214> , accessed on 2 August 2021

¹¹¹ ROVAI S., *Digitalization, luxury fashion and "Chineseness": The influence of the Chinese context for luxury brands and the online luxury consumers experience*, Vol.9,in the Journal of Global Fashion Marketing, p.126, 2018, <https://www.tandfonline.com/doi/pdf/10.1080/20932685.2018.1435294?needAccess=true> , accessed on 2 August 2021

strategy which includes in-store experience is the one to be preferred. According to the “China Luxury Report 2019” conducted by McKinsey & Company, young customers think that the experience they live in the store it’s what make them come back to the offline purchase,

Online is an important channel for Gen Z in China.

How do you usually purchase apparel? % of who strongly agree or agree



Source: 2019 Gen Z Survey (N=750 in China)

Figure 19-Online is an important channel for GenZ in China (McKinsey & Company in “China’s Gen Z are coming of age: Here’s what marketers need to know”)

moreover they affirmed that what they live in the store influences a lot their purchase decisions. Young customers love going to stores because there they can improve their aesthetic sensibility and live a high-quality service experience.¹¹² What luxury brands must take into consideration in order to make the offline experience valuable and innovative for the customers is the fact that even when customers decide to buy goods in stores, they have to be able to maintain a connection with the online experience. For example, nowadays a lot of boutiques have personal digital assistants and mobile POS that can help the sales assistant to suggest to customers where they can find some articles both online and in other stores. Moreover, new in-store digital walls allow customers to check by themselves online products’ availability, share photos on social media or order the articles while they are in the store.

¹¹² LUAN L., KIM A., ZIPSER D., SU M.Y., LO A., CHEN C., ZHANG C., *China Luxury Report 2019, How young Chinese consumers are reshaping global luxury*, in McKinsey&Company, 2019,p.20, <https://www.mckinsey.com/~media/mckinsey/featured%20insights/china/how%20young%20chinese%20consumers%20are%20reshaping%20global%20luxury/mckinsey-china-luxury-report-2019-how-young-chinese-consumers-are-reshaping-global-luxury.ashx> , accessed on 5 August 2021

Thanks to the omnichannel strategy luxury purchase experience is completely changed in China, it's much nearer to Gen Z needs and to the new digital market.¹¹³

2.4 Alibaba's platforms new trends for omnichannel strategy development

Alibaba's Tmall and Taobao platforms are the two most important e-commerce platforms in China and as it was underlined in the previous paragraphs, Chinese social media are linked to them in order to let consumers buy what they see in social adverts. In recent years, Alibaba decided to improve its Taobao and Tmall platforms to respond to Chinese customers new needs and luxury brands necessity to develop an omnichannel strategy. Before analyzing fundamental Tmall new features for luxury brands development in China, there is a focus on Weitao which is Alibaba's social network developed to be directly connected to Taobao and Tmall. It was born in 2013 but it's in 2021 that the number of users started to increase and consequently it became more widespread in China. Because of the connection with Alibaba's platform, Weitao it's very similar to Xiaohongshu, the only difference is that while on Xiaohongshu the post or video can also be linked to private retailers' e-commerce platforms, on Weitao there are only Tmall and Taobao. As on the social networks analyzed in the previous paragraphs, livestreams, KOLs and celebrities can be used by luxury brands in order to encourage the sale of their products. So, on one hand there is Weitao which is Alibaba's new tool to create engagement among the customers and develop the omnichannel strategy, while on the other hand there are Tmall and Taobao which are the platforms where clients live their online purchase. Moreover, Alibaba decided to introduce another element to increase customers engagement that is its own livestreams platform which is called "Taobao Live". In 2020 Taobao livestreams became very popular in China and nowadays they are a fundamental channel for luxury brands promotion on Tmall and Taobao. On Tao bao Live livestreams are divided according to the area of interest, in this way customers can directly interact with KOLs who belong to a specific sector and who will answer their questions. In order to increase the trust of the clients on this platform, Taobao Live hired influencers with millions of fans, thanks to them every day there are more than 150.000 hours of live streaming and are promoted more than 600.000 products. Taobao live makes Alibaba's

¹¹³ CABIGIOSU A., *The Omnichannel Strategy in the Fashion industry, in Digitalization in the Luxury Fashion Industry*, Palgrave Advances in Luxury, Palgrave Macmillan, p.83, 2020

platforms register everyday millions of users, in this way they maintain their position as the most used platforms in China.¹¹⁴

Thanks to these technological innovations Alibaba's e-commerce platforms year by year engage more and more people who are willing to buy luxury products. For this reason, Alibaba in addition to improving its engagement instruments also enhancing Tmall platform introducing some new sections to make customers live a better luxury e-commerce experience. They will be analyzed in the next paragraph as nowadays most important platforms for luxury brands presence in China.

2.4.1 Tmall

Tmall shopping platform was born in 2014, it is the result of Taobao evolution. Taobao was introduced in 2003 and immediately became the largest shopping retail platform in China. In 2012 it was dived into Taobao market, Taobao Mall and Yitao search but in the same year, Taobao Mall was renamed as Tmall. In 2014 it was converted in a shopping platform, for this reason the beginning of Tmall success dates back to few years ago. It is characterized by a B2C model which let companies to directly send their products to customers. Each merchant who enters Tmall platform has to sign a membership contract paying a pre-determined quantity of money. Signing this contract, the merchants also ensure the platform that they will sell a specific number of goods, if they fail in achieving the objective, the membership will be eliminated. Nowadays, Tmall platform has more than 400 million buyers, 50000 merchants and 70000 brands.¹¹⁵ In "Alibaba, la storia di Jack Ma e dell'azienda che ha cambiato l'economia globale" written by Duncan Clark, Tmall is defined as a sumptuous commercial center where the most important luxury brands sell their products.¹¹⁶ In fact, Tmall has three different segments for luxury brands that will be analyzed in the next paragraphs.

¹¹⁴ FONTANA A., *Taobao Live: il live streaming verso il Double 11 2020*, in Bridging, 2020, <https://bridgingchinagroup.com/taobao-live-il-livestreaming-verso-il-double-11-2020/>, accessed on 7 August 2021

¹¹⁵ SHENG Y.D., *Using Tmall Mall as an example to analyze brands marketing strategies of e-commerce enterprises*, in Google Scholar, p.12, 2020, <https://e-research.siam.edu/wp-content/uploads/2021/06/IMBA-2020-IS-Using-Tmall-Mall-as-an-example-to-analyze-brand-marketing.pdf>, accessed on 9 August 2021

¹¹⁶ DUNCAN C., *Alibaba, la storia di Jack Ma e dell'azienda che ha cambiato l'economia globale*, Ulrico Hoepli Editore S.p.A., Milano, 2017

2.4.2 Tmall Global

It was introduced by Alibaba group in 2014 and it was the first Tmall platform luxury brands could use to sell their products in China. It was a revolution for the sale of international products in the east country because thanks to this former companies don't need to register their brands following the strict rules imposed by Chinese government. As figure 20 shows, in the following years Tmall Global was improved with the introduction of Tmall Luxury Pavilion which will be analyzed in the next paragraph. The main difference between them is that the second one is totally dedicated to luxury brands while on Tmall Global customers can find all kinds of products. At the beginning Tmall Global was used by luxury brands in order to understand how Chinese target perceived their goods. Calzedonia is one of the

	Tmall Classic	Tmall Global	Luxury Pavilion
Description	Upmarket badge within Alibaba's Taobao site.	Cross-border marketplace developed specifically for international brands.	Invite-only service for luxury brands.
Brands	A high volume of brands across all categories and ranges, including luxury.	Luxury brands without a Chinese entity or new to the market. Mostly beauty brands such as Fenty Beauty, Drunk Elephant, and Deciem.	180 luxury brands including Chanel, Valentino, Burberry, Cartier, and Bottega Veneta.

Figure 20- Navigating Tmall: A Guide For Luxury Brands (Jing Daily in "Navigating Tmall a Guide For Luxury")

brands which used this type of strategy in fact they opened their online store on Tmall Global and observed the Chinese market for three years before opening physical shops.¹¹⁷

Tmall Global was on the leading position as China's biggest cross-border e-commerce platform for a lot of years. One of the things that people appreciate the most about this platform is that it uses a conjunction of big data and blockchain technology to path the

¹¹⁷ WILLIAMS G.A., *Navigating Tmall: A Guide For Luxury*, in Jing Daily, 2020, <https://jingdaily.com/navigating-tmall-a-guide-for-luxury/>, accessed on 10 August 2021

journey of the goods sold on it, so when customers buy products on this former, they can know where they come from and how they are transported. In recent years research shows that Tmall Global as other Alibaba's platform attracts customers from 18 to 28 years old who represent the 50% of Tmall Global clients but looking at 2020 data about Chinese luxury market, it can be affirmed that this percentage is going to increase.

2.4.3 Tmall Luxury Pavilion

Tmall Luxury Pavilion was launched by Alibaba in 2017, with the aim of making luxury customers live an online shopping experience as similar as possible to the store one. Tmall Luxury Pavilion isn't another e-commerce platform separated from Tmall, on the contrary it is present inside Tmall but it offers a personalized service to those who want to buy luxury products. When Alibaba opened this pavilion the luxury world was still wary of using digital methods to sell their products because of the counterfeiting problem, four years later Alibaba can definitely affirm that its decision was brilliant.

The first brands which decided to join the platform are Burberry, Hugo Boss, La Mer, Maserati and Guerlain. They have seen the potential of this new way of selling products based on the slogan "See Now, Buy Now" but above all they understood that this new initiative could satisfy young customers' needs. The head of Tmall's fashion unit, Liu Xiuyun affirmed that: "Luxury brands increasingly want to use new retail technology and consumer insights to connect with younger consumers, as well as drive business-model innovation."¹¹⁸

As figure 21 shows, three years after Tmall Luxury Pavilion launch, the number of brands present on the platform increased from 21% in 2017 to 51% in 2019. From 2019 to 2020 more than 150 luxury brands decided to enter Tmall luxury Pavilion so nowadays the platform has over 200 luxury brands.

