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The Chinese luxury market and digitalization:
possible strategies for Western brands and *Louis Vuitton* as a case study

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TABLE OF CONTENTS

前言	1
INTRODUCTION	4
1 The Chinese market and Chinese luxury consumer behaviour.....	8
1.1 The main features of the Chinese market.....	8
1.2 The challenges posed by the Chinese market	12
1.3 The modern Chinese luxury consumer	16
1.3.1 The perception of luxury in China.....	16
1.3.2 Clusters of Chinese consumers	19
1.3.3 Differences between Generation X, Millennials and Gen-Z consumer behaviour.....	21
2 The digitalization of the Chinese fashion luxury market	28
2.1 The New Retail	30
2.2 The effects of the COVID-19 pandemic	34
2.3 The new customer journey	38
2.4 Brand-owned, brand-paid, and brand-earned channels.....	41
2.5 Traditional e-commerce	43
2.6 Social commerce	46
2.6.1 Online Word of Mouth (WOM).....	49
2.6.2 KOLs marketing	51
2.6.2.1 Mr. Bags (包先生)	54
2.6.3 Livestreaming	56
2.7 Social commerce channels	58
2.7.1 Weixin (微信): the bridge between online and offline	58
2.7.2 Xiaohongshu (小红书)	61
2.7.3 Douyin (抖音).....	67
2.8 In-store experience still counts.....	70
3 Louis Vuitton's case study.....	73
3.1 The history of <i>Louis Vuitton</i> in China.....	73
3.2 <i>Louis Vuitton</i> 's strategy in the Chinese market.....	74
3.3 Social commerce strategies	78
CONCLUSIONS.....	83
BIBLIOGRAPHY	86
SITOGRAPHY	87

前言

中国市场是时尚奢侈品牌最大、最重要的市场之一。如今中国消费者的购买量已占全球奢侈品的百分之 30。预计 2025 年中国将成为全球最大的奢侈品市场。从这些假定出发，我们不难理解为什么外国奢侈品牌必须加入这个市场，并在其中具有竞争力。

这篇论文的主要目的是分析当今中国奢侈品市场和中国消费者的主要特征。此外，还将介绍外国时尚品牌为在现代中国市场保持竞争力应该采取的策略。本论文将特别关注最能改变中国奢侈品市场的趋势，即数字化。该研究将解释为什么数字化在中国奢侈品市场里越来越重要，以及这一趋势对西方时尚品牌的影响。

第一章旨在介绍中国市场为何是世界上最具有多元化市场之一，并分析国外奢侈品牌在中国开展业务所面临的挑战。中国市场是一个混合了不同倾向和口味的市场，因此不能采取一个一刀切的策略。想要在中国取得成功的外国奢侈品牌需要面对一些挑战并相应地调整其战略。比如说，错误的本地化、缺乏文化和政治敏感性、将中国视为一个单一市场是外国奢侈品牌最常犯的错误。

作为一个合乎逻辑的结果，中国消费者也非常多样，他们可以分为不同的集群。本章将以马斯洛需求层次理论为参照，分析中国消费者有什么需求，并介绍这些年来他们的消费行为发生了什么样的变化。主要原因之一是中国经济的快速增长以及随之而来的人均收入增加。论文的这一部分还将分析不同客户群之间的不同消费习惯。

该论文将特别关注千禧一代与 Gen-Z 消费者，以及他们在消费行为方面上与老一代的不同之处。中国千禧一代与 Gen-Z 目前占中国奢侈品总支出的百分之 50 多，成为中国奢侈品市场新的消费大户。与老一代相比，这些新一代消费者在购买奢侈品时有着不一样的需求和目标。前几代消费者在购买奢侈品时更看重身份与面子的概念，而年轻消费者的要求更高、更讲究。他们特别重视品牌的故事和价值主张、产品质量与环境影响。此外，他们对时尚品牌的忠诚度不太高，他们非常喜欢尝试不同的品牌与款式，不断地掌握来自国外的最新流行趋势，并且他们在网上度过大部分时间。所有这一切意味着，如果西方奢侈企业想让年轻消费者对他们的产品保持感兴趣，则需要避免他们认为其品牌已经过时或者没有吸引力。

第二章完全侧重于中国奢侈品市场日益数字化。中国是世界上数字化程度最高的国家之一。这种趋势当然已经蔓延到中国市场的各个方面，包括奢侈品购买习惯。即使最大比例的奢侈品购买仍然是在线下进行的，但是在线奢侈品购买也越来越重要，而且大部分客户旅程现在

是数字化的。论文的这一部分介绍新零售的概念。2016年，电子商务巨头阿里巴巴创始人马云首次提出新零售这个概念。新零售可以描述为线上与线下世界的融合。新零售的目的就是为消费者提供有意义而难忘的购买体验。它的主要优势在于新零售允许奢侈品牌收集有关消费者口味的详细信息，并且奢侈企业可以为他们提供量身定做的消息与促销活动。

论文这一部分还简要分析了 COVID-19 大流行对中国消费者购买奢侈品方式的影响。疫情暴发以前，中国奢侈品消费者曾经在海外购买奢侈品，尤其是在欧洲国家。疫情封锁剥夺了中国消费者这种可能性，并且迫使他们在自己的国家购买奢侈品，导致国内奢侈品消费上升。然而，大流行病不仅阻止了消费者出国游行，甚至阻止了他们在自己国家内的旅行。在这种情况下，在线奢侈品购买呈指数级增长，因为奢侈品店通常位于一线城市，所以很大一部分住在二线城市的有钱中国消费者无法接触去这些地方。

如今，奢侈品消费者旅程接触点最大部分发生在网上。当消费者要选择想购买的产品和品牌时，他们首先在网上搜索，然后寻找建议，最后做出一个决定。本章有专门介绍电子商务的部分，还有一个专门介绍社交商务的部分。电子商务是中国奢侈品市场数字化趋势的主要支柱之一。如今在中国奢侈品消费中占据重要比例。电子商务现在已经却被另一种趋势所超越：社交商务。

社交商务在某种意义上是电子商务的演变，它将传统电子商务与社交媒体平台完美融合。三种趋势在社交商务中尤为重要，也就是口碑、关键意见领袖营销和直播。这一段深入分析了近年来这些趋势的演变、它们的特点以及它们如何影响外国奢侈品牌在中国的营销策略。该章随后介绍中国奢侈品消费者使用的三个主要社交商务平台，即微信、小红书和抖音。

外国奢侈品牌需要记住，由于中国防火墙的原因，中国消费者无法访问西方社交媒体。因此，它们也无法看到西方时尚品牌在其社交媒体页面上发布的内容，所以外国品牌也应该在中国平台上建立自己的官方形象。这一段也将分析这些数字渠道的功能和差异，以及中国消费者在购买奢侈品时常常依赖这些平台的原因。此外，还列举了已经成功或者失败使用这些渠道的奢侈品牌的具体例子。

然而，除了加强它们在中国数字平台上的影响力之外，外国奢侈品牌还应该记得中国奢侈消费者仍然非常注重亲身体验。事实上，购买奢侈品也是一种仪式、一种体验。如上所述，新零售是线上和线下的融合。虽然中国消费者越来越依赖线上购买，但是最大比例的奢侈品购买仍然是在实体店进行的。在实体店，消费者可以亲眼看到产品并充分体验购买奢侈品的美好过程。

最后一章介绍以 Louis Vuitton 为特色的案例研究。Louis Vuitton 的战略在中国市场尤其成功，并且该品牌在某些方面已成为中国市场的一个先行者。本章简述了 Louis Vuitton 从 1992 年进入中国市场到今天的历史。本论文将介绍该时尚品牌在进入中国市场时采用的策略，以及多年来如何制定和调整其战略。Louis Vuitton 是一个在世界上具有历史遗产的品牌，所以当进入中国市场的时候，它就已经为中国消费者所闻名。不过 Louis Vuitton 在中国战略的主要优势在于利用其遗产，同时适应这种新市场的文化。

今天，Louis Vuitton 再次显示了自己的智慧，即采用新的数字化战略，以跟上中国奢侈品市场日益数字化。2019 年，这个法国时尚品牌成为第一个加入小红书平台的西方奢侈企业。它展示了其利用中国数字平台接触中国消费者的能力。Louis Vuitton 并不是唯一一个适应中国奢侈品市场数字化的西方奢侈品牌，但它无疑是采用最成功战略的企业之一，并且是成功保持对中国奢侈品市场吸引力的品牌之一。

INTRODUCTION

The Chinese market is one of the biggest and most important for luxury brands. Today, Chinese consumers are responsible for about 30% of luxury purchases worldwide and China is expected to become the world's largest luxury market by 2025. Starting from these assumptions, it is not difficult to understand why it is key for foreign luxury brands to be present and competitive in this market.

The main purpose of this study is to analyse the key features of today's Chinese luxury market and Chinese consumers and understand the strategies foreign fashion brands should adopt if they want to maintain their presence and their competitiveness in China. In particular, the thesis will focus on the trend that most of all has changed the rules of the game in the Chinese luxury market, namely digitalization. It will be explained why digital is increasingly essential in the Chinese luxury market and the implications this trend has on Western fashion brands.

The first chapter aims at presenting the reasons why the Chinese market is considered one of the most diversified in the world and the main challenges that foreign luxury brands have to face when entering and operating in it. The Chinese market is a miscellaneous of different tendencies and tastes, and therefore a one-size-fits-all strategy is not possible here. Foreign luxury brands that want to succeed in China need to face some challenges and to adapt their strategies accordingly. For example, wrong localization, lack of cultural and political sensitivity, and seeing China as a one single market are among the most common mistakes foreign luxury brands make.

As a logical consequence, Chinese consumers are extremely variegated as well, and they can be divided into different clusters. The chapter will analyse what their needs are taking the Maslow's Pyramid as a reference and how consumers behaviour in China has changed throughout the years, also due to the rapid economic growth China has experienced and a consequential significant increase in per capita income. This section will also analyse dissimilar spending habits among different clusters of customers. In particular, the study will focus on Millennials and Gen-Z and how they differ from their predecessors. Chinese Millennials and Gen-Z nowadays account for more than 50% of luxury spending in China, being the new big spenders in the Chinese luxury market. These new generations of consumers have different needs and aim at different goals when they purchase a luxury good. While previous generations were more attached to the concept of status and *mianzi* in their luxury purchases, younger consumers are more demanding and sophisticated, they give more importance to brands' storytelling and value proposition, quality of the product and environmental impact. They are also less brand loyal, they like to wander in different brands and styles, they keep up to date with latest fashion trends coming from Europe and they spend most of their time online.

All of this means that Western luxury brands need to change their strategies if they want to keep young consumers engaged and avoid being considered obsolete and not appealing.

The second chapter focuses on the increasing digitalization of the Chinese luxury market. China is one of the most digitalized countries in the world and this has of course spread across all aspects of the Chinese market, including luxury purchasing habits. Even if the greatest percentage of luxury purchases is still conducted offline, online luxury spending is gaining more and more space and most of the purchasing journey is now digital.

In this section, the notion of New Retail is presented. The concept of New Retail has been introduced in 2016 by Jack Ma, the founder of e-commerce giant Alibaba, and can be synthesized as the merge of online and offline worlds. The purpose of the New Retail is to provide consumers with a significant and unforgettable purchasing experience and the main advantage of this new system is that it allows brands to collect detailed information about consumers' preferences and to provide them with tailored messages and promotional initiatives.

This part of the study also briefly analyses how COVID-19 pandemic has fundamentally reshaped the way Chinese consumers purchase luxury items. Before the outburst of the pandemic, Chinese luxury consumers used to travel a lot and conducted the greatest percentage of their luxury purchases overseas, especially in European countries. Lockdowns have deprived Chinese consumers of this possibility and forced them to purchase luxury goods in their own country, causing a significant rise in the domestic luxury spending. However, the pandemic has not just prevented consumers from travelling abroad but in some cases even within their own country. This situation has led to an exponential increase in online luxury purchases, because luxury stores are often located in first-tier cities, while a great part of wealthy Chinese now lives in second and even third-tier cities.

Today the greatest part of luxury consumers journey touchpoints is online. Customers first conduct research online when they have to choose what product they want to buy and from what brand, then look for recommendations and finally make a decision. The new customer journey is still composed of five main steps, i.e., awareness, evaluation, purchasing, loyalty and advocacy, but compared with the old customer journey it looks more like a loop than a funnel. The paragraph will analyse the main differences that exist between the old and the new customer journey, how digital channels have influenced these changes and how the role consumers have in it has been reshaped.

The chapter then presents a section dedicated to e-commerce and one that focuses on social commerce. E-commerce is one of the main pillars of the Chinese luxury market's digitalization trend and today it accounts for a significant percentage of luxury spending in China. However, e-commerce has now been surpassed by another trend, called social commerce. Social commerce in a sense represents an evolution of e-commerce, creating a perfect blend between traditional e-commerce and social media

platforms. The paragraph dives into three trends that are of particular importance in this new type of digital commerce: online word-of-mouth (WOM), Key Opinion Leaders marketing and livestreaming. This section deeply analyses the evolution of these trends in recent years, their peculiarities and how they are influencing Chinese consumers' decisions and foreign luxury brands' marketing strategies in China.

The chapter then proceeds with a presentation of three of the main social commerce platforms Chinese luxury consumers use, namely Weixin, Xiaohongshu and Douyin. Western luxury brands need to keep in mind that Chinese consumers do not have access to Western social media, because of the Great Firewall. This means that they can't see what Western brands post on their social media pages, and therefore brands should also be present on Chinese platforms. This section is going to analyse the functioning and the differences between these channels and why Chinese consumers rely on them when making a luxury purchase. Moreover, concrete examples of luxury brands that already succeeded or failed at using these resources are presented here.

However, when trying to strengthen their presence on Chinese digital platforms, foreign luxury brands should not forget that the physical experience is still strongly valued by Chinese luxury consumers and that buying a luxury item is also a matter of ceremony and experience. As said above, the New Retail is a merge between online and offline, and while it is true that Chinese consumers rely more and more on online tools for their purchases, it's also true that the greatest percentage of luxury spending is still conducted in brick-and-mortar stores, where consumers can touch and see the product and fully live the experience of a luxury purchase.

The third and last chapter will present a case study that features *Louis Vuitton*. *Louis Vuitton's* strategies have been particularly successful in the Chinese market and the brand has for some aspects been a pioneer in China. The chapter will make a short excursus throughout *Louis Vuitton's* history from its arrival in the Chinese market in 1992 until today. This study presents the approach that the brand has adopted when entering China and how it has developed and adapted its strategies throughout the years. *Louis Vuitton* is a brand with a long history and heritage worldwide, so when it entered the Chinese market, it was already well-known by Chinese consumers. However, the main strength of *Louis Vuitton's* strategy in China has been leveraging its heritage while adapting to the culture of this new market.

Today, *Louis Vuitton* has once again demonstrated its cleverness by adopting new digital strategies in order to keep up with the increasing digitalization of the Chinese luxury market. The French fashion brand has been the first Western luxury brand to join Xiaohongshu in 2019 and has demonstrated its ability in talking to Chinese young consumers by using Chinese digital platforms. *Louis Vuitton* is not the only Western luxury brand to have adapted to the digitalization shift in the Chinese luxury

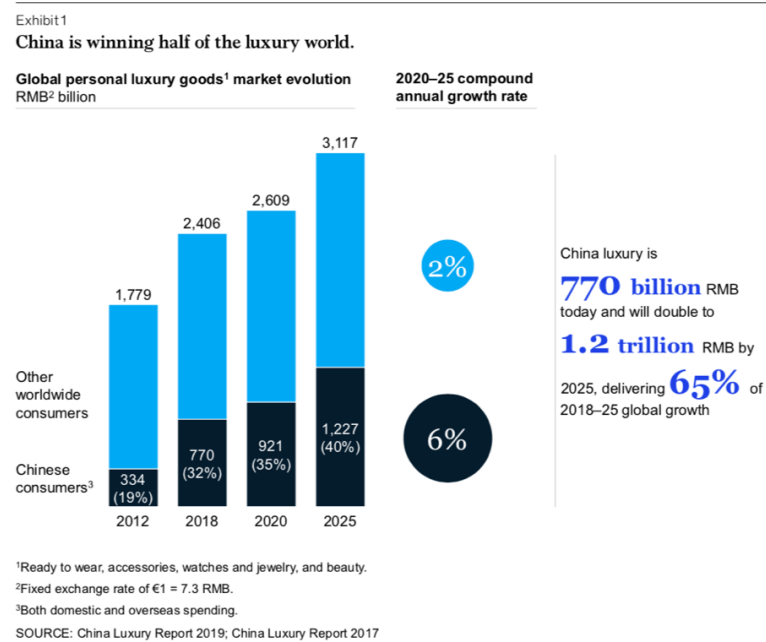
market, but it certainly is one of the foreign brands that have adopted the most successful strategies and undoubtedly among the ones that have succeeded at maintaining its appeal on the Chinese luxury population.

1 The Chinese market and Chinese luxury consumer behaviour

1.1 The main features of the Chinese market

The Chinese market is one of the biggest in the world and surely the most complex and nuanced one. Along with this, China is also one of the most powerful and richest countries worldwide: today it is the world's second-largest economy and is responsible for over 18% of global GDP¹ while Chinese consumers represent more than 30% of global luxury consumers (*figure 1.1.*). According to Statista, revenue in the Chinese Luxury Goods market amounts to RMB 322.00 billion as of 2023, with an expected annual growth of 4.09%². Furthermore, despite the economic slowdown and inflation China has experienced in the last years, also due to the pandemic situation, the luxury market in this country is still growing. According to McKinsey & Company China Consumer Report 2023, despite the slight decrease in optimism due to the continuation of the pandemic situation, Chinese consumers are still quite confident about China's economic recovery and Chinese upper-middle and high-income consumers has continued to grow throughout 2022³.

Figure 1.1. – China is winning half of the luxury world



Source: China luxury report 2019, McKinsey & Company (2019)

¹ C. Textor, (2022). “China's share of global gross domestic product (GDP) adjusted for purchasing-power-parity (PPP) from 1980 to 2021 with forecasts until 2027”, Statista - <https://www.statista.com/statistics/270439/chinas-share-of-global-gross-domestic-product-gdp/>

² (2022). “Luxury Goods – China”, Consumer Market Insights, Statista. - <https://www.statista.com/outlook/cmo/luxury-goods/china?currency=CNY>

³ D. Zipser, D. Hui, J. Zhou, C. Zhang, (2022). “20203 McKinsey China Consumer Report – A Time of Resilience”, McKinsey & Company.

As a logical consequence, the Chinese market should certainly be a priority for Western luxury brands. China surely offers a wide range of possibilities to international brands, but together with opportunities also brings a lot of significant challenges and risks. With a population of 1.4 billion people, China is an extremely huge and diversified market, so Western brands need a cautious approach when entering and conducting their businesses in it.

First of all, Western luxury brands should try to understand the cultural context they are going to operate in. Hofstede's dimensions of culture could be helpful in order to understand China from a cultural point of view because it has been proved that cultural values can highly influence consumer behaviour. Geert Hofstede was a researcher in the field of organizational studies and cultural organizations and in 1980 he elaborated the theory of cultural dimensions⁴. According to him, we can rate countries according to four dimensions of culture:

- Power Distance
- Individualism vs Collectivism
- Uncertainty Avoidance
- Masculinity vs Femininity

Hofstede subsequently added two more dimensions:

- Long-Term Orientation
- Indulgence

For the purpose of this thesis, Individualism vs Collectivism, Uncertainty Avoidance, Masculinity vs Femininity and Long-Term Orientation are the dimensions that this study is going to explore (*figure 1.2*).

China is a highly collectivistic society⁵, meaning that relationships are strongly valued. The concept of 关系 (*guānxi*), meaning “relationships” in Mandarin, is one of the fundamentals in the Chinese society, both in the private and public sphere. This idea has its origins in the Confucian doctrine, which emphasized the importance of social connections. In China, everything, from personal to business relationships, is based on the nurturing of one's social network and bonds⁶. For the Chinese luxury market, this means that consumers rely a lot on social goals and on the evaluation they receive from the society: in this sense, the possession of a luxury item becomes a way of establishing oneself within the society and of displaying one's social status. This is strictly linked to the concept of *miànzi*,

⁴ T. Vescovi, (2021). “International Marketing to China”, McGraw Hill. Chapter 3, “Cultural Dynamics in Assessing Global Markets”.

⁵ AA. VV., (2022). “Hofstede Insights”. - <https://www.hofstede-insights.com/country-comparison/china/>

⁶ M. Wenderoth, (2018). “How A Better Understanding Of Guanxi Can Improve Your Business In China”, Forbes. - <https://www.forbes.com/sites/michaelwenderoth/2018/05/16/how-a-better-understanding-of-guanxi-can-improve-your-business-in-china/?sh=55d462c55d85>

an idea that is deeply rooted in the Chinese culture and that will be analysed more in depth in the second section of this first chapter.

In terms of Uncertainty Avoidance, China scores low compared to Western countries⁷. Uncertainty Avoidance refers to what extent the members of a society are able to tolerate uncertainty and are ready to take risks. Chinese are not scared by changes and newness, and this translates in an openness towards new trends, in low loyalty towards brands and in the desire to always renovate and try something new.

Hofstede then distinguished between masculine and feminine countries. Cultures that score high on the masculinity index, are those in which competition, success and achievement are valued the most, while cultures with low masculinity index are those in which caring for others and quality of life are prioritized. China is a masculine country⁸, people are always encouraged to give more and achieve more, and this is reflected in all aspects of life, from school to work to social interactions. From a consumer behaviour point of view, the possession of luxury goods become something that improves the level of well-being of consumers' lives.