As it will be underlined later, the reason for this has been COVID-19 which turned the pavilion into luxury brands' salvation. The case of Gucci that will be analyzed in the third chapter is an evidence of this. In recent years Tmall Luxury Pavilion has also improved its features getting even closer to Gen Z customers, the latest tools are Tmall Flagship 2.0 and online events to make customers live unforgettable experiences. Tmall Flagship 2.0 is a new technology which allow the brands to offer personalized services to their customers. This

¹¹⁸ *Alibaba Launches luxury pavilion for Premier Brands*, in Alizila.com, 2017, <https://www.alizila.com/alibaba-launches-luxury-pavilion-for-premier-brands/> , accessed on 9 August 2021

new initiative is only one of the steps Jiang Fan, president of Tmall and Taobao, wants to make in order to improve its platforms, it is part of the new strategy which includes new

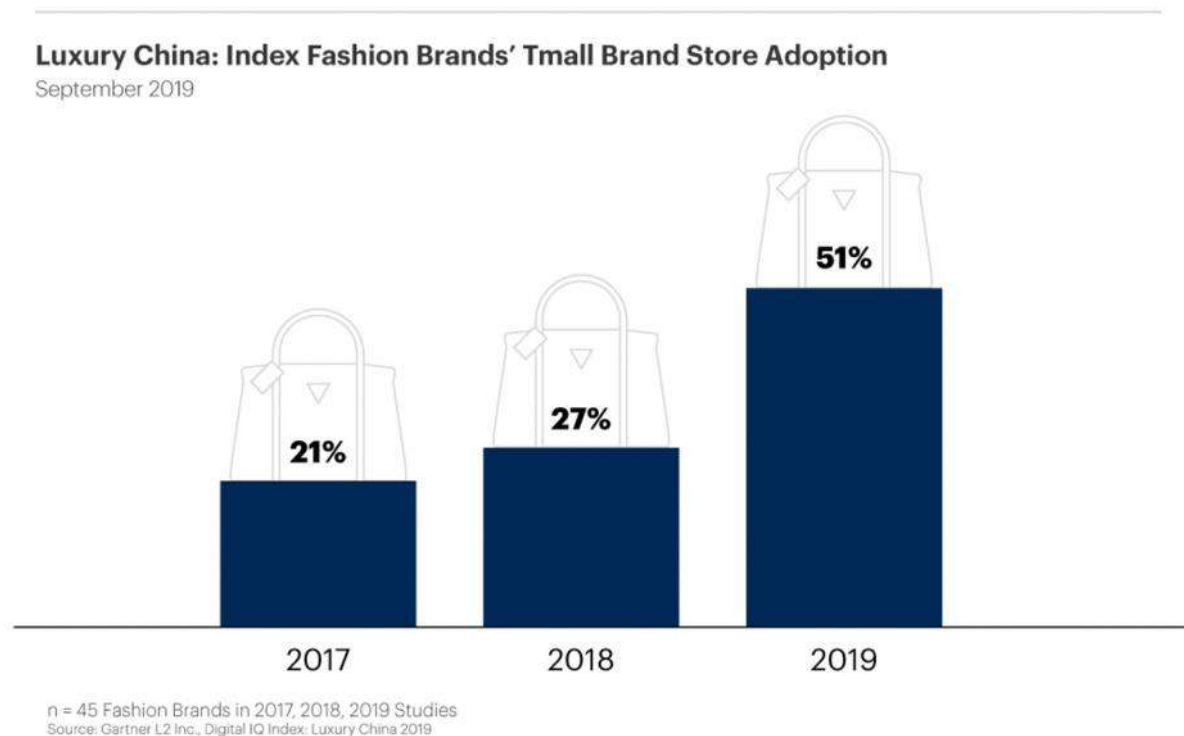


Figure 21- Tmall Luxury Transformation (Gartner in “Tmall luxury transformation”)

customers, new products and new flagship stores.¹¹⁹ Thanks to Tmall Flagship Store 2.0 customers receive suggestions on the site according to their previous purchases, moreover there are some loyalty programs that recompense loyal customers. The main difference between Flagship Store 2.0 and other platforms is that thanks to this new technology brands have personalized templates so they can have online stores which are very similar to the offline ones. This is the start of a totally new shopping experience. Figure 22 sums up all the features of Tmall Flagship store 2.0 which are: 1 personalized customer experience, as underlined before customers can find immediately what they look for because the results are based on their preferences. 2 There are loyalty projects which are rewards Tmall gives to the customers every time they make an action on the platform. These actions can be adding a product to the shopping cart, leaving a review or play an interactive game. 3 The platform

¹¹⁹ LAUBSCHER H., *Tmall 2.0 Goes Big On Customization*, in Forbes, 2019, <https://www.forbes.com/sites/hendriklaubscher/2019/07/11/tmall-20-unlocks-game-changing-brand-building-opportunities/?sh=5b91ec7b49b8> , accessed on 21 August 2021

gives also the opportunity to the brand to add a “store loft”¹²⁰ which is a magazine where it can explain to customers its story, philosophy through texts, video or KOLs’ testimony. Finally this store put together the online and offline activities because customers can save



Figure 22- TMALL FLAGSHIP STORE 2.0 (Forbes in “Tmall 2.0 Goes Big On Customization”)

product on their virtual profile and then go to the store to try it. This initiative is another boost to the integration of online and offline shopping experience.

There are a lot of luxury brands which decide to open their shop on Tmall Luxury Pavilion during these years. One of the first brand was Burberry but the large increase happened in the fourth quarter of 2019 where more than 130 brands entered the platform. Some of these brands are Cartier, Montblanc, Prada and Miu Miu, Chanel Beauty, Christian Louboutin,

¹²⁰ LAUBSCHER H., *Tmall 2.0 Goes Big On Customization*, in Forbes, 2019, cit.

Gucci and others.¹²¹ Obviously, the brands which decided to enter the platforms are also the ones which suffered more the crisis caused by Covid-19.

2.4.4 Tmall Luxury Soho

Tmall Luxury Soho is another segment of Tmall introduced in 2020 by Alibaba group to help luxury brands reaching young customers. According to Alizila, while Tmall Luxury Pavilion is the platform where customers can find new collections and services, in Soho there are old collections, timeless classics and vintage collectibles.¹²² Luxury Soho also helps brands managing their inventory and stock, especially during COVID-19 crisis, it has been fundamental for luxury brands to face the drop in sales. Alizila affirmed that it is different from an outlet even if it has the same principle because “it offers to luxury brands a series of new tools to engage customers such as livestreaming, augmented reality and 3D interactive technologies to virtual icons and flexible payment solutions.”¹²³ The introduction of this new platform is the proof of the need to reach Gen Z customers who don’t have the same disposable income as Millennials but on Luxury Soho they can find more affordable luxury products.

2.5 Luxury brands presence in China after COVID-19

2.5.1 COVID-19 impact on Luxury brands

The crisis caused by COVID-19 on luxury sector is one of the most serious this category has ever lived. According to Bain & Company research all countries suffered a big decline in luxury sales between 2019 and 2020, the only country which reported a good result was China. As figure 23 shows, in 2020 global luxury market was expected to decline by 25% to 30%, but the latest data demonstrated that the biggest impact has been registered by Europe where luxury consumption felt by 36% at current exchange rates to 57€ billion.¹²⁴ According McKinsey & Company the problem in Europe was that a lot of independent

¹²¹ CHAN I., *Is Tmall the Answer to Luxury Brands’ Woes in the Wake of COVID-19?*, 2020, <https://www.luxurysociety.com/en/articles/2020/06/tmall-answer-luxury-brands-woes-wake-covid-19> , accessed on 21 August 2021

¹²² CHOU C., *Tmall’s Head of Fashion in Europe on New Luxury Soho Channel*, in Alizila, 2020, <https://www.alizila.com/tmall-head-of-fashion-in-europe-on-new-luxury-soho-channel/> , accessed on 9 August 2021

¹²³ CHOU C., *Tmall’s Head of Fashion in Europe on New Luxury Soho Channel*, in Alizila, cit.

¹²⁴ D’ARPIZIO C., LEVATO F., PRETE F., GAULT C., DE MONTGOLFIER J., *The Future of Luxury: Bouncing Back from Covid-19*, in Bain & Company, 2021, <https://www.bain.com/insights/the-future-of-luxury-bouncing-back-from-covid-19/> , accessed on 11 August 2021

luxury-goods wholesalers had problems with their stores before 2019 so when the crisis arrived, they weren't able to face it.

The luxury market is expected to decline by 25% to 30% in the first quarter of 2020

Global personal luxury goods market, quarter-on-quarter growth in retail-equivalent sales

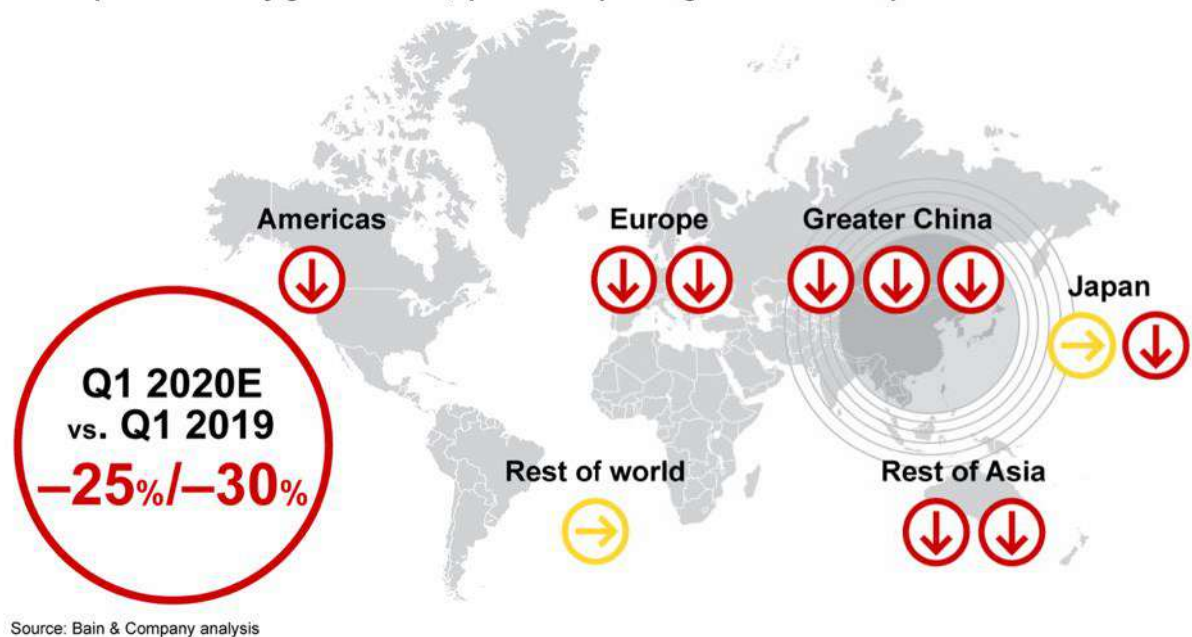


Figure 23- The luxury market is expected to decline by 25% to 30 % in the first quarter of 2020 (Bain & Company in "Luxury after Covid-19: Changed for (the) Good?")