Finally, China is also a long-term oriented and pragmatic country⁹, and this means that there is a strong propension to save and invest for the future. In terms of consumer behaviour, this does not mean that Chinese consumers are stingy or that they do not like to spend money on leisure and personal goods, it only means that they want to invest their money wisely and that they do not like to spend money for low quality goods.

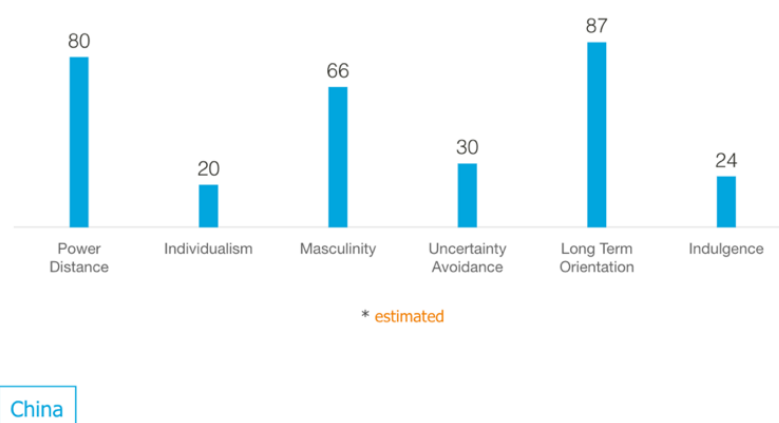
Of course, Hofstede's dimensions of culture are just a tool that can help to position a country in a determined cultural context, but it is not a rigid parameter and brands should also take into account contextual factors like political, economic and social situations.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

Figure 1.2. – Hofstede Dimensions of Culture, China



Source: Hofstede Insights (2022)

Foreign luxury brands must also acknowledge the fact that the Chinese culture is a high-context one. The context theory has been introduced for the first time by Edward T. Hall in 1960¹⁰, and the main assumption of this postulate is that language is just the most basic component of communication, which actually involves much more. Starting from this premise, Hall divides cultures into two categories: low-context cultures and high-context cultures. Low-context cultures are those in which verbal communication is the principal tool: in these countries, communication relies on explicit contents only. In high-context cultures the transmission of messages is more complicated, and a more delicate approach is needed, because these cultures mostly rely on implicit and non-verbal communication. This means that in China a lot of importance is given to context, symbols and gestures, and foreign brands should keep this in mind if they want to avoid misunderstandings and communication mistakes, because this plays a fundamental role in how a brand is perceived.

Ultimately, foreign brands that want to operate in the Chinese market need to remind that this is becoming a more and more acquainted one, when we talk about luxury. Acquainted markets are those composed by sophisticated consumers that have a level of knowledge that allows them to understand and evaluate the quality and the dissimilarities that exist between different brands. They can be defined as developed, differentiated, and segmented markets. The Chinese luxury market has undergone a significant process of transformation throughout the years, shifting from being a non-acquainted mass market to being an acquainted niche luxury market. Even if it may sound strange given the proportion of it, the Chinese market is a niche one, because it has specific and particular needs, features and peculiarities. Luxury brands that want to be competitive in it, can no longer

¹⁰ T. Vescovi, (2021). “International Marketing to China”, McGraw Hill. Chapter 4, “Culture, Management Style and Business Systems”.

approach the Chinese market as a totally non-acquainted one, because modern luxury consumers are more knowledgeable than in the past, as it will be discussed in the third section of this chapter.

1.2 The challenges posed by the Chinese market

Once the main features of the Chinese market have been identified, the study can now concentrate on the main challenges foreign brands have to face and on the most common mistakes they run into. If we consider brick-and-mortar stores, one of the first challenges foreign luxury brands have to deal with is the choice of the right location. Due to the huge dimensions of China, it is impossible for foreign luxury brands to be physically present in every city, therefore they must locate their stores in the most strategical places, allowing the greatest percentage possible of consumers to be able to reach them. Chinese cities are ranked among four different tiers, based on criteria such as their GDP and income level, with first-tier cities being the highest and fourth-tier cities being the lowest¹¹. When Western luxury brands first came to China in the 1990s, the greatest part of rich Chinese consumers lived in first-tier cities, such as Beijing, Shanghai, Guanzhou and Shenzhen. First-tier cities certainly are the most developed ones and people who resides here are generally highly educated and have a great purchasing power. However, in the recent years, second and third-tier cities have experienced an impressive upgrade, and today a great percentage of wealthy Chinese live here and demand for luxury has exploded in these places. The cost of living in lower tier cities is still low, while incomes are becoming increasingly high, resulting in a more confident attitude in spending their money for Chinese consumers living in these areas; and while the Consumer Trend Index is fundamentally steady in first and second-tier cities, it is rising particularly rapidly in lower-tier ones. Therefore, foreign luxury brands should no longer focus only on first-tier metropolis and must find ways to reach lower tier cities as well, whether it is achieved by opening new stores there or through digital channels. Another challenge foreign brands have to face is that China is now a saturated market characterized by an extremely fierce competition. This represents an obstacle not just for newcomers but also for luxury brands that are already well-established and have a long history in China. Today, Chinese consumers are constantly bombed with advertising and have an incredible huge range of luxury brands and products they can choose from when purchasing an item. In this landscape, it becomes

¹¹ G. Casagrande, (2022). "Chinese City-Tier System: A Guide For Foreign Investors In 2022", FDI China - <https://www.fdicchina.com/blog/chinese-city-tier-system-investment-guide/#:~:text=Currently%2C%20the%20only%20cities%20ranking,Shanghai%2C%20Guangzhou%2C%20and%20Shenzhen.>

increasingly difficult for consumers to evaluate brands and goods and for foreign luxury brands to stand out from the crowd. This means that Western brands should always try to find new marketing strategies if they want to survive in the fierce competition of the Chinese luxury market.

Another essential matter when talking about the Chinese market, is the importance of cultural and political sensibility. It has already been discussed above the importance for foreign brands of understanding the cultural context they find themselves in, and this is of fundamental importance if they want to avoid missteps and awkward situations. A key example is that of the disastrous advertising campaign conducted by *Dolce & Gabbana* in 2018¹². In November of that year, the Italian brand launched a campaign featuring a Chinese girl trying to eat Italian food using chopsticks. The advertising immediately provoked dissent among Chinese consumers and negative comments rapidly went viral on social media. What was even worse was the arrogant behaviour *Dolce & Gabbana* founders adopted in response to the criticism: Stefano Gabbana first published a post on his Instagram account insulting the Chinese population and culture, then removed it saying his profile has been hacked, and finally, after waiting a week since the outburst of the scandal, releasing a video subtitled in Mandarin in which the two founders apologized with the Chinese population. However, public apologies haven't been enough for the Chinese market and in just four days since the launch of the campaign, *Dolce & Gabbana* was forced to cancel its show, was removed from Alibaba's Tmall platform and abandoned from Chinese influencers, celebrities and common consumers who even posted videos in which they burnt or trashed *D&G* products. *Dolce & Gabbana* actually never left the Chinese market and today its revenues in China are almost completely back on track¹³. Nevertheless, Chinese consumers have not forgotten the episode and the Italian brand's contents still undergo Chinese meticulous scrutiny when published. *Dolce & Gabbana* scandal has represented a hard lesson not only for the brand itself but for Western fashion brands in general: it is now even clearer for every brand that culture is a delicate matter in China and that once your brand reputation in this country is spoiled, it is for good.

Political situation is an even more delicate subject in this country. The Chinese political context is really unique and certainly it differs enormously from the Western one, foreign luxury brands thus need to understand it and approach it cautiously. The Chinese Government is strongly present in all the aspects of its citizens' lives, even the most personal ones, and every content that brands bring to China, especially if we talk about Western companies, need to pass its scrutiny. Therefore, foreign

¹² V. Friedman, Sui-Lee Wee (2018). "The Crash and Burn of Dolce & Gabbana. Racism and arrogance about China has imperilled the brand", The New York Times. - <https://www.nytimes.com/2018/11/23/fashion/dolce-gabbana-china-disaster-backlash.html>

¹³ G. A. Williams, (2022). "Four Years On, Dolce & Gabbana Speaks Out After China Scandal", Jing Daily. - <https://jingdaily.com/dolce-gabbana-speaks-out-china-scandal/>

brands should avoid intruding on sensitive political issues such as the Hong Kong, Macau and Taiwan affairs or the Xinjiang matter. The history of Western fashion brands in China provides some examples of advertising campaigns that have been a disaster due to political reasons. In 2019, the Italian fashion company *Versace* launched a t-shirt with the main world capitals paired with the respective countries written on it. On these t-shirts Macau and Hong Kong were reported as independent countries. The Chinese population immediately expressed its outrage through social media, forcing *Versace* to recall and destroy all the t-shirts and to make a public apology via social media through which the Italian brand acknowledged the sovereignty of China¹⁴. The Chinese actress Yang Mi, one of the most important Chinese spokespersons for *Versace*, published a post on her Weibo page saying that she had terminated the contract with the Italian firm, causing it an even greater image damage. Hong Kong and Macau are both special administrative regions that enjoy a certain degree of autonomy but are under the Chinese sovereignty. China has a strict “One China” policy that stipulates that there only exists one China, and that Hong Kong, Macau and Taiwan are all part of the People’s Republic of China. The relationships between mainland China and these territories are quite turbulent and the Chinese Government often has to deal with independence riots in these places, since they revendicate their autonomy and want to cut every tie with the People’s Republic of China. Addressing these territories as independent countries, like *Versace* did, means to go against the Chinese Government.

Another significant example is the one related to the Better Cotton Initiative (BCI), a non-profit group that promotes cotton sustainability launched in 2020 as a sign of protest against the human rights violation of the Muslim Uyghur Population in Xinjiang, forced to pick cotton at inhumane labour conditions. In 2021, the British luxury brand *Burberry* became a member of this initiative declaring that it would have stopped using Xinjiang cotton. The decision had immediate backlash: Zhou Dongyu, a famous Chinese actress and brand ambassador for *Burberry* immediately distanced herself from the brand and interrupted her contract with it, while the famous videogame *Honor of Kings*, owned by the tech giant Tencent, stopped its partnership with the brand¹⁵. Foreign luxury brands need to keep in mind that Chinese consumers are animated by a sense of patriotism and nationalism uncommon in consumers coming from the most part of Western countries. This means that foreign companies not only have to pay attention to what is or is not acceptable to the Chinese Government,

¹⁴ E. Paton, (2019). “多家奢侈品牌因“问题 T 恤”向中国道歉”, New York Times Chinese Website -

<https://cn.nytimes.com/china/20190813/china-donatella-versace-t-shirt/>

¹⁵ I. Togoh, (2021). “As Burberry Faces Backlash In China Over Xinjiang Cotton, Other Luxury Brands Could Face Boycott”, Forbes - <https://www.forbes.com/sites/isabeltogoh/2021/03/26/as-burberry-faces-backlash-in-china-over-xinjiang-cotton-other-luxury-brands-could-face-boycott/?sh=419db3863f9a>

but also to Chinese consumers, who cannot bear that a foreign brand disrespects their culture and nation.