In America the crisis wasn't so bad and the impact on luxury industry was lower in fact the market fell by 27% at current exchange rates to 62€ billion. America together with China was the only country that has been able to face Covid-19 and later in will be analyzed how they could do so. Figure 24 is the evidence of the current situation in luxury world with China and America that are dominating this sector. In Japan and the rest of Asia the total decrease was of 35% with Hong Kong and Macau which reported the worst performances globally.¹²⁵ Finally, Australia was the country with the lowest decrease, 21% at current exchange rates

¹²⁵ D'ARPIZIO C., LEVATO F., PRETE F., GAULT C., DE MONTGOLFIER J., *The Future of Luxury: Bouncing Back from Covid-19*, cit.

to 9€ billion.¹²⁶ The effects which have been caused by COVID-19 and which have been the causes of the decline of global luxury sector were first of all the difficult of selling the spring-summer 2020 collections which remained in companies' stocks for a lot of months without generating income. Secondly, at the beginning of the pandemic there were few brands

Luxury market rebound in Q1 strongly driven by China and US; Europe is the only region still in strong contraction

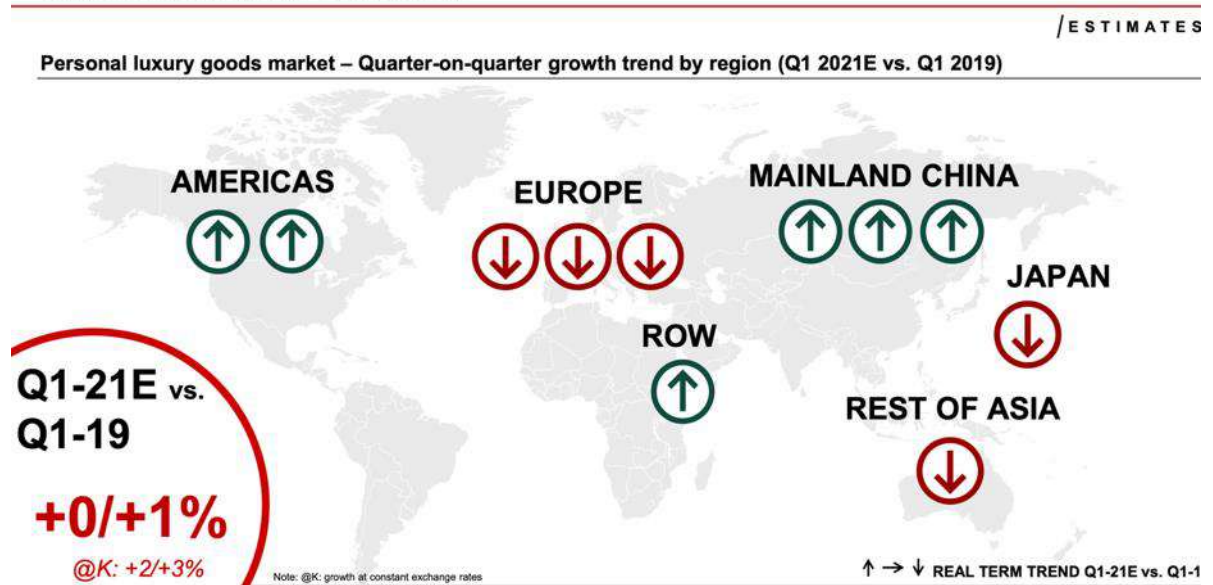


Figure 24- Luxury market rebound in Q1 strongly driven by China and US; Europe is the only region still in strong contraction (Bain & Company in "the healing of (post) covid luxury: figures, trends and action")

which already developed an omnichannel strategy in China where luxury customers were ready and willing to buy luxury products online, so they needed time in order to adapt their business model to the new market. Finally, there has been the problem of tourism, as people couldn't travel from one country to another, luxury stores registered a drastic decrease on sales. McKinsey & Company affirmed that in 2018 Chinese consumers took more than 150 million trips abroad spending a lot of money for luxury goods as shopping experience was fundamental for Chinese.¹²⁷ They think that buying one product in the country where it is produced instead of buying it in China add to this product a lot of value.

¹²⁶ D'ARPIZIO C., LEVATO F., PRETE F., GAULT C., DE MONTGOLFIER J., *The Future of Luxury: Bouncing Back from Covid-19*, cit.

¹²⁷ ACHILLE A., ZIPSER D., *A perspective for the luxury-goods industry during-and after- coronavirus*, in McKinsey & Company, p. 2, 2020, <https://www.mckinsey.com/~media/mckinsey/industries/retail/our%20insights/a%20perspective%20for%20the%20luxury%20goods%20industry%20during%20and%20after%20coronavirus/a->

Moreover, according to McKinsey & Company research, 40% of the world's production of luxury goods takes place in Italian factories, but due to the pandemic they have been closed for a long period.¹²⁸ This situation didn't guarantee to luxury brands the quantity of products they planned to produce during 2020 blocking the luxury sector.

2.5.2 How Chinese luxury sector faced COVID-19 crisis

As it was anticipated in the first chapter, Chinese luxury market has been able to face Covid-19 crisis in a very good way reaching 48% of growth in 2020 and as it is reported in figure 25, its growth will not stop in fact it is supposed to go from 770 billion today to 1.2 trillion in 2025. The reasons why China has been able to obtain this result in a moment characterized by economic decrease in most countries are explained in the research conducted by Bain & Company and Tmall Luxury Division "China's Unstoppable 2020 Luxury Market". The first reason which justifies Chinese luxury market expansion is the increase of REPATRIATION. Chinese government has already promoted it from 2015 with stricter controls over gray markets, import duties and brand's price harmonization but during Covid-19 thanks to lockdown limitations, Chinese people started to buy only goods which come from China. Moreover, the positive sentiment of people who could go outside, the increased wealth and the Chinese's government encouragement of shopping, contributed to make people buy more luxury goods in China.¹²⁹ The second reason which determined the growth of luxury market in China in 2020 has been the DEVELOPMENT OF MILLENNIAL AND GEN Z who have already been analyzed in the previous chapters. As Bain & Company research underlines, young generations are fundamental because they are the main consumers who shop on Tmall Luxury Pavilion in fact, Tmall data shows that Gen Z's purchase of luxury collaborations and limited editions grew 300% to 400% between January and October 2020.¹³⁰

[perspective-for-the-luxury-goods-industry-during-and-after-coronavirus.pdf](#) , accessed on 11 August 2021

¹²⁸ CHABOUD I., *How the Covid-19 crisis could remodel the luxury industry*, in *The Conversation*, 2020, <https://theconversation.com/how-the-covid-19-crisis-could-remodel-the-luxury-industry-138137> , accessed on 11 August 2021

¹²⁹ LANNES B., ZHANG C., *China's unstoppable 2020 Luxury Market*, 2020, p.3., <https://www.bain.com/insights/chinas-unstoppable-2020-luxury-market/> , accessed on 11 August 2021

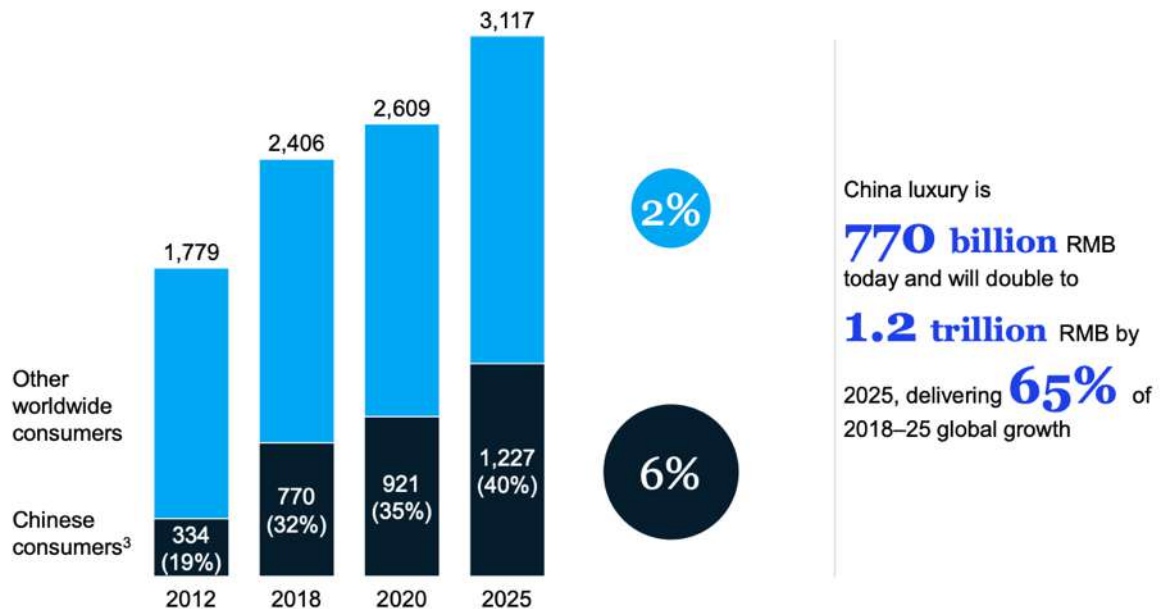
¹³⁰ LANNES B., ZHANG C., *China's unstoppable 2020 Luxury Market*, 2020, cit., p.4

Exhibit 1

China is winning half of the luxury world.

Global personal luxury goods¹ market evolution
RMB² billion

2020–25 compound
annual growth rate



¹Ready to wear, accessories, watches and jewelry, and beauty.

²Fixed exchange rate of €1 = 7.3 RMB.

³Both domestic and overseas spending.

SOURCE: China Luxury Report 2019; China Luxury Report 2017

Figure 25- China is winning half of the luxury world (McKinsey & Company in “China luxury Report 2019, How young Chinese consumers are reshaping global luxury”)

The third reason has been HAINAN OFFSHORE DUTY-FREE SHOPPING, Hainan has always had a duty-free policy but in 2020 it is boomed because of the travel restrictions imposed by the government. This Chinese government’s initiative is only present in Hainan because the authorities want to maintain the main consumption in mainland China. The last reason which justifies Chinese luxury market development is the increase of DIGITALIZATION which, as it will be explained in the next paragraph, has been a salvation for a lot of international luxury brands. Gen Z spend a lot of time using their mobile devices, in China it’s five hours per day, so nowadays the digitalization of luxury brands is fundamental in order to reach young customers. Covid-19 makes people spend even more time on the net, according to Bain & Company research, on the e-commerce front, China’s annual luxury online

penetration increased from about 13% in 2019 to 23% in 2020.¹³¹ The luxury fashion has grown by more than 100% YTD and the penetration increased from 5% in 2019 to 7% in 2020. Given this data, luxury brands started to use e-commerce not only as a channel where people buy products but also as a marketing channel through which they promote them. The innovations introduced by Tmall luxury pavilion were intended to improve this type of use of the platform. Thanks to them luxury brands can increase brands awareness, publicize limited edition goods and enhance their relationship with the customers. The elements that have been analyzed in the previous paragraphs and summed up in this one, are the most important characteristics which distinguish Chinese Luxury market from western ones and that have ensured its growth. In the next part there will be a focus on the digitalization of luxury brands during the pandemic especially the ones which decided to enter Tmall Luxury pavilion.

2.5.3 COVID- 19 speeded up luxury brands entrance on Tmall

As it is showed in figure 26, nowadays the most important customers on Tmall are Millennials and Gen Z who also constitutes the largest part of luxury consumers in China. Tmall luxury pavilion is the most used platform by young generations in China and nowadays is also the most used platform by luxury brands to reach them. Before the pandemic, some leading brands already entered the platform but a lot of them were wary of this decision because of counterfeiting problem which characterized Alibaba platforms in the past years. As it was noted in chapter one thanks to AACA and the collaboration with IACCA, Alibaba was able to eliminate most of counterfeiting brands from its platform and this make some firms opening their online shops on Tmall even before the pandemic. In 2018 the Pavilion included 80 brands among them there were Valentino, Burberry, Versace, Ermenegildo Zegna, Stella McCartney, Tod's, Moschino, Giuseppe Zanotti, MCM, La Mer, Maserati, Kering group-owned Qeelin, LVMH-owned Guerlain, Givenchy, Tag Heuer and Zenith.¹³² In the same year, Bottega Veneta, which is one of Kering group brands decided to enter the platform launching its new blue-colored BV Luna Bag in Nappa on the site.¹³³ Many of the brands which joined the platform before the pandemic made it to present their new collections or campaigns thinking that it was the best solution to reach Chinese customers. For example,

¹³¹ LANNES B., ZHANG C., *China's unstoppable 2020 Luxury Market*, 2020, cit., p.7

¹³² *Tmall luxury Pavilion Gets "Maison" Upgrade, Bottega Veneta Latest to Join*, in Alizila, 2018, <https://www.alizila.com/tmall-luxury-pavilion-gets-maison-upgrade/>, accessed on 12 August 2021

¹³³ *Tmall luxury Pavilion Gets "Maison" Upgrade, Bottega Veneta Latest to Join*, in Alizila, cit.

Valentino entered Tmall Luxury pavilion right before launching its Pre-Fall Runway show in Tokyo, Moschino created a collection dedicated exclusively to Pavilion’s customers, Ermenegildo Zegna limited-edition CFA Capsule Collection was thought just for Chinese market.

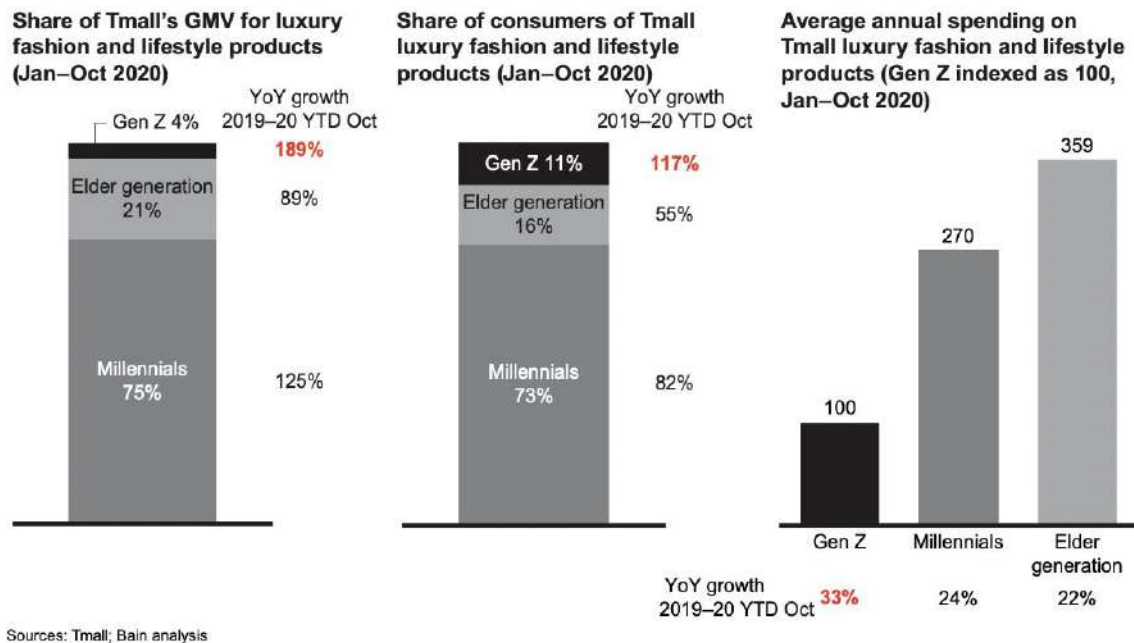


Figure 26- Millennials represent more than 70% of Tmall’s luxury fashion and lifestyle market, while GenZ is the fastest-growing group (Bain & Company in “China’s Unstoppable 2020 Luxury Market”)

When the global pandemic blew up deciding to join Tmall luxury Pavilion became the salvation for a lot of luxury brands which decided to enter the platform not to expand their business but to guarantee their annual profit. It’s for this reason that Covid-19 speeded up luxury brands entrance on Tmall, even if some companies weren’t convinced about expanding their market online in China, they had to plan a strategy in order to digitalize their brand and save their business. According to Global Times data from January to March 2021 the sales on Tmall Luxury Pavilion increased 159% moreover they found out that luxury brands open one store every week on Tmall, reaching more than 200 firms present on the platform. The latest brands which joined the pavilion are Armani, Hermès, Gucci and Cartier.

In February 2021 also Saint Laurent decided to launch its new limited-edition handbag on Tmall and in March Van Cleef & Arpels opened their online store on the platform.¹³⁴

In the next chapter there will be a focus on Gucci entrance on Tmall but before analyzing it there is a detailed description of the evolution of Kering-Gucci's presence in China. The Kering-Gucci case perfectly reflects the development of luxury brands presence in China which has been described in these two chapters.

¹³⁴ *Luxury sales on Tmall rise 159 percent Q1*, in Global Times, 2021, <https://www.globaltimes.cn/page/202104/1220617.shtml> , accessed on 12 August 2021

Chapter three: Kering case

In the first part of this chapter there is an analysis of the case which involved Alibaba and Kering group while in the second part there is a description of the Kering 's presence evolution in Chinese luxury market after the resolution of the dispute. The development of Kering, specifically Gucci, in China was taken as an example of the expansion of most luxury brands in this territory which had to adapt their business according to the evolution of the luxury market and the opportunities offered by the most important Chinese e-commerce platform, Alibaba.

3.1 Kering v. Alibaba

For some years from 2015, Alibaba represented the greatest enemy of Kering group because of the high percentage of counterfeiting goods sold in the platform but after a period of misunderstandings, thanks to the constructive relationship between the luxury group and the Chinese e-commerce giant, Alibaba became Kering's most important collaborator against counterfeiting. In the next paragraphs there is a detailed description of the two lawsuits Kering group filed against Alibaba with a focus on the one of 2015.

The first time in which Kering group accused Alibaba was on July 9, 2014, when it filed a lawsuit against the giant of e-commerce and 14 merchants on its platform in the United States. Kering accused Alibaba of being complicit in the sale of fake goods on its marketplace sites in a way that represents "racketeering" (this term is usually used to designate the act or practice of making money through dishonest or illegal activities).

The lawsuit occurred on the eve of Alibaba's listing in the United States. However, two weeks later, brands such as Gucci quickly withdrew the complaint against Alibaba and issued a joint statement with the e-commerce platform stating that all parties have agreed to cooperate sincerely to further reduce counterfeiting activities against Kering's brands. Alibaba affirmed that it was enforcing a "zero tolerance policy" in order to avoid the sold of counterfeiting goods of Kering-owned brands off Alibaba's platform.

But after one year, precisely in May 2015, Kering group filed another lawsuit against Alibaba because it didn't maintain the promise made in 2014 in fact counterfeiting goods were still

sold in the platform.¹³⁵ It is not a coincidence that the brand which accused Alibaba was Gucci.

It is precisely in 2015 that the business relationship between Alibaba and Gucci started.

At the beginning the brand adopted a strategy which had the aim of making Alibaba pay for its illegal activities but then year by year they started to collaborate in order to fight together against the sold of counterfeiting goods in the platform.

In the next paragraphs, I will present 2015 Kering versus Alibaba case, then I will study how Alibaba improvement in fighting against counterfeiting and covid-19 crisis has meant that Gucci decided to implement its digital strategy and open its first digital stores on Alibaba's platform.

3.2 Kering v. Alibaba -2015 case

Everybody knows that Alibaba is the Chinese most important e-commerce platform. It has three e-commerce websites through which dominates Chinese e-commerce market: Taobao, Tmall and Alibaba.com.

Alibaba was founded in 1999 by Jack Ma and counterfeiting started to be present on the platform from its born. For this reason, U.S companies started to file lawsuits against Alibaba from the beginning of its activities. Because of the lack of results in China, they began to raise their concerns with the U.S. government with the result that Alibaba has been consistently placed on U.S. government blacklist.

The Chinese e-commerce platform in response to these claims started immediately to improve its instruments to combat counterfeiting obtaining the removal from the blacklist before its initial public offering (IPO) in the United States in 2012.

Even if it was removed from the 2012 blacklist, Alibaba found itself once again on the Notorious Market list (it is the list of all the websites or markets in which, in accordance with the Office of the United States Trade Representative, there is a strong presence of intellectual property infringement) in 2014, 2016, 2017 and 2018. Because of this during

¹³⁵ *Kering, Alibaba Settle Counterfeiting Lawsuit... Again. But will it stick?* , in TFL, 2017, <https://www.thefashionlaw.com/kering-alibaba-agree-to-settle-counterfeiting-lawsuit-again/> ,accessed on 2 March 2021

these years the great majority of the luxury brands affirmed that “Alibaba is our most dangerous and damaging adversary”.¹³⁶

Kering group is one of the luxury brands that has most accused Alibaba for the sale of counterfeiting products of its brands. The lawsuit of the 2015 is the one which took the longest to be resolved, the case statement is reported below.

“In May 2015 the plaintiffs Gucci America, Inc. (“Gucci”), Balenciaga, S.A. and Balenciaga America, Inc. (“Balenciaga”), Bottega Veneta International S.A. and Bottega Veneta Inc. (“Bottega Veneta”), Yves Saint Laurent America, Inc. and Luxury Goods International (L.G.I.) S.A. (“YSL”), and Kering S.A. (“Kering”) (collectively, “Plaintiffs”), filed a lawsuit in the Federal Court of Manhattan (New York) against defendants Alibaba Group Holding Ltd., Alibaba.Com Hong Kong Ltd., Alibaba.com Ltd., Alibaba (China) Technology Co., Ltd., Taobao China Holding Ltd., and Taobao (China) Software Co., Ltd., (collectively “Alibaba”), Alipay.com Co., Ltd. (“Alipay” and together with Alibaba, the “Alibaba Defendants”), and 14 merchants who contracted with and utilized the services of the Alibaba Defendants to market, distribute, and finance the sale of their goods (the “Present Merchant Defendants”).

Plaintiffs own and use various trademarks that are registered with the United States Patent and Trademark Office. Plaintiffs’ Marks “have become famous and highly valuable, possessing strong secondary meaning among consumers and both commercial and conceptual strength.”