All the features highlighted until here must be understood and well-known not only by foreign brands that are willing to enter the Chinese market but also by the brands that are already present in it, if they want to maintain their presence and competitiveness in the Chinese market and avoid mistakes that could affect their reputation in China forever. To this end, Western brands should adopt effective marketing strategies. First of all, foreign brands need to acknowledge the fact that, given the differences between the Chinese and the Western market, adaptation is essential. Adaptation means that markets are different in terms of needs, consumer behaviour, preferences and habits, therefore foreign companies cannot always take the same strategy they use at home and import it in a foreign country, China in this case. This approach requires brands to tailor their strategies according to the peculiarities of a different market and culture, and certainly requires more effort and investments both in terms of time and money. The Chinese market impose a high level of adaptation, and the main enemy foreign brands must keep away from is ethnocentrism¹⁶. Ethnocentrism means to take one's own home country as the main reference and to evaluate other cultures according to one's own criteria, which can prevent foreign companies from understanding the context they find themselves in and lead to tremendous mistakes. This factor has been at the basis of *Dolce & Gabbana* infamous advertising because the brand adopted its own culture as a reference in defining what is funny and what is not, forgetting to adopt a Chinese perspective.

When foreign companies face a market that is huge like the Chinese one, adaption is needed not only from one country to another but also within the same territory. China is a segmented and diversified market, composed by different clusters of consumers and different submarkets with distinct needs, consumption habits and purchasing power, so this means that a one-size-fits-all strategy is not possible here. Foreign luxury brands should first of all identify who their target is both in terms of consumers and of city tiers and then tailor their message accordingly. Luxury brands cannot consider China as a single market and address in the same way first-tier and fourth-tier cities' consumers, they have to be skilled enough in adjusting their message across different segments and smart enough to accept that sometimes it is not possible to cover the entire market and population.

Another key element foreign luxury brands should consider is the Country-of-Origin (COO) effect. COO effect is defined as the influence that the country a brand comes from has on the consumers' perception of a product¹⁷, and this can be a double-edged sword because the perception can be both

¹⁶ T. Vescovi, (2021). "International Marketing to China", McGraw Hill. Chapter 1, "The Scope and Challenge of International Marketing".

¹⁷ T. Vescovi, (2021). "International Marketing to China", McGraw Hill. Chapter 8, "Products and Services for Consumers".

positive or negative and affect consumers' choices accordingly. It is ascertained that, even before actually coming into contact with a foreign brand, consumers already have developed their own idea and assumptions about it and its products, and even though COO effect has a more prominent role in non-acquainted markets, it maintains a sort of impact also on more knowledgeable consumers. When the perception is positive, foreign brands can exploit this factor to their advantage, but with caution: if they focus too much on exporting abroad the image and reputation they have in their home country, losing sight of the country of destination point of view, they can easily incur in ethnocentrism related behaviours.

An effective positioning strategy is fundamental for foreign brands to succeed in the Chinese market. Brand positioning is defined as the place that a brand occupies in consumers' minds, especially compared with the one occupied by competitors and its fundamental elements are clarity, credibility, consistence and competitiveness. Foreign luxury brands need to clearly define where they want to position in the Chinese market and then develop a strategy that is consistent with this aim.

To sum up, the Chinese market can offer countless opportunities to foreign luxury brands, but it is also full of drawbacks for companies that fail at understanding every facet of it. Both newcomers and already well-established brands, need to develop effective strategies and keep themselves constantly updated if they want to survive in the Chinese market. Foreign luxury brands need to decide their brand positioning strategy, clearly state their value proposition and be coherent with it in order to maintain their appeal on Chinese customers and stand out from the crowd in a market that is full of fierce competitors.

1.3 The modern Chinese luxury consumer

1.3.1 The perception of luxury in China

The perception of luxury in China has evolved and changed shapes through the years. It is worth to quickly mention the definition of the term "luxury" in Mandarin language in order to get a better understanding of its historical meaning for the Chinese population. The word "luxury" translates into 奢侈 (*shēchǐ*) in the Chinese language and literally means "luxurious, extravagant, wasteful". This translation helps in understanding the historical perception of luxury that lies in the Chinese consumers' minds; in particular the term "wasteful" convey the idea that luxury is something unnecessary, an extravagance, an exaggeration, not inevitably something elegant and that brings an added value in consumers' lives.

This feeling has undergone a significant shift after the Reform and Opening-up period (改革开放, *gǎigé-kāifàng*) China has experienced since 1978. When Deng Xiaoping became paramount leader of the People's Republic of China in 1978, he promoted a series of reforms aimed at reshaping the Chinese economic system that led China to become the world economic power we know today. The Reforms and Opening-up policies sanctioned the opening of China toward the rest of the world and the birth of the so-called "Socialism with Chinese characteristics" (中国特色社会主义, *Zhōngguó tè sè shèhuì zhǔyì*): under Deng Xiaoping's lead, China partially abandoned the radicalism that had characterized the Mao era and started working toward a more flexible and open approach toward the modernization¹⁸. As a consequence, foreign companies started to look at the Chinese market under a different perspective and the Chinese market became attractive for foreign investments. This period of economic reforms brought a significant and exponential increase in the Chinese GDP and per capita income, bringing an improvement in living standards that profoundly transformed the Chinese consumer behaviour and perception of luxury. As a consequence, people started to migrate from rural areas to urban areas and it has been calculated that the degree of urbanization increased by almost 50% since 1980¹⁹.

Immediately after the implementation of economic reforms, throughout 1980s, consumption level within the country grew exponentially and Chinese consumers started to develop a strong interest for international brands. Throughout 1990s, when the first wave of luxury brands came to China, Chinese consumers followed conformity when purchasing items: they were not driven by critical thinking and evaluation of different products, but instead by the need of possessing what others had. It is just after 2000 that Chinese consumer behaviour started to become more refined and Chinese consumers developed preferences for specific brands and products and started to give more importance to factors such as quality, price, and brands' value proposition²⁰. Furthermore, in 2001 China joined the World Trade Organization (WTO) and this further boosted economic exchanges with foreign countries and allowed China to expand the list of its trading partners. After the changes brought by 1978 and 2001 events, China became a new economic superpower and the Chinese market became the place to be for a lot of foreign companies that decided to establish their presence here, not just through export anymore but also through foreign direct investments. Western luxury brands indeed first entered China in 1990s, with the first wave being composed by *Louis Vuitton*, *Gucci*, *Bally* and *Salvatore Ferragamo*.

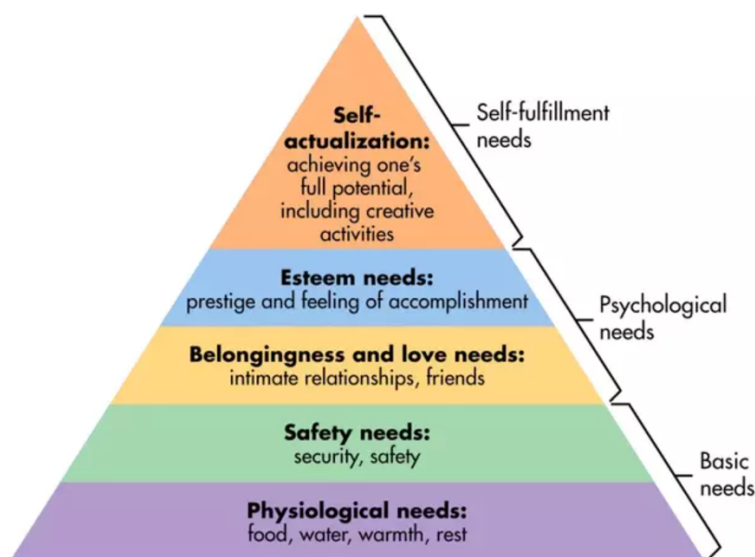
¹⁸ K. Vogelsang, (2014). "Cina", Giulio Einaudi editore S.p.A.

¹⁹ C. Textor, (2022). "Degree of urbanization in China from 1980 to 2021", Statista. - <https://www.statista.com/statistics/270162/urbanization-in-china/>

²⁰ A.G. Dudarenok, (2020). "Modern Chinese Consumers: A Handy Guide for Marketers 2020", Digital China. Chapter 2, "The Development of the Chinese Consumer".

Both the Reforms and Opening-up period and the entrance in WTO significantly improved Chinese living standards. When Deng Xiaoping era begun, Chinese population was coming from a period in which frugality and deprivation were the core values and any entrepreneurial spirit was suffocated and even demonized. Along with economic growth, also came a change in consumer behaviour and a shift in needs.

Figure 1.3. – Maslow’s Pyramid of needs



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

The Maslow's pyramid, an idea developed in 1943 by the American psychologist Abraham Maslow, can be helpful in clarifying what are the core needs that drive modern Chinese consumer behaviour (figure 1.3.). According to this theory, lower needs must be satisfied before moving on to higher ones, even though Maslow later clarified that even if lower needs aren't fully satisfied, a person could try to achieve higher levels of the ladder. At the basis of the pyramid are basic needs, namely physiological and safety needs. These are the primary necessities, which must necessarily be fulfilled in order for the human being to exist. Moving on the pyramid, we have psychological needs, which are belongingness and love needs and esteem needs. These are more subtle categories of exigencies; in fact, the third level refers to social needs that include relationships and sense of belongingness, while the fourth level addresses esteem for oneself, like dignity and independence, and need for respect and reputation given from others. Finally, at the highest level of the hierarchy, self-fulfilment needs, i.e., self-actualization, are found. This level refers to the need for self-realization and personal growth.

Over the years, since 1978 on, Chinese consumer needs have experienced a rapid ascent through the levels of the Maslow's pyramid. Before the economic growth, Chinese consumers highly valued basic needs and sometimes psychological ones, and their consumer behaviour was mainly characterized by frugality and deprivation. In particular, after the tumultuous years of the Cultural Revolution, there was a strong eagerness for sense of security and safety, this is why the Chinese population was constantly pursuing stability, even if this meant to overlook more personal necessities. Nowadays, the Chinese modern consumer has a greater purchasing power compared to before, and for them it is no longer enough to fulfil basic needs: they want to achieve higher goals and become self-realized and successful people that conduct meaningful lives, they constantly seek personal growth and aim higher and higher. Entrepreneurship has become one of the core values in the Chinese society, and this means that Chinese consumers are less scared by changes and are more willing of investing their money in purchasing items for their personal well-being.

Considering this shift in needs, it is then quite simple to understand how the perception of luxury has changed for the Chinese consumers. From the modern Chinese consumer's point of view, the purchase of luxury goods is a way through which they can reach self-empowerment, first and foremost in front of others. Luxury has now regained a positive connotation and luxury items are no longer considered as wasteful and guilty pleasures, but as something that brings added values in one's life.

1.3.2 Clusters of Chinese consumers

Just as it is not realistic to think of China as one single market, it is not possible to classify Chinese consumers as a whole either. It has already been anticipated in the first section of this chapter that the Chinese market is a fragmented one and its consumers need to be divided into different clusters, in order to better understand the historical background of each group, the needs that drives their purchasing decisions and their consumer behaviour.