Alibaba Defendants are seven corporate entities that each play a distinct role in the operation of the online marketplaces Alibaba.com, Taobao.com and AliExpress.com and which are called “Alibaba Marketplaces”. They are online platforms through which merchants primarily located in China can connect with consumers from around the world to sell their products.

Alibaba.com was created “to help small exporters engaged in manufacturing and trading, primarily located in China, to reach global buyers.”

Taobao.com is a “consumer-to consumer (C2C) online marketplace,” which also operates the Mobile Taobao App, “China’s most popular mobile commerce app and most profitable e-commerce app.”

¹³⁶ ZUCCARO A.E., *Gucci v. Alibaba: A Balanced Approach to Secondary Liability for E-Commerce Platforms*, in North Carolina Journal of Law & Technology, 2016, <https://core.ac.uk/download/pdf/151515453.pdf>, accessed on 3 March 2021

AliExpress.com is another online platform “that enables consumers worldwide to purchase products directly from manufactures and wholesalers in China.”

The six Alibaba entities operate and profit, directly and indirectly, from the Alibaba Marketplaces while Alipay is a distinct entity that processes credit card transactions.

The Present Merchant Defendants are 14 separate companies that sold counterfeit products bearing Plaintiffs’ Marks in the Alibaba Marketplaces. Five of the Present Merchant Defendants: Brand Bag Boutique, Yun Mi’s Store, Luxury2000, Burberritti Fashion Plaid Bag, and Sunny Home Store, operated on AliExpress.co. Six of the Present Merchant Defendants, Kou Kou Dai, Amy Luxury Goods, Europe and E News, Picasso Trend, Lehui Textile Behalf, and Yao Ming and Tracey, operated on Taobao.com. The ones left: Guangzhou Feiteng Junye Gifts Manufacturing Co., Ltd, Shenzhen Lin Jun Leather Co, Ltd, and Yiwu Wirbest E-Commercial Firm were listed as “Gold Suppliers” on Alibaba.com.

The company's lawsuit alleged that Alibaba and its related entities “joined together to form an enterprise in fact whose purpose is to sell and profit from the sale of counterfeiting goods” and that Alibaba “provide market advertisements and other necessary services for counterfeiters to help them sell counterfeit products to American consumers.”

The lawsuit mentioned that a Chinese merchant sold counterfeit Gucci bags at a price of US\$2 to US\$5, and each order is at least 2,000. The authentic price of this Gucci bag is US\$795.

The lawsuit also alleged that even after being clearly informed that the merchant was selling fake goods, Alibaba continued to allow the sale of fake goods and conspired to produce fake goods.

During the discussion of the case Alibaba Defendants moved to dismiss Plaintiffs’ Sixth Cause of Action according to which they might’ve founded a RICO enterprise. This kind of enterprise include “any individual, partnership, corporation, association, or other legal entity, and any union or group of individuals associated in fact although not a legal entity”.

In order to prove the existence of a RICO enterprise a plaintiff must allege that the defendant through the commission of two or more acts constituting a “pattern” of “racketeering activity” directly or indirectly invests in, or maintains an interest in, or participates in an “enterprise” the activities of which affect interstate or foreign commerce.

But Plaintiffs failed to allege the existence of a RICO enterprise and that Alibaba Defendants “participated” in that enterprise within the meaning of RICO. Moreover, Alibaba Defendants

contend that these allegations amount to nothing more than a classic “hub-and-spokes” association, where one central actor (the hub), forms bilateral and independent relationships with several independent actors (the spokes), and where the Merchant Defendants did not work together to achieve a common purpose.

In response to this affirmation Plaintiffs argued that also “hub-and-spokes” association can constitute a RICO enterprise, but the Courts disagreed and claimed that “hub-and-spokes” association could not satisfy RICO’s enterprise requirement. ”

During the discussion Alibaba Defendants also move to dismiss the Seventh Cause of Action. The Plaintiffs accused Alibaba Defendants of committing another RICO violation. The reason why Courts didn’t accept their claim is the same of the sixth cause.

Once established that Plaintiffs failed to allege the existence of a RICO enterprise between and among the Alibaba Defendants and merchant Defendants, on the 4th of August 2016 U.S. District Judge Kevin Castel dismissed Kering’s claims against Alibaba.¹³⁷

3.3 Kering and Alibaba collaboration against counterfeiting

The collaboration between Kering group and Alibaba against counterfeiting was signed on the 3rd of August 2017. On this day the French luxury goods group decided to drop the lawsuit filed against Alibaba in 2015 and agreed to cooperate with the Chinese e-commerce platform to protect intellectual property rights and fight against counterfeiting. According to what the two groups said in a statement: “The companies have established a joint task force with the purpose of collaborating fully, exchanging useful information, and working closely with law enforcement bodies to take appropriate action against infringers of Kering’s brands identified with Alibaba’s advanced technology capabilities”.¹³⁸ Moreover, the luxury group said that:” Kering and its brands will continue to vigorously enforce their intellectual property rights against individuals and third parties responsible for the production, distribution and sale of unauthorized materials in China and throughout the world.”¹³⁹

¹³⁷ *Case 1:15-cv- 03784-PKC*, Document 60, Filed 08/04/16, <https://www.sdneyblog.com/files/2016/08/15-Civ.-03784-MTD-Order.pdf>, accessed on 5 May 2021

¹³⁸ *Kering and Alibaba Group agree to cooperate in protection of intellectual property and joint enforcement*, in Kering.com, 2017, <https://www.kering.com/jp/news/kering-and-alibaba-group-agree-to-cooperate-in-protection-of-intellectual-property-and-joint-enforcement> , accessed on 18 August 2021

¹³⁹ *Kering and Alibaba Group agree to cooperate in protection of intellectual property and joint enforcement*, in Kering.com, cit.

The collaboration that has been signed in 2017 was a big step forward for Alibaba and Kering and it ended a period of tension between them. In fact, in 2016, Gucci (Kering group brand) decided to leave the IACC (International Anti-Counterfeiting Coalition) when they discovered that the organization chose to accept Alibaba's entrance on IACC.¹⁴⁰ According to Gucci, during that period, Alibaba was the biggest responsible of the sale of counterfeiting goods, so it was unacceptable to approve its union to the platform. One year later, thanks to Alibaba's actions against counterfeiting, Gucci understood its good intentions and accepted to collaborate with the Chinese e-commerce giant.

To be more precise this collaboration with Kering group it's part of a bigger Alibaba's plan to improve its instruments against counterfeiting. All the policies introduced by Alibaba have already been explained in the first chapter, in the next paragraph there is a focus on Kering new digital strategies in Chinese luxury market. Their implementation is the proof of the trust Kering started to develop on e-commerce market and its interest on reaching the young people of the Gen Z. As it will be explained Kering group has lived a significant digitalization process in these years which lead to an even stronger collaboration with Alibaba's platforms.

3.4 Kering new digital strategies

The first time in which Kering group took into consideration the possibility of improving its digital strategy was in 2017 when Gregory Boutté, the Chief Client and Digital Officer of Kering, declared that the group will improve its digital transformation and conquer the e-commerce market. In the first half of 2018 Kering's e-commerce revenue represented 6% of the total retail sales.¹⁴¹ Moreover, Gregory Boutte affirmed that "Digital can be many different things at once- a distribution channel; a platform for offering seamless omni-channel services to clients; a driver of brand image and visibility; and a tool for engaging with customers in a personalized way. Digital technology, data science and innovation provide a

¹⁴⁰ *Gucci lascia iacc dopo ingresso Alibaba*, in Ansa Economia, 2016, https://www.ansa.it/sito/notizie/economia/2016/05/07/gucci-lascia-iacc-dopo-ingresso-alibaba_8dab4cb6-1fe6-4b82-b89e-9999fff1664e.html , accessed on 18 August 2021

¹⁴¹ *Kering announces new developments in its digital strategy*, in Kering.com, 2018, <https://www.kering.com/en/news/announces-new-developments-in-its-digital-strategy> , accessed on 18 August 2021

way of offering our customers the best possible experience- on every touchpoint.”¹⁴²From these words emerges the truth intention of the luxury group of investing in digital and this is what they have done in recent years guaranteeing to the brands which belong to the group a great success in Chinese online market. As affirmed by Kering group in a statement, in 2018 there were three main objectives to be implemented. “The first one was to provide the Group and its Houses with a real-time 360-degree view of their customers, and to deliver rich and personalized experiences¹⁴³. The second one was to offer clients high levels of service, from initial transaction to after-sales¹⁴⁴ and the last one was to enable Kering’s Houses to develop close relationships with their clients and to adapt their offerings in order to meet specific needs.”¹⁴⁵Moreover, in order to implement its digital strategy Kering launched a series of projects to improve the communication with the customers and it invested in the development of its internal technologies in order to be able to manage on its own Kering’s e-commerce activities which were handled by YNAP till 2020. Knowing that in order to obtain success in Chinese market and built a strong relationship with Chinese customers, they needed to introduce specific innovations, Kering group decided to launch a WeChat mini-program for each brand belonging to the group. Moreover, when they created the data science team to improve the service, they offered to the clients using the available data, they decided to introduce a China-based Client & Digital team that will be in charge of managing the digital practices in the Chinese market and be good at perceiving Chinese innovations and export them to other markets.

3.5 Gucci digital first strategy implementation

In this paragraph I will focus on Gucci digital strategy implementation which finally put an end to the limited presence of this brand in Chinese online channels because of counterfeiting. Gucci is the firm, which was involved in 2014 and 2015 disputes, moreover it is Kering’s most successful brand in China for this reason in this research there is a concentration on it. In recent years, Marco Bizzarri (CEO of Gucci) took a number of decisions in order to improve Gucci’s digital first strategy. As figure 27 shows, the success of

¹⁴² *Kering announces new developments in its digital strategy*, in Kering.com, cit. , all the following notes are referred to what have been affirmed by Kering group in 2018 statement

¹⁴³ Ibidem

¹⁴⁴ Ibidem

¹⁴⁵ Ibidem

Gucci began in 2015 when it was introduced for the first time a more technological approach. In the following years, Marco Bizzarri and Alessandro Michele, the Creative Director of Gucci understood that to implement their marketing strategy, they had to target Generation Z which is responsible for up to 15% of the country's luxury purchases in China and the only way to catch the attention of this generation was to enforce the instruments through which they are able to reach this generation, that are social media. In 2017 Gucci already entered all most important Chinese social media like WeChat and Sina Weibo where it obtained a great success. For example, in 2019 Gucci transmitted a fashion show on Weibo for the first time obtaining 16 million of views.¹⁴⁶