In her 2020 book²¹, the Russian author and China expert A.G. Dudarenok, starting from the consumer segmentation proposed by Tom Nunlist in 2018²², portrayed the main clusters into which modern Chinese consumers can be classified. For the purpose of this thesis, the study is going to investigate three of these groups: wealthy 土豪 (*tǔháo*), Millennials and Gen-Z.

²¹ A.G. Dudarenok, (2020). "Modern Chinese Consumers: A Handy Guide for Marketers 2020", Digital China.

²² T. Nunlist, (2018). "China's Evolving Consumers: 8 Intimate Portraits", Earnshaw Books.

The word 土豪 translates into “new rich” and is a derogative term used to refer to the generation that became wealthy during the Reforms and Opening-up period, between 1980s and 1990s. This people used to reside in rural areas and mostly came from the Chinese working class, until the Deng Xiaoping era, when they rapidly accumulated a big amount of wealth and moved to higher tier cities. In terms of consumer behaviour, they are despised since they are seen as unsophisticated and vulgar, only willing to show off their newfound wealth and status with tawdry items. Despite their inglorious reputation, it has been their generation that fuelled the expansion of the fashion luxury market right after the reforms era and they are still responsible for a large part of the luxury spending in China.

Millennials are the people born in the 80s-90s, the sons of the 土豪 generation and today they represent the main purchasing force for the Chinese luxury market. They are often referred to as 富二代 (*fùèrdài*) with a derogatory meaning, indicating the fact that they are the spoiled heirs of a generation of uneducated rich. In 1980, the One-child Policy was implemented, and this means that this cluster of consumers is composed by people that are the only children of a family that has devolved all of its wealth to their education and upbringing, partially spoiling them. Nevertheless, they are far more educated compared to their parents’ generation and a great percentage of them has been given the opportunity to study abroad, so they are informed about foreign cultures and trends. They are willing to differentiate themselves from the previous generations and to stand out from the crowd, therefore they usually look for niche foreign brands and products. They want to lead a high-quality life, so in terms of consumer behaviour this translates into attention to details and search for high-quality products. They are also accustomed to the use of Internet, on which they spend a lot of time, but grew up in a time in which offline purchase was the main way to buy items, so they are equally comfortable both in the online and offline worlds.

Finally, Gen-Z cluster is composed by young consumers born between the end of 1990s and 2000s. They grew up in a time of technological development and are digital native and savvy consumers that spend most of their time online looking for products’ recommendations and information about new trends. They keep themselves constantly updated about latest fashion tendencies that come from Western countries, and what they look for in luxury a brand is storytelling, a consistent value proposition, uniqueness, quality and attention for sustainability, a matter to which they are more and more sensitive.

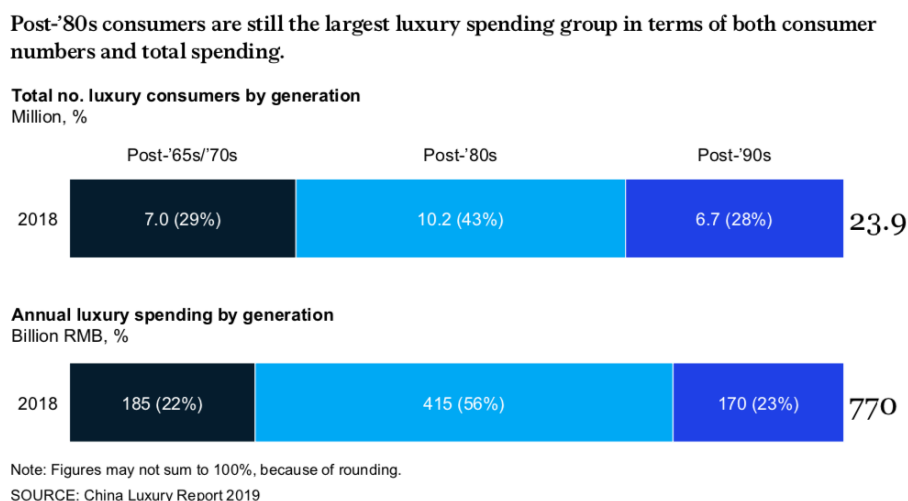
The book also presents other segments of consumers, namely single young people, young urban couples, career-focused single women and young modern mothers. This thesis is not going to deepen peculiarities of these consumers’ groups, but it is important to highlight that there is a common feature that brings all of them together, and this is the desire to break with the past. In fact, from young urban couples to single young people, from career-focused single women to young modern mothers, they

all are people who are trying to find their own way and to shape their own purchasing behaviour, following needs and values that sometimes clash with their parents’, causing a tension between tradition and modernity in them.

1.3.3 Differences between Generation X, Millennials and Gen-Z consumer behaviour

According to the annual luxury report conducted in 2019 by McKinsey & Company, the post-‘80s cluster still accounts for the greatest percentage of consumers in the Chinese luxury market, both in terms of number (43% of total number of luxury consumers) and of spending (56% of annual luxury spending)²³. However, the Generation X cluster still holds a relevant position in the luxury market, while the segment composed by post-‘90s consumers is gaining more and more relevance. Today, Millennials and Gen-Z together account for more than 50% of luxury consumers and luxury spending in China (*figure 1.4.*) and constitute the main driving force behind the growth of the Chinese luxury market. According to Bain & Co. research, they are expected to represent 45% of global luxury consumption by 2025²⁴.

Figure 1.4. – Post-‘80s consumers are still the largest luxury spending group in terms of both consumer numbers and total spending



Source: China luxury report 2019, McKinsey & Company (2019)

²³ AA. VV., (2019). “China Luxury Report 2019 – How young Chinese consumers are reshaping global luxury”, McKinsey & Company.

²⁴ AA. VV., (2022). “What do Chinese millennial and Gen Z customers want from brands?”, MarketMeChina. - <https://www.marketmechina.com/what-do-chinese-millennial-and-gen-z-customers-want-from-brands/>

These three clusters of consumers have already been introduced in the previous section, but the study will now analyse more in depth their peculiarities in terms of consumer behaviour and spending habits, focusing on the main differences that exist between them in order to outline the development Chinese luxury consumer behaviour went through. There are important differences in these clusters' consumer behaviour, which has been evolving and changing with the generational shift and has caused a shift also in the Pyramid of Value²⁵, forcing brands to adapt their strategies and goals in order to satisfy the needs of their new consumers.

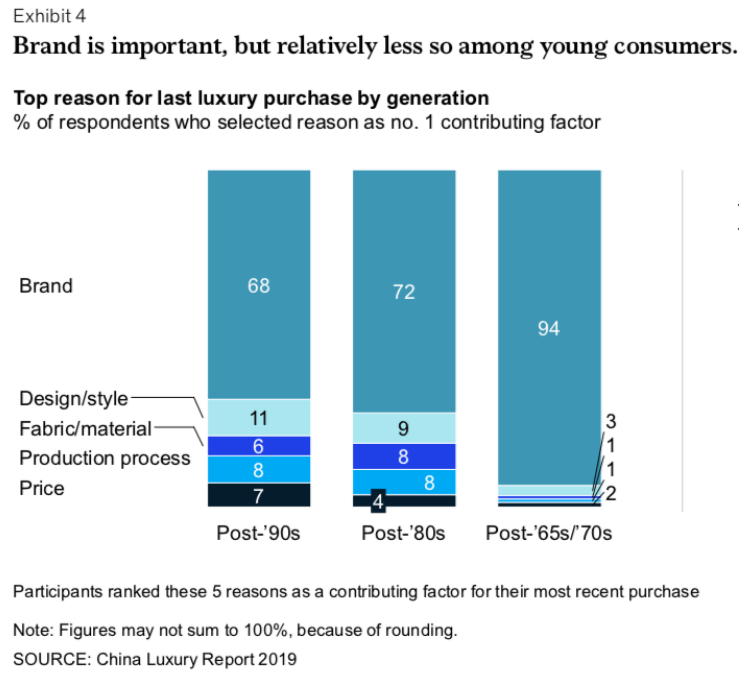
When fashion luxury brands first landed in China, the market they found was mainly composed by the so-called “new rich” consumers, who were for the first time experiencing the breeze of economic freedom and growth and were just approaching foreign brands. At that time, the purchasing of a luxury item was a way of homologation: this cluster of consumers just wanted to have what others had in order to display their status and their newly acquired wealth. In order to better understand this behaviour, it is worth introducing an idea that is deeply rooted in the Chinese culture: that of *miànzi* (面子). The word *miànzi* literally translates into “face”, but the concept of *miànzi* has its roots in the Confucian doctrine and carries with it a deeper meaning that constitutes one of the main pillars of the Chinese culture. The notion is related to one's dignity, reputation and honour and there are several concepts derived from this word, such as “to give face” (给面子, *gěi miànzi*), “to lose one's face” (丢面子, *diū miànzi*), “to save one's face” (留面子, *liú miànzi*), “to gain face” (获得面子, *huòdé miànzi*). On one hand, the fear of losing face, meaning losing one's reputation in front of others, is what drives Chinese to always try to achieve more; while on the other hand, gaining face, meaning obtaining social recognition and respect, is the main goal in the Chinese society. However, the concept of face in the Chinese culture must not be confused with that of “Ego” present in Western cultures: it has already been discussed how China is a highly collectivistic country, in which relationships and social status are extremely valued, therefore the focus is not on individualism and self-orientation, as in Western societies, but on how one's is perceived by others²⁶. It is then easy to understand why the idea of gaining *miànzi* has become the main driving force for luxury purchases in this country. Luxury has turned into a sort of “social capital” with Chinese consumers using luxury items in order to display their status and gain social acceptance and esteem, so brand's name has become the most important reason when purchasing a luxury good. Although this tendency is well established in Chinese consumer behaviour and brand remain the main reason for luxury purchases, surveys conducted on the population have demonstrated that this factor is not as important as before for younger generations

²⁵ The Pyramid of Value is a tool used in marketing that helps marketers identify the key elements consumers value when they choose to purchase an item or a service.

²⁶ AA. VV., (2020). “The Cult of ‘Face’ in China”, China Mike. - <https://www.china-mike.com/chinese-culture/cult-of-face/>

and that other reasons, such as design, material and price are gaining more and more relevance (figure 1.5.)²⁷.

Figure 1.5. – Top reasons for luxury purchases by generation



Source: China luxury report 2019, McKinsey & Company (2019)

This chart is a clear picture of how Chinese consumer behaviour is evolving across generations. The clusters composed by Millennials and Gen-Z are characterized by an increasing sophistication, they are no longer looking just for loud products with recognizable logos, but for fine bags and apparel with a unique design that help them to feel distinct from the mass. Most of all, younger generations of consumers are constantly looking for ways to break with the past and to differentiate themselves from their predecessors, and this is reflected also in their consumer behaviour. As a consequence of the increasing sophistication and constant pursuit of ways to express themselves that drive Gen-Z and Millennials' consumer behaviour, customization is a fundamental tool for fashion luxury brands that want to win these clusters' attention. Brands like *Gucci*, *Burberry* and *Fendi* have already offered customization options on their websites; this gives younger consumers the chance to purchase iconic luxury products but with something unique that reflect their taste and personality in addition²⁸.

²⁷ AA. VV., (2019). "China Luxury Report 2019 – How young Chinese consumers are reshaping global luxury", McKinsey & Company.

²⁸ AA. VV., (2022). "Why customisation matters to Chinese millennials", MarketMeChina. - <https://www.marketmechina.com/why-customisation-matters-to-chinese-millennials/>

Together with the attention to design and details, young luxury consumers also attach great importance to storytelling and value proposition. Young consumers look for brands that reflect their values, and this is why it is fundamental for foreign luxury brands that want to win their loyalty to design a storytelling that is consistent and clear, they need to respect their core values and act accordingly, and above all they need to find effective ways to communicate the values they want to embody²⁹. Consistent storytelling and strong value proposition should be a priority for luxury brands if they want consumers to be able to differentiate themselves from their competitors. The Italian luxury streetwear brand *Off-White*, founded by Virgil Abloh in 2012, represents a key example in this sense. Despite being a newcomer in the fashion luxury world, *Off-White* has been able to catch the interest of Chinese young consumers, not just for its peculiar balance between luxury and streetwear, but also because of its values and consistent storytelling³⁰. Having his roots in West Africa, the late artistic director Virgil Abloh has always linked his brand to the American skater community and black community, participating in movements for human rights like the “Black Lives Matter”, and even if the brand has become more and more luxury through the years, it has always stayed loyal to its core values. Furthermore, *Off-White* often launches limited-edition collaborations with other brands, and this exclusivity has certainly a strong appeal on young Chinese consumers willing to own unique luxury pieces.

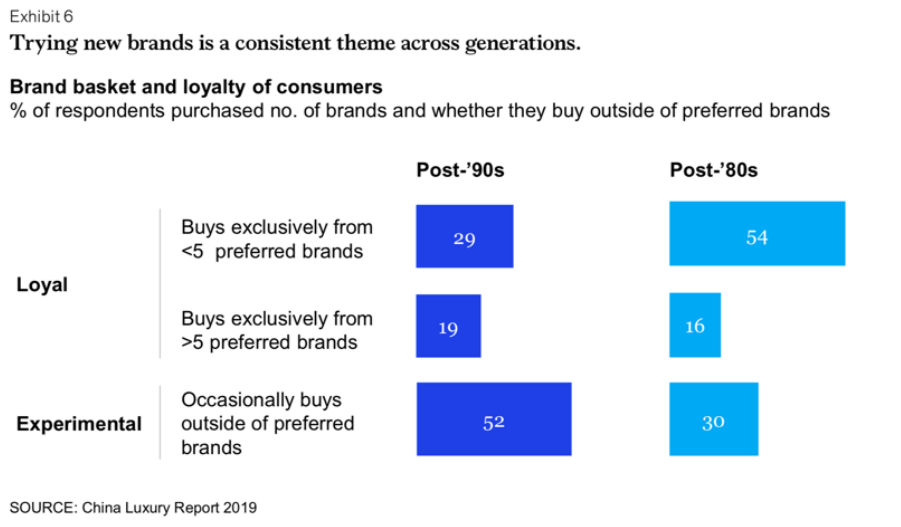
Compared to Generation X consumers and even to Millennials, Gen-Z customers are definitely less loyal to brands and this is what allows young brands such as *Off-White* to enter the Chinese market even if it seems to be saturated by already well-established luxury brands. While more than 50% of Millennial respondents buys exclusively from <5 preferred brands (*figure 1.6.*), post-‘90s consumers are more experimental and willing to try new brands³¹.

²⁹ AA. VV., (2022), “What do Chinese millennial and Gen Z customers want from brands?”, MarketMeChina. - <https://www.marketmechina.com/what-do-chinese-millennial-and-gen-z-customers-want-from-brands/>

³⁰ AA. VV., (2021). “Off-White in China: young American brand gaining fame among Chinese streetwear fans”, daxueconsulting. - <https://daxueconsulting.com/off-white-in-china/>

³¹ AA. VV., (2019). “China Luxury Report 2019 – How young Chinese consumers are reshaping global luxury”, McKinsey & Company.

Figure 1.6. – Brand loyalty



Source: China luxury report 2019, McKinsey & Company (2019)

Gen-Z consumers are tireless travellers who have had many opportunities to experiment the world outside China; furthermore, they keep themselves constantly updated about fashion trends coming from the West, this is why they are more curious about trying new products and brands. They are also more knowledgeable both about trends and products compared to their predecessors, therefore they are much more demanding and foreign luxury brands need to struggle more in order to please this segment of customers.

Quality and price are two other main factors that influence young consumers purchasing choices. One of the key trends that characterizes these two groups is called premiumization. Compared to older generations, they are more interested in the fabric and production process of the luxury products they purchase, they require premium-quality materials, and this is one of the reasons why they still value the in-store experience that much, because it gives them the possibility to personally touch and see items before buying them. At the same time, they are more sensitive to price and willing to spend their money wisely. It is worth remembering that younger generations, in particular Gen-Z consumers, are experiencing for the first time a slowdown in China's GDP and uncertainty about their future also due to the COVID-19 pandemic situation. From a consumer behaviour point of view, this does not mean that they are no longer willing to purchase luxury items, on the contrary, their spending power is still considerable, they simply are more careful about how they invest their money and willing to pay a premium price only for premium quality goods³².

³² J. Ho, F. Poh, J. Zhou, D. Zipser, (2019). "China consumer report 2020 – The many faces of the Chinese consumer", McKinsey & Company.

Another peculiarity of young consumers is that they are increasingly conscious about environment-related issues. Gen-Z, in particular, has been left with a world that has been environmentally spoiled by their parents and by the rapid economic and industrial development, this is why they now put a lot of attention on sustainability when they buy a product. The COVID-19 situation has stressed this need even more, not only in China but worldwide, and luxury brands are now trying to adjust their production lines accordingly, in order to deliver sustainable products to their customers. For example, in 2019 the Italian luxury brand *Prada* launched the “Re-Nylon” project³³, involving the use of recycled nylon for its products, and in 2020 opened a Re-Nylon pop-up store in Beijing³⁴, gaining the favour of Chinese environmentally conscious young consumers.

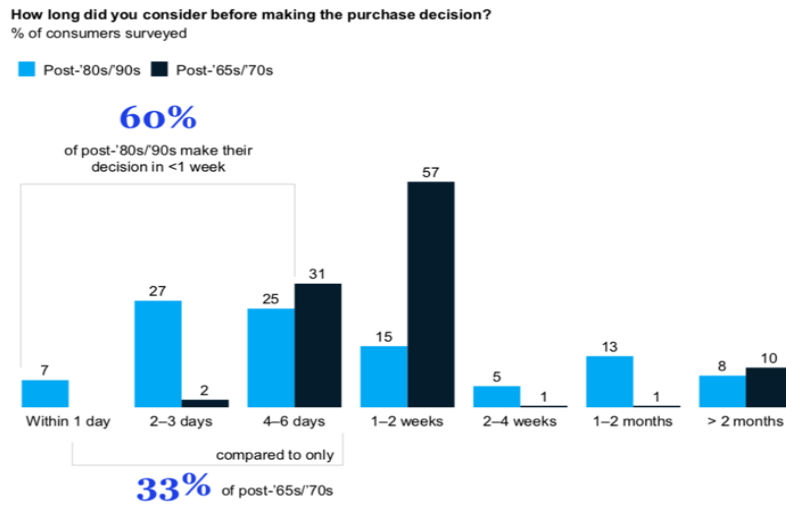
Finally, what more than anything distinguishes Millennials and Gen-Z customers from Generation X ones and have fundamentally reshaped their consumer behaviour is the trend of digitalization. Both Millennials and Gen-Z are tech-savvy consumers who spend a lot of time online looking for products and information about new trends. Young generations live in a fast pace changing environment and thanks to digital channels they are used to having everything at hand, so when purchasing luxury items, they spend less time compared to older generations of consumers taking a decision. This is also due to the fact that, compared to their predecessors, they are less inclined to save for the future and less afraid to spend their money, at least before the pandemic. According to McKinsey & Company survey³⁵, 60% of young Chinese consumers make their decision in less than a week, while the most of post-‘65/’70s consumers still need a week or two to make a luxury purchase (*figure 1.7.*).

³³ S. Yotka, (2019). “Prada’s Re-Nylon Project Turns Your Favourite Backpack Into a Sustainable Accessory”, Vogue. - <https://www.vogue.com/article/prada-re-nylon-sustainable-nylon-econyl>

³⁴ A. Biondi, (2021). “How brands should approach sustainability in China”, Vogue Business. - <https://www.voguebusiness.com/consumers/how-brands-should-approach-sustainability-in-china>

³⁵ AA. VV., (2019). “China Luxury Report 2019 – How young Chinese consumers are reshaping global luxury”, McKinsey & Company.

Figure 1.7. – Younger consumers make faster purchasing decisions



Source: China Luxury Report 2019, McKinsey & Company (2019)

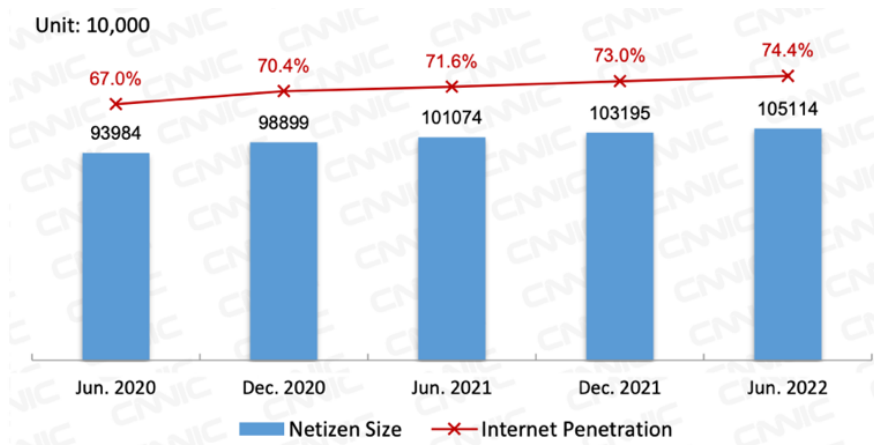
Furthermore, according to reports, Gen-Z consumers start purchasing luxury goods 3-5 years before compared with previous generations of consumers, and if this trend continues, the age is bond to drop further.

Channels and digital strategies that foreign luxury brands need to exploit to maintain their appeal on these consumers will be the topic of next chapter.

2 The digitalization of the Chinese fashion luxury market

China is one of the most digitalized countries in the world and, according to the China Internet Network Information Center (CNNIC) 50th Statistical Report on China’s Internet Development, it counts 1,051 million netizens (*figure 2.1.*), constituting the largest group of Internet users worldwide³⁶. Of this over 1 million users, 99.6% access the Internet via mobile devices³⁷.