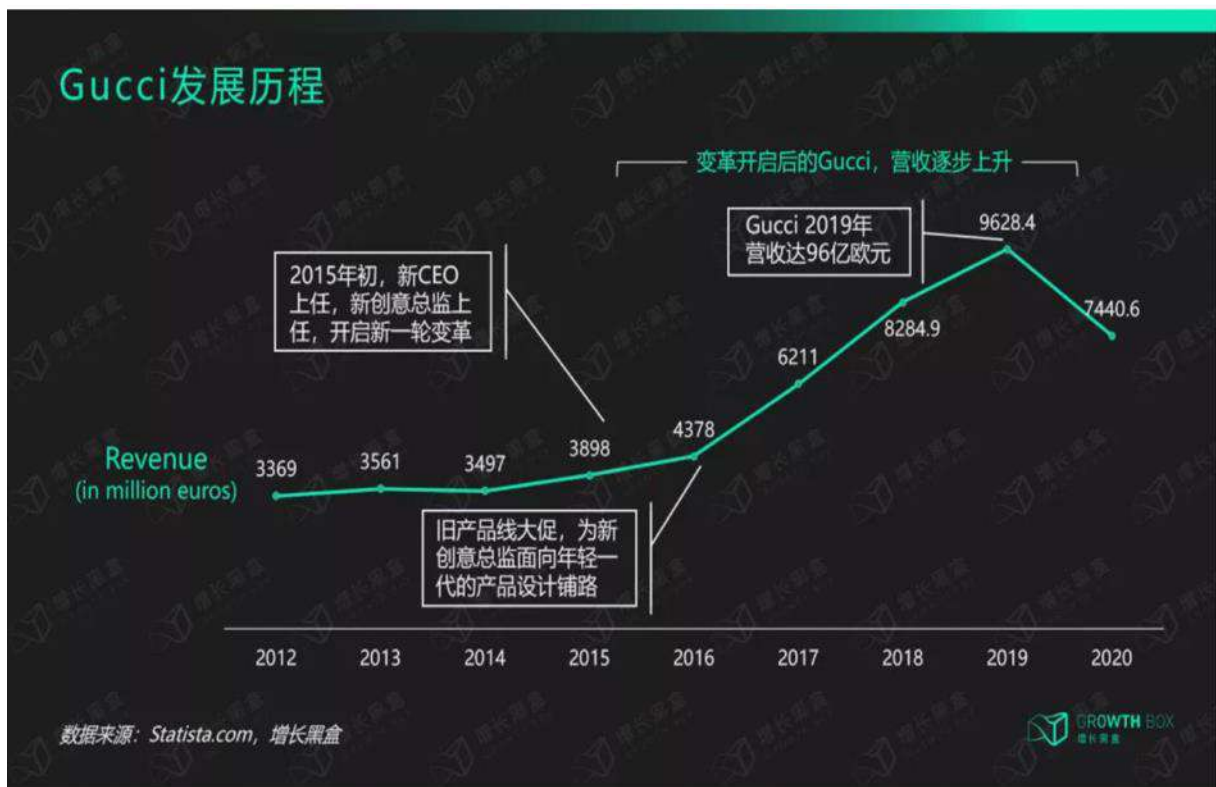


Figure 27- Gucci 发展历程 (MINNEWS in “4D dismantling Gucci: The luxury goods that were the first to move towards digitalization, what happened afterwards?”)

But it was not until 2021 that the brand decided to open an official account on Douyin in order to catch millennials attention with videos and stories hoping that they will spend their money buying Gucci goods. Gucci's Douyin strategy consists of creating hashtag challenges

¹⁴⁶ ZARGANI L., *Gucci's First Live-streamed Show on Weibo Draws 16 Million Viewers*, in WWD, 2019, <https://wwd.com/fashion-news/fashion-scoops/guccis-first-live-streamed-show-on-weibo-draws-16-million-viewers-1203315944/>, accessed on 9 June 2021

to encourage brand engagement. Gucci Qixi (the Chinese counterpart to Valentine's Day) challenge was the one which obtained most success with over 75.3 million views.¹⁴⁷

This enforcement of social media use was also obtained thanks to the use of Augmented Reality, Virtual Reality, application and AI chatbots as well as collaborating with Chinese Key Opinion Leader (KOLs) in order to promote the sold of the brand's goods. Gucci already works with some important KOLs who sponsor the brand like Li BingBing, Yang Mi and Ni Ni. In the same way Gucci has already used Augmented Reality creating a collection of digital sneakers that consumers could try on and modify according to their individual styles. Since Covid-19 started, the use of Augmented Reality has been one of the most relevant innovations in e-commerce market because giving the consumers the possibility of trying watches, sneakers or hats, creates a great feeling of engagement and gratification in them and consequently they are more willing to buy the products.

Moreover, Gucci digital first strategy includes the brand collaboration with some gaming platforms in order to increase millennials interest in Gucci products. Recently Gucci started to collaborate with Zepeto, The Sims, Genies, Pokémon Go, Animal Crossing and Tennis Clash. The last one it's a new tennis game in which people compete against friends and family in world-class tournaments. Thanks to the collaboration with Gucci, Tennis Clash users can use digital pieces of Gucci clothing and accessories to express their style, with a focus on sports luxe. Gucci is also present in "Roblox". In this platform people can visit themed rooms of the most important Gucci's advertising campaign in a virtual "Gucci Garden". Finally, the brand has its own space in "Drest" which is a fashion-themed video game and in VR chat apps.¹⁴⁸

During Covid-19 pandemic Gucci made one last step forward in the digital experience offered to the consumers that is the creation of a "Gucci Live" store. It is a virtual store in which people can talk with Gucci's assistants through a video-call so literally it's the store

¹⁴⁷ ASLANDZIYA A., *Chinese Social Media Strategies of Top 5 Luxury Brands in China 2020*, in HI-COM,2020, <https://www.hicom-asia.com/chinese-social-media-strategies-of-top-5-luxury-brands-in-china-2020/> , accessed on 9 June 2021

¹⁴⁸ ZHANG Y.H., *What can luxury brands learn from Gucci's digital strategy?* , in HAPTICMEDIA , 2021, <file:///Users/Utente/Desktop/Gucci%20and%20covid/What%20can%20luxury%20brands%20learn%20from%20Gucci's%20digital%20strategy%3F.webarchive> , accessed on 10 June 2021

which comes to your home, you don't need to move from your comfortable position. It is already present in Shanghai, New York, Tokyo, Singapore and Florence.¹⁴⁹

All in all, the digital first strategy introduced by Alessandro Michele it's obtaining a great success in China, in fact 55% of Gucci costumers are under 35 years. Moreover, counterfeiting problem is perceived in a completely different way by Kering group which nowadays is present in all most important Chinese e-commerce platforms and social media. About counterfeiting and Kering's online presence in China, Grégory Boutté affirmed that "Being available on Wechat, Tmall or on livestream channels allow us to have a better control rather than creating more risk. Our clients are incredibly savvy, and they understand where they can find genuine products. They understand which channels are controlled by the brands they aspire to engage with, and it makes the other channels look not as attractive. When we build our presence in a way that's relevant for our brands in those parts of the ecosystem, I think we're adding trust."¹⁵⁰

3.6 Kering-Gucci omni-channel strategy

The digitalization which has characterized Kering group specifically Gucci brand during the last years, has brought to the development of a new strategy, the omni-channel. As it has been noted in the second chapter, it is the most used by many luxury brands in China. In the "Digitalization in the Luxury Fashion Industry" by Anna Cabigiosu, it's written that one of the most important optimizations introduced by Kering group is the one of sales in the direct stores of each brand. Moreover, the author affirmed that "to reach new customers and stay constantly connected and present simultaneously on different communication platforms, it is necessary to integrate sales strategies in different channels. From distribution agreements to e-commerce to social media to travel retail, brans must know how to manage every point of contact with the consumer and personalize their experience."¹⁵¹The last innovations introduced by the luxury group, totally reflect the idea expressed by Anna Cabigiosu, in fact

¹⁴⁹ BAKER M., *Gucci Goes Virtual*, in Gartner, 2020, <file:///Users/Utente/Desktop/Gucci%20and%20covid/Gucci%20Goes%20Virtual.webarchive> , accessed on 10 June 2021

¹⁵⁰ WILLIAMS R., *Kering's Gregory Boutté on Fast- Tracking a Digital Upgrade*, in Business of Fashion, 2020, <https://www.businessoffashion.com/articles/luxury/kerings-gregory-boutte-on-fast-tracking-a-digital-upgrade> ,accessed on 10 June 2021

¹⁵¹ CABIGIOSU A., *Digitalization in the Luxury Fashion Industry, Strategic Branding for Millennial Consumers*, cit., p. 191

Kering is developing an omni-channel strategy for most brands which are developed in Chinese territory. To be more specific, it is collaborating with Apple in order to create an app which will improve the in-store experience of the customers, the sale-assistants will be able to access to stock levels using their mobile phone offering to the clients a useful and instant service. Moreover, Apple is cooperating with Kering to improve the payment system. In addition to improving the in-store experience using new technologies, the group wants to help its customers and build a better relationship with them. For this reason, it is using the new digital tools in order to have a general view of its clients in each moment and in this way be able to give them the best advice. Kering is also using data science techniques to send personalized e-mail to the customers. The shopping experience they live in-store is more and more connected with the online one and this kind of service is attracting a lot of young people who see it as an answer to their needs. As it has been underlined a lot of times in this research, Gucci is the brand which obtained the biggest success in China and in order to respond to new Chinese luxury customers, it is developing a specific omni-channel strategy. Thanks to the rapidity in developing this new way of selling its products, nowadays 50% of Gucci customers are Millennials and Generation Z. During the last years Gucci accelerated the development of the online activities, Gucci e-commerce is operated fully internally, and it is collaborating with a lot of famous influencers in order to increase its business.

¹⁵²Between 2016 and 2017 Gucci has been appointed as the best digital fashion brand by Gartner. In 2018 the brands started to offer a new service online to build a better relationship with online customers, it is called DIY (do it yourself) and it allows people to create their personalized products online. Even if a lot of people buy the goods online, there are many other who continue to purchase them in-store, for this reason Gucci invested also in in-store experience. In 2018, the brand opened the “Gucci Garden” which is an interactive shop, the symbol of the integration between online and offline shopping experience.