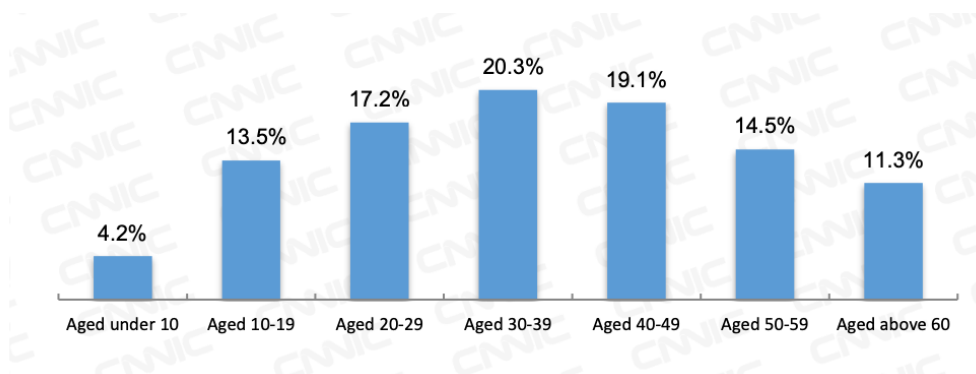
Figure 2.1. – Netizen size and Internet penetration



Source: CNNIC’s 50th Statistical Survey on China’s Internet Development (2022)

Analysing this data from a demographical point of view, the largest share of Internet users is made up of Millennials and Gen-Zers, that together constitute about half of total Chinese netizens (*figure 2.2.*).

Figure 2.2. – Age structure of Internet users



Source: CNNIC’s 50th Statistical Survey on China’s Internet Development (2022)

³⁶ AA. VV., (2022). “The 50th Statistical Report on China’s Internet Development”, China Internet Network Information Center (CNNIC).

³⁷ Ibid.

Even though Internet penetration is still higher in urban areas (72.1%), the percentage has increased in rural areas (27.9%)³⁸ during the years, with Internet becoming a means of connection between urban and rural population. The strengthening of Internet infrastructures in rural areas has on one hand facilitated interpersonal relationships, allowing those who emigrated to urban areas for work or study to keep in touch with their families; on the other hand, it has boosted rural economy, being used, for example, as a tool in agricultural production.

The development of the Internet has deeply affected all aspects of the Chinese population’s life, which today uses their mobiles for all sorts of purposes, like chatting with friends and families, searching for news, paying for goods, watching videos, playing online games, hailing a taxi, booking a cinema or a train ticket, education and of course shopping. According to a Statista survey, Chinese netizens spend an average of 29.5 hours weekly online, which is about 4 hours per day³⁹, with the top five used applications being those for instant messaging, online video, video clip, online payment and online shopping (*figure 2.3.*), based on CNNIC’s report.

Figure 2.3. – User size of Internet applications in China

Applications	December 2021		June 2022		Growth rate
	Number of Internet users (10,000)	Percentage of Internet users using the application	Number of Internet users (10,000)	Percentage of Internet users using the application	
Instant messaging	100666	97.5%	102708	97.7%	2.0%
Online video (including video clip)	97471	94.5%	99488	94.6%	2.1%
Video clip	93415	90.5%	96220	91.5%	3.0%
Online payment	90363	87.6%	90444	86.0%	0.1%
Online shopping	84210	81.6%	84057	80.0%	-0.2%

Source: CNNIC’s 50th Statistical Survey on China’s Internet Development (2022)

Needless to say, the digitalization trend has important implications for the luxury market as well. Fashion luxury brands need to consider that younger consumers, now the most important segment of luxury spenders, and in particular Gen-Zers, are digital natives that today spend most of their time online looking for products and new trends. This chapter will focus on analysing the effects

³⁸ Ibid.

³⁹ L. L. Thomala, (2022). “Average online time of internet users in China per week from 2013 to June 2022”, Statista. - <https://www.statista.com/statistics/265176/average-online-time-of-users-in-china/#:~:text=Weekly%20average%20time%20spent%20online%20in%20China%202013%2DH1%202022&text=This%20statistic%20shows%20the%20average,hours%20of%20daily%20online%20time.>

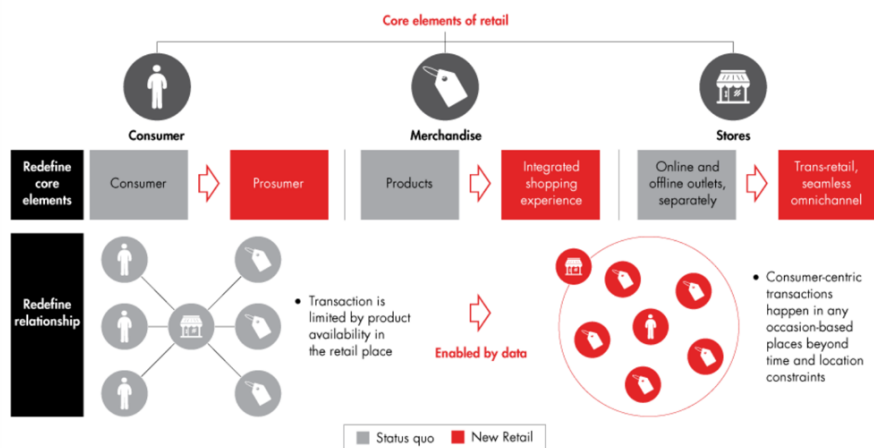
digitalization has on the fashion luxury market in China and the strategies foreign luxury brands should adopt if they want to stay ahead.

2.1 The New Retail

The term New Retail was coined in 2016 by Alibaba founder Jack Ma to describe a new type of business model in which online and offline retail would merge. New Retail is much more than simple e-commerce, because in the New Retail the digital and physical worlds are not antagonists, but basically two sides of the same coin. According to Jack Ma, New Retail is first and foremost about experience, and this means that brands should not overlook their brick-and-mortar stores for the sake of online and e-commerce but must find effective ways to merge the in-store and online experiences in order to provide their customers with a 360-degree shopping experience. Consumers live this experience across all steps of their customer journey, from the very first phase to the post-purchase one, and New Retail gives brands the opportunity to tailor this experience according to each consumer’s needs and preferences. This means that brands can no longer consider different channels as separate entities but need to integrate them and exploit all of them along the different phases of the Chinese customer journey adopting an omnichannel approach.

Traditional retail is composed by three core elements, namely consumer, merchandise, and stores. New Retail is now redefining these elements and changing the relationship that originally existed between them (*figure 2.4.*).

Figure 2.4. – How New Retail is redefining the core elements of retail and their relationships



Source: Bain Analysis, “Embracing China’s New Retail” (2018)

In terms of consumer, in the New Retail there is a shift from consumer to prosumer. This means that consumers are no longer passive entities that brands target with their marketing strategies and products but are now active coproducers who have a key role in helping brands designing and selling their products. Thanks to new digital channels, consumers are now active brand ambassadors that in addition to buy a product also voluntarily engage in promoting it within their social network. From a business model point of view, there has been a shift from B2C to C2B⁴⁰. Along with the change of consumers' role, also comes a shift in terms of products. In the New Retail, products are not just goods that brands need to sell to consumers in order to gain profits but become an integral part of the shopping experience, with brands putting their best effort in instructing consumers about their products, about how to use them and recommending it on social media. Finally, from the stores point of view, the separation that existed in traditional retail between online and offline no longer exists: the New Retail focuses now on a seamless omnichannel shopping experience.

These shifts of course have caused significant changes in the relationship between the elements of retail as well. In the traditional retail, stores, both online and offline ones, were at the centre and the shopping experience largely depended on the availability of products in stores. The New Retail now uses a consumer-centric approach, in order to give consumers the opportunity to find what they are looking for without any time or location constraints.

Consumer centricity is indeed one of the main pillars of the New Retail. This new concept of retail is in fact built on four Cs⁴¹, which are:

- Consumer centricity
- Convenience
- Customization
- Contribution

As already seen in the new relationship between the core elements of retail, consumer is now the main focus. Consumer centricity means that brands have to put the needs and preferences of consumers at the heart of their business model and tailor their messages and strategies according to consumers' desires, with the main goal of providing them with the most suitable shopping experience possible. In order to achieve this goal, brands should first of all study and understand as much as possible their customers, they need to collect data about their preferences and habits and keep them engaged across all the steps of their customer journey.

⁴⁰ M. Zakkour, A.G. Dudarenok, (2019). "New Retail: Born in China, Going Global", Digital China. Chapter 9, "Four Changing Roles You Need to Understand".

⁴¹ M. Zakkour, A.G. Dudarenok, (2019). "New Retail: Born in China, Going Global", Digital China. Chapter 3, "The Pillars of New Retail".

The second pillar is convenience, which means that brands should work to ease consumers' customer journey. The Chinese luxury market is now saturated and full of competitors, furthermore the Chinese environment is a fast-paced one, meaning that Chinese customers want to satisfy their needs in the shortest time and most convenient way possible. To satisfy this condition, brands need to allow consumers to buy their products without time or place restrictions and must be present on all Chinese channels in order to engage them at every touchpoint of their customer journey.

Another fundamental requirement of the New Retail is customization. Consumers are much more likely to engage with and become loyal to a brand when they have the feeling that everything from products to shopping experience to customer journey is tailor-made for them. Keeping this in mind, brands should try to adapt their production to customers' demand, but also need to collect data and information about consumers' desire and routines in order to provide them with customized messages and promotions.

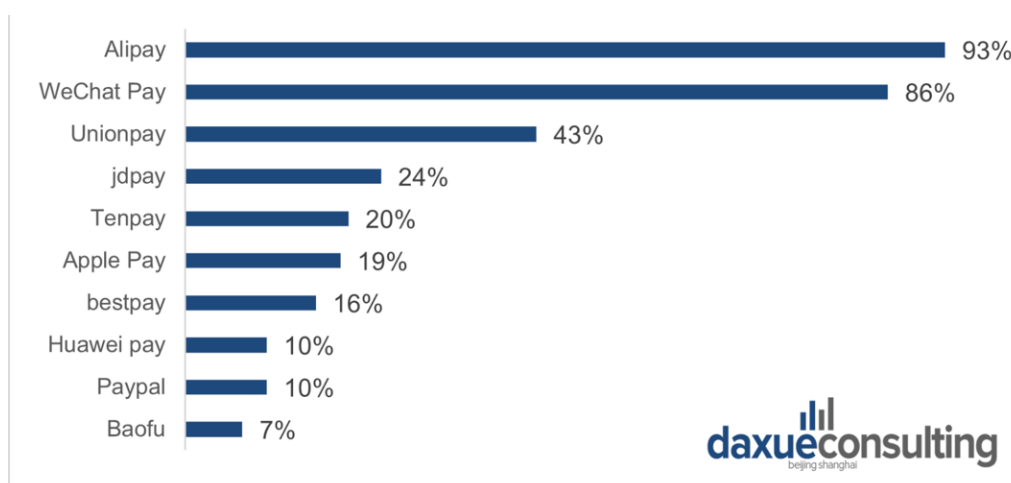
Finally, the New Retail requires a focus on contribution. As stated above, consumers have become prosumers, so brands must involve them in the creation of contents and design of products and services. Consumers are willing to contribute to the creation of brands' messages and strategies, therefore brands should exploit digital channels that give consumers the possibility to express their feelings and ideas about a brand and its products and their own shopping experience.