The integration between the two dimensions also includes social media as it has been described in the second chapter. Gucci is present in the most important Chinese social such as Wechat, Xiaohongshu and Douyin, thanks to them it can reach a lot of young customers. According to Anna Cabigiosu “Gucci’s omnichannel strategy has introduced new avenues for customers to enjoy, access and purchase its products. Whether the Gucci customer is

¹⁵² CABIGIOSU A., *Digitalization in the Luxury Fashion Industry, Strategic Branding for Millennial Consumers*, cit., p. 205, all the following notes are referred to what it’s affirmed by Cabigiosu in “Digitalization in the luxury Fashion industry”

shopping online or in a store, the experience and product access is coherent. ¹⁵³In this way Gucci can maintain its own characteristics while costumers can buy online and offline products according to their preferences. Gucci omni-channel strategy is one of the best among luxury brands, as it is showed in figure 28, Gucci is the first luxury brand in digital presence in 2021, moreover, in 2018 it also received the Altagamma Digital awards for the best customer relationship in the digital area. ¹⁵⁴

The event which accelerated Gucci omni-channel implementation has been Covid-19 which had a great impact on all Kering group brands. The realization of a new strategy was the only way to face the crisis and the results obtaining in last years are the proof of its usefulness. In 2020 Kering revenues collapsed 29.6 per cent to US\$ 6.56 billion in the first half, but in the following quarter it was down just 4.3 per cent, a data which was better than the one the market has been expecting. With the result that Kering share price has only fallen from 598

The top 15 best luxury brands online in 2021

Rank	Brand	Share of Search Interest	Website Traffic	Social Media Audience	Social Media Engagement
1	Gucci	15.2%	9.2M	70.5M	14.2%
2	Chanel	11.6%	8.6M	81.4M	8.6%
3	Hermès	10.2%	4.4M	14.3M	3.1%
4	Dior	10.0%	8.6M	62.3M	21.2%
5	Louis Vuitton	9.7%	13.5M	75.6M	14.5%
6	Rolex	6.7%	4.3M	20.4M	5.0%
7	Tiffany	6.2%	3.5M	24.0M	8.8%
8	Prada	4.7%	3.2M	34.9M	7.5%
9	Versace	4.6%	2.6M	34.5M	25.8%
10	Armani	4.3%	2.0M	30.5M	5.4%
11	Valentino	4.0%	923K	19.8M	10.5%
12	Balenciaga	3.7%	1.6M	14.5M	3.4%
13	Cartier	3.4%	2.0M	15.9M	3.0%
14	Burberry	3.4%	3.0M	44.2M	3.1%
15	Omega	2.4%	1.5M	5.1M	4.4%

Source: Luxe Digital

LUXE
DIGITAL

Figure 28- The top 15 best luxury brands online in 2021 (Luxe digital in “The 15 Most Popular Luxury Brands Online In 2021”)

¹⁵³ Ibidem

¹⁵⁴ Ibidem

euros at the beginning of 2020 to 558 euros at the end of the year. Being more specific, according to a press release published by Kering, Yves Saint Laurent revenues were €434.6 million in the first quarter of 2020, so they were down of 12.6%, a good performance considering the general situation of luxury market. Bottega Veneta in the same way, registered good results with revenue up 10.3%.¹⁵⁵ Regarding Gucci, in the first quarter of 2020 it was down 22.4 %. Even if the brand had a good start at the beginning of the year, in February revenues started to decrease because of the lack of Chinese tourists worldwide and the closed stores in China.¹⁵⁶ The situation started to improve in March 2020, revenues started to increase and in the third quarter of the year sales were down about 12 per cent, a very good performance considering the instability created by Covid-19 in luxury market.¹⁵⁷ In 2021, as it is reported in “Kering 2021 first-half report”, the economic situation of Kering luxury brands was nearer to the first-half 2019 level. Kering company affirmed that the data prove that the group has been able to face the crisis and get out of it even stronger than before. The stores have been able to organize their structures with the necessary health measures and go on with their activities. However, because of in 2020 the launch of some collections and projects have been postponed, the in-store offering was limited also in the first part of 2021.¹⁵⁸ The introduction of the omni-channel strategy was fundamental to increase Kering group’s revenues and face the crisis caused by the pandemic.

3.7 Gucci debut on Tmall Luxury Pavilion

Gucci has been able to maintain the economic situation stable thanks to the positive aspect of Covid-19 that is it has facilitated the growth of e-commerce sales, allowing brands to cope with the crisis. In particular, the luxury market has seized the opportunity to better position itself on digital platforms and expand its business in China. This is also thanks to the presence of specialized Chinese e-commerce platforms for brands in this sector as the Tmall

¹⁵⁵ *In a quarter heavily impacted by COVID-19, Kering demonstrates its solidity*, in Kering.com,2020, <https://www.kering.com/it/news/in-a-quarter-heavily-impacted-by-covid-19-kering-demonstrates-its-solidity> , accessed on 20 August 2021

¹⁵⁶ *In a quarter heavily impacted by COVID-19, Kering demonstrates its solidity*, in Kering.com, cit.

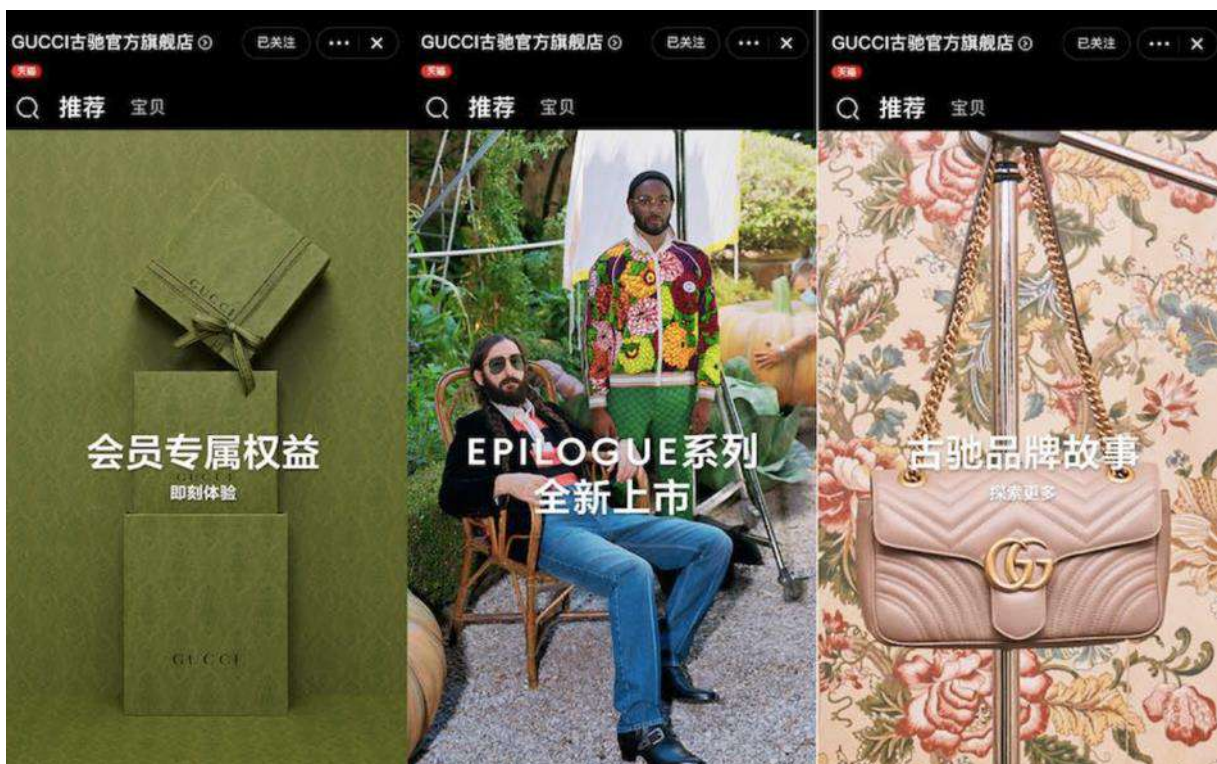
¹⁵⁷ LORD R., *Which brand did Covid-19 affect most- Louis Vuitton, Dior, Gucci or Hermès? Luxury houses’ results show a turnaround in the second half of 2020*, in South China Morning Post, 2020, <https://www.scmp.com/magazines/style/luxury/article/3115602/which-brand-did-covid-19-affect-most-louis-vuitton-dior> , accessed on 8 June 2021

¹⁵⁸ PALUS J.F., DUPLAIX J.M., *Kering 2021 First-Half Report*, in Kering.com, 2021, https://keringcorporate.dam.kering.com/m/3998e216c8310e2d/original/Kering_2021_First-Half_Report.pdf , accessed on 20 August 2021

Luxury Pavilion. In order to recover the losses caused by the pandemic Gucci like other luxury brands decided to enter definitively Tmall Luxury Pavilion. The collaboration between Gucci and Alibaba against counterfeiting and all Alibaba's policies are the most important elements which lies at the basis of the Gucci's decision of entering Tmall platform. This cooperation has meant that Gucci felt it had a partner against counterfeiting, so the brand decided to trust Alibaba promises of acting in good faith and in December 2020 opened two flagship stores on Tmall. The first one dedicated to fashion while the second one which was opened in February 2021 dedicated to beauty.

The date of Gucci's entry on Tmall was not chosen at random, it fell just before Chinese New Year when there is an increase in travel and shopping, in this way the company was sure it would have obtained a great return.

For years now, some brands have been trying to get closer to Chinese consumers with products designed for the event. This year Gucci also considered this important point acting in two directions: it launched a series of 红包 (hongbao, the red envelopes traditionally exchanged by the Chinese on New Year's Eve) and it also created the "Doraemon x Gucci" capsule collection.¹⁵⁹



¹⁵⁹ FONTANA A., *GUCCI in Cina: il Made in Italy che piace punta sul digital first*, in Bridging China, 2021, <https://bridgingchinagroup.com/gucci-in-cina-il-made-in-italy-che-piace-punta-sul-digital-first/#>, accessed on 10 June 2021

Figure 29- Gucci on Tmall Luxury Pavilion (Brand News in “Gucci sbarca su Tmall con due flagship store dedicati a moda e bellezza”)

While for the opening of Gucci beauty store on Tmall the brand decided to collaborate with Coty Inc., this brand was already known in China and its beauty products obtain a lot of success among Chinese customers, Marco Bizzarri believes that thanks to this strategic collaboration they will be able to offer to customers a personalized experience in Gucci beauty world. Also, Michael Evans the president of Alibaba Group expressed his pleasure of

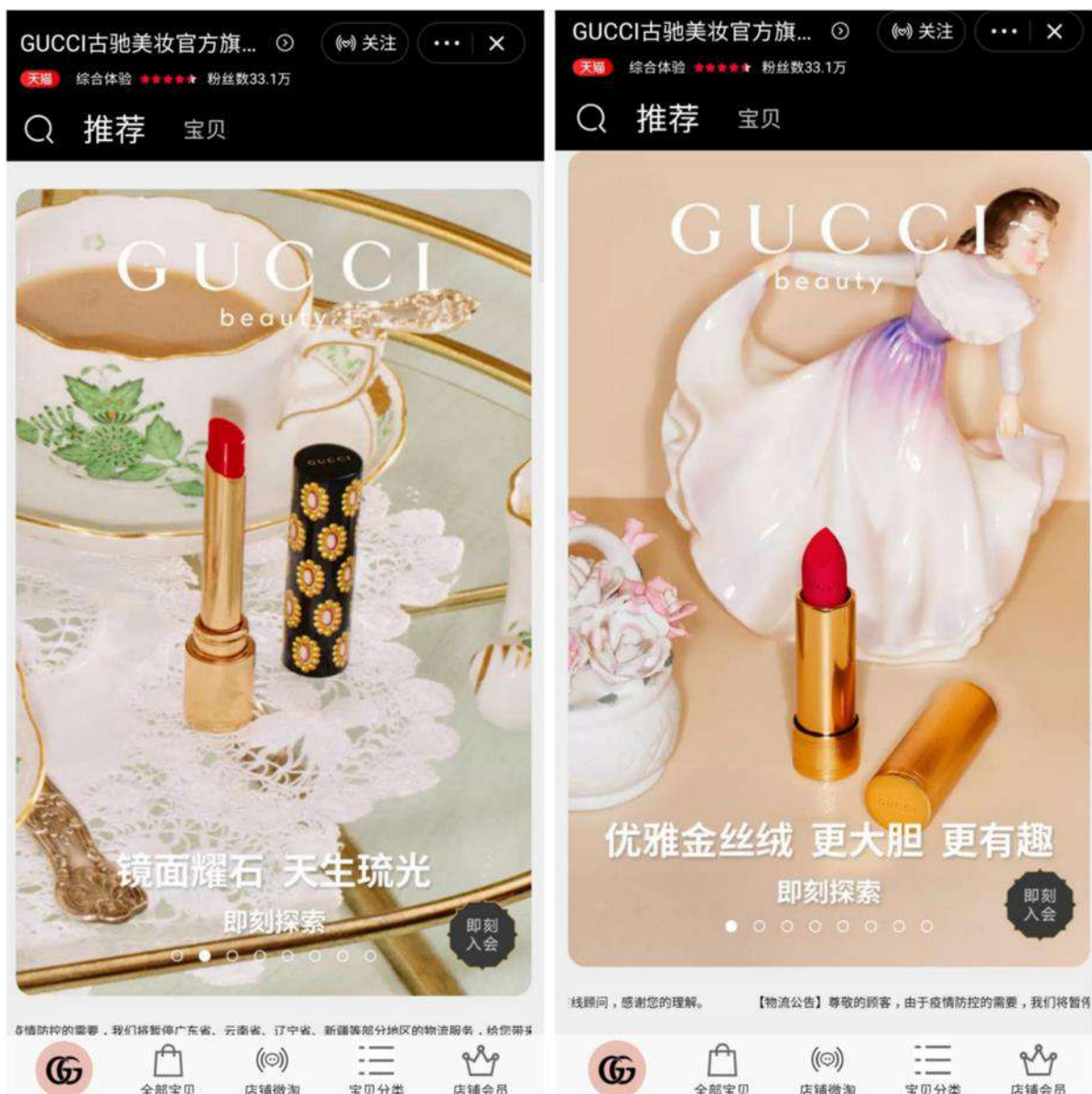


Figure 30- Gucci beauty on Tmall Luxury Pavilion (Tmall Luxury Pavilion)

collaborating with Gucci beauty as he knows that Chinese customers love buying Gucci products online so it is confident that it will be a success. As figure 29 and 30 showed the two stores on Tmall Luxury Pavilion are totally customized according to the brand style. As it has been described in the paragraph referred to the development of the Pavilion, this kind of template together with a personalized experience are the winning cards in order to obtain a good feedback on Tmall Luxury Pavilion.

So, it can be affirmed that the pandemic has sped up the new business collaboration between Kering group and Alibaba, effectively ending the disputes between them. Regarding the entrance on Tmall, Grégory Boutté a Kering group Digital Officer affirmed "A more digital way of doing business is now essential for luxury brands, because at the heart of their business, they care about the experience of the customer. This is Alibaba's obvious strength. We research people's preferences and explore new styles and new brands for them. We're shifting to more of a customer to business (C2B) model; this is a huge change. This means that we see customer and we don't just focus on whether he or she buys something. We closely observe their behaviors, interests, purchasing and loyalty. In China, we call this strategy 共 (gongzhen, strategic resonance; brands and Tmall move in tandem in order to develop a common language and find the right way forward in the market."¹⁶⁰

In the last year, because of COVID-2019 there are a lot of brands which started to expand their presence in Chinese e-commerce. We moved from a situation which placed Alibaba as an unreliable platform because of counterfeiting problem to a situation in which Alibaba is the most important player in Chinese market especially for luxury brands.

¹⁶⁰ WILLIAMS R., *Kering's Gregory Boutté on Fast- Tracking a Digital Upgrade*, in Business of Fashion, 2020, <https://www.businessoffashion.com/articles/luxury/kerings-gregory-boutte-on-fast-tracking-a-digital-upgrade> ,accessed on 13 May 2021

Conclusion

In recent years Chinese luxury market has completely changed, the main accelerator of this change was Covid-19. E-commerce platforms became the main channel through which luxury brands sell their goods. For this reason, the development of Alibaba programmes was fundamental for luxury brands to expand their market in China and reach new luxury customers.

Alibaba-Tmall luxury pavilion has become the fundamental platform for luxury firms to sell their products online. Nowadays it has more than 200 brands with a 30% increase between 2017 and 2019. During these years Alibaba never stopped improving its channels, the introduction of Tmall Flagship 2.0 to allow the brands to offer personalized services to their customers and Tmall Luxury Soho which guaranteed to the firms the possibility of efficiently managing their inventories during the pandemic, are the proofs of the innovative spirit which characterizes Alibaba group.

In order to have success in Chinese luxury market, luxury brands need to adapt their strategies to the new commerce implementing the omnichannel strategy. Even if online channels are becoming more and more important, the in-store experience is still relevant for customers who want to see the products concretely. According to researches the number of people who see the product online and then buy it in store is still high, for this reason brands must be able to respond to customers' needs offering a unique and integrated shopping experience.

Gucci is one of the first brand which implemented a new digital strategy in order to face Covid-19 crisis. In recent years its online visibility has increased a lot, in fact it is the second brand for the highest number of visits on its website. The most important step forward for Gucci expansion in Chinese luxury market was its entrance on Tmall Luxury Pavilion in 2020. Gucci's digital first approach has enabled the brand to strengthen its digital ecosystem in China becoming one of the most successful luxury brands in Chinese territory.

Chinese luxury market became fundamental for international luxury brands, Chinese customers previously accounted for 35% of luxury buyers, now become a priority target for brands in this industry.¹⁶¹ Besides Gucci, a lot of brands already implemented their digital

¹⁶¹ LUAN L., KIM A., ZIPSER D., SU M.Y., LO A., CHEN C., ZHANG C., *China Luxury Report 2019*, cit.

first strategy and the ones which have yet to do it such as Prada, Cartier, Armani and Hermes are developing their online shops during these months. Thanks to their entrance into Tmall Luxury Pavilion, the largest firms will not have problem facing the crisis caused by the pandemic, the ones which will be more affected by Covid-19 are the small brands which don't have the resources to expand their business in China.

On the contrary, the future of luxury brands will be brilliant if they go digital and continue to innovate their online presence. A lot of researchers talk about "digital selection" that is based on the opinion according to which or you go digital, or you will die. I totally agree with this affirmation as the data estimates that online sales will triple as a proportion of the total global luxury market sales by 2025, to be more precise one-fifth of all personal luxury sales will take place online. But in my opinion the phrase "go digital or die" is not complete, I would say "go digital in China or die". In 2025 half of the world's luxury purchase will take place in China, so if a brand is not present in Chinese digital platforms it will never have the opportunity to expand its brand all over the world but only on one half. Moreover, being out of the world largest luxury market will affect its sales negatively, its position in luxury market will be always behind the luxury firms which dominate the Chinese commerce. The reason why a lot of brands don't want to expand their business in China is that they consider it as a risky investment, or they think that young customers haven't a real possibility of buying luxury goods. The truth is that nowadays brands can't base their decision on their beliefs, on the contrary they must look at the data and try to collect the largest amount of information about the perception of their brands in China in order to take the best decisions and implement the most efficient strategies. Obviously, brands can't enter Chinese market using traditional market research or simple social media listening, they must use the latest technologies and be able to constantly modify their approach to the market according to customers preferences. The luxury firms which haven't implemented new technologies yet can't take into consideration the idea of expanding their business in China, but they should change their traditional approach as soon as possible. Covid-19 proved that digitalization is the future and the only instrument we have in order to maintain the connection with the external world in any situation. In recent years new technologies and digitalization have been the salvation of many luxury companies while Chinese e-commerce luxury market has been the place where luxury brands online strategies could be implemented at best using the new digital tools. The success of Chinese e-commerce was given by the fact that it was

already in an advanced phase at the beginning of the pandemic, young customers were already the most important clients for international luxury brands. We can assert that Covid-19 simply accelerated Chinese e-commerce affirmation.

The only one who could change the current success of luxury brands in Chinese e-commerce and the evolution of this new market is Xi Jinping. In August 2021 the Chinese president said that the big presence of luxury firms is creating a large gap among rich and poor people and this situation goes against the principle of “common prosperity”.¹⁶² If the firms won’t keep a lower profile in the future, he will impose some policies such as new inheritance tax and higher levies on income from investments or property to limit the expenditure on luxury goods of rich people. Because of this announcement, as it is showed in figure 31, in August LVMH, Kering, Hermès, Richmond and Burberry market values suffered a 10% decrease.



Figure 31- Luxury groups hit by fears over curbs to Chinese spending (Financial times in “Xi Jinping’s call for wealth redistribution threatens luxury groups’ China boom”)

¹⁶² HALE T., ABOUD L., Xi Jinping’s call for wealth redistribution threatens luxury groups’ China boom, in Financial Times, 2021, <https://www.ft.com/content/4cf59a34-cd03-48a1-b5d0-0c71922ef9b3> , accessed on 9 September 2021

The situation luxury brands are living in these months reminded them the importance of Chinese government and the relevance of respecting Chinese values and culture. But even if there is the possibility of an even higher decrease of the luxury industry in China, luxury firms believe that it will be nothing too serious and they will be able to collaborate with Chinese government to maintain their position in China. Referring to the current situation, Jean-Francois Palus, Kering Group managing director, affirmed “Overall, we consider China more an opportunity than a risk”.¹⁶³ So, he still thinks that to be present in Chinese market is fundamental and that the profit generated by it will be always higher than the losses. In the second quarter of 2021 Gucci registered an improvement of its revenue growth and it is expected to register even higher profit in the future thanks to the launch of the new campaign and the release of “House of Gucci “ movie.

But even if it won't be easy, in the next months luxury brands must be able to respect Xi Jinping desire trying to realize less impactful campaigns and selling more affordable products to a larger group of people. In this way they will be able to avoid stricter restrictions and maintain their successful position in Chinese luxury market.

To sum up, Chinese luxury e-commerce market is a great opportunity for international luxury brands to expand their business and in the next years being present in this country will become more and more important for luxury firms to maintain their positions in the world luxury economy but companies must remember that Chinese policies and culture are different from western ones so they must consider and analyze these differences before entering China.

¹⁶³ GUILBAULT L., *The new threat to China's luxury boom: What to know*, in Vogue Business, 2021, <https://www.voguebusiness.com/consumers/the-new-threat-to-chinas-luxury-boom-what-to-know> , accessed on 9 September 2021

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