Collection of data then becomes a fundamental actor for brands that want to satisfy all the four Cs of the New Retail. Data collection is one of the main features of the New Retail and certainly one of the most innovative tools brands have. Thanks to the development of new technologies, brands can now collect all kind of information about their customers, like personal data, telephone numbers, preferences in terms of products, spending habits and even hours they spend on shopping channels. By collecting and analysing these data, brands can easily understand what every single consumer prefers by reconstructing their previous purchase history and are able to forecast what product they are more likely to buy next. With traditional retail, brands used to design generic advertising campaigns that addressed consumers as a whole; today, with the advent of the New Retail, brands can provide their customers with personalized messages and product recommendations and the incredible amount of available data allows brands to anticipate their consumers' needs and suggest them products they don't even know they want to buy yet but that perfectly suit their necessities. Through the use of consumer-insight tools, brands are also enabled to collect detailed information about consumers' habits. For example, they can know when, during the day, Chinese consumers are more likely to spend time on the Internet, therefore providing them with targeted promotional messages at the right moment.

Another element that has boosted the birth of the New Retail is digital payment. The exponential increase in the use of digital payment has revolutionized Chinese financial sector and retail at the same time. China is the first country for mobile payments, with 904 million Chinese using mobile payments in 2021⁴² and mobile payments accounting for more than 55% of total digital payments⁴³. Today, Chinese consumers use their mobile devices to pay for everything, from taxi drivers to fruit vendors on the street to bike sharing services, everyone accepts digital payments. Mobile payments are usually conducted by scanning a QR code: customers can directly scan sellers' QR code or show their own QR code to sellers instead. Mobile transactions are fast and more convenient, and this is why nowadays represent the number one payment method in China.

Nowadays, Alibaba and Tencent are the two big giants in digital payment in China. In 2004 Alibaba Group launched Alipay, an online payment programme that in 2013⁴⁴ outclassed the US PayPal becoming the world's number one platform for mobile payments and the most used online payment service in China. On the other hand, WeChat Pay has been developed in 2013 by Tencent Company and immediately gained success because it is directly linked to WeChat, the most popular instant messaging application in China. WeChat Pay is now in second place in the ranking of the most used platforms for mobile payments, representing the most formidable competitor for the leader Alipay (figure 2.5.).

Figure 2.5. – Most used online payment platforms in China 2022



Source: Statista Global Consumer Survey (GCS), chart by Daxue Consulting (2022)

⁴² D. Slotta, (2022). "Number of mobile payment users in China from 2013 and 2021", Statista. - <https://www.statista.com/statistics/278487/number-of-mobile-payment-users-in-china/>

⁴³ AA. VV., (2022). "Payment methods in China: How China became a mobile-first nation", Daxue Consulting. - <https://daxueconsulting.com/payment-methods-in-china/>

⁴⁴ AA. VV., (2018). "中国移动支付崛起震惊外媒：交易额是美国9倍", 腾讯科技 (Tencent Technology). - <https://tech.qq.com/a/20180106/009015.htm>

Digital payments are a useful tool for fashion luxury brands as well because they allow them to collect massive quantity of data about consumers and huge quantity of information about their spending habits. For example, through the analysis of WeChat Pay users purchase history, brands can deduce the age of the consumer, and even if they are single or married, if they have kids, if they live in first-tier or lower-tier cities, and so on.

The New Retail has profoundly reshaped the idea of retail in China and brands that want to survive need to understand the importance of merging online and offline worlds. They can no longer be considered two separate worlds, an omnichannel approach is needed and it is up to luxury fashion brands to develop the best strategies and make the most of new technologies in order to achieve this balance.

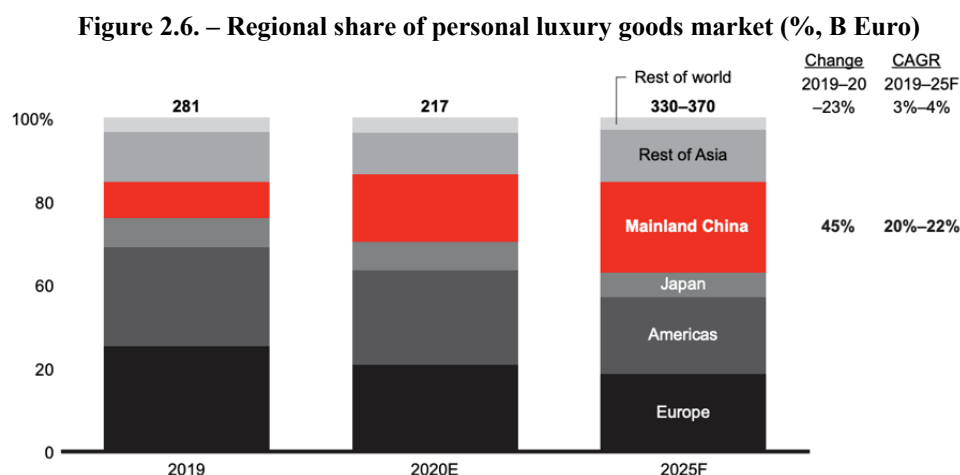
2.2 The effects of the COVID-19 pandemic

The outburst of the COVID-19 pandemic in 2020 has accelerated pre-existing trends and has forced foreign luxury brands to adjust their strategies in order to survive in the Chinese market. On one hand, companies had to develop temporary solutions such as changing their supply chain and production line, shifting, for example, from apparel manufacturing to face masks or from producing fragrances to hand sanitizers, and to manage their inventories in order not to waste or sell out their products. On the other hand, the crisis has forever changed the luxury market in China and brands had also to come up with long-term strategies that would have helped them to remain competitive and appealing also once the pandemic had subsided. In this landscape, the use of digital channels has become even more urgent for luxury brands, and companies that until then had postponed their entry into the digital world found themselves facing an even greater challenge.

Even if the pandemic has greatly impacted the Chinese economy and the luxury-goods sector, causing a slowdown in its growth, China has been one of the first countries to partially recover from the crisis and according to a report conducted by Bain and Company on the Chinese luxury market, China's market share doubled from 2019 to 2020 (*figure 2.6.*), the year of the pandemic outbreak⁴⁵. Despite the protracted pandemic situation and repeated lockdowns, China's personal luxury goods market

⁴⁵ AA. VV., (2020). "Growth in uncertain times: China's share of global luxury market reaches new high despite Covid-19", Bain & Company. - <https://www.bain.com/about/media-center/press-releases/2020/growth-in-uncertain-times-chinas-share-of-global-luxury-market-reaches-new-high-despite-covid/>

registered a 36% growth in 2021 as well, according to Bain & Company⁴⁶. 2023 will probably be a decisive year for China’s recovery from the pandemic and future growth, because throughout 2022 the Chinese Government continued to pursue a closure and zero-Covid policy, and while other countries learned to live with the virus and keep it under control, China registered a new record in the number of cases (31,444 on November 23rd)⁴⁷ at the end of the year.



Source: China’s Unstoppable 2020 Luxury Market, Bain & Company (2020)

Repeated lockdowns forced people to stay at home, with a consequential increase in the time spent on the Internet and a significant growth in e-commerce spending. According to McKinsey & Company special edition of China Consumer Report 2021, with the outbreak of COVID-19 the time spent on mobile Internet increased by 20%, reaching the daily average of 7.3 hours in early post COVID⁴⁸. The pandemic situation has fostered the so-called “stay-at-home economy”, which is about carrying out consumer activities directly from home and has involved all areas of Chinese consumers’ daily lives⁴⁹.

Since the pandemic obliged stores to shut down, luxury brands not only needed to keep selling their products to consumers via e-commerce but first and foremost needed to find ways to keep their customers engaged even if they couldn’t go to physical stores. Under this circumstances, digital channels such as WeChat and Douyin became of primary importance for fashion brands to keep in

⁴⁶ F. Block, (2022). “China’s Personal Luxury Market Grew 36% Last Year Despite Covid-19 Challenges”, Barron’s. - <https://www.barrons.com/articles/chinas-personal-luxury-market-grew-36-last-year-despite-covid-19-challenges-01642707882>

⁴⁷ M. Shoaib, (2022). “Luxury braces as China hits new Covid record”, Vogue Business. - <https://www.voguebusiness.com/consumers/luxury-braces-as-china-hits-new-covid-record>

⁴⁸ AA. VV., (2020). “Understanding Chinese Consumers: Growth Engine of the World”, McKinsey & Company.

⁴⁹ AA. VV., (2020). “The rise of the Stay-at-home Economy in China | How COVID-19 boosted indoor consumption”, Daxue Consulting. - <https://daxueconsulting.com/stay-at-home-economy-in-china/>

contact with consumers through direct messages or to display their new collections and products via livestreaming.

Furthermore, the pandemic situation has also impacted domestic spending. Before the crisis, luxury shopping tourism was one of the main activities carried out by Chinese consumers, they used to travel a lot and enjoyed purchasing luxury items overseas both due to duty reasons, but also because purchasing a luxury good in the brand's country of origin was a big part of the shopping experience. Since 2020, the Chinese population has been forbidden to travel abroad and this has caused a consequential significant increase in domestic luxury spending, since Chinese consumers are now forced to buy luxury products in their own country. Besides, Government regulations also stipulated that Chinese citizens could not travel even within their own country, therefore, when luxury fashion stores gradually reopened, consumers that lived outside first and second-tier cities were still not able to physically make purchases. It was therefore even more cardinal for foreign luxury brands to have an effective digital strategy and digital presence in order to maintain strong ties with consumers in lower tier cities.

Even before the outbreak of the COVID-19, the Chinese Government was already working to increase domestic luxury spending, for example by reducing import duties or strengthening control over grey market and *daigou*⁵⁰, and foreign brands were already reducing the price gap between local and overseas markets in order to favour domestic spending in China. For example, in July 2018, *Louis Vuitton* and *Gucci* cut down their retail prices, with the French luxury brand dropping its retail prices by 3-5%⁵¹. In a 2018 report, Bain & Company had already forecasted that the gap between luxury shopping abroad and China would have increasingly narrowed and that by 2025 about half of Chinese luxury spending would have been generated in China⁵². The pandemic situation has only favoured and accelerated this trend.

Hainan island's flourishing luxury market is a perfect example of how the pandemic has fostered domestic luxury spending. Hainan is an island situated in Southern China and for more than a decade now it has been a landmark for duty-free shopping in China. In June 2020, the Chinese Government has declared its plan to make Hainan the world's largest Free Trade Port and from 2025 the Chinese island will officially become a duty-free zone. COVID-19 pandemic travel restrictions have favoured the development of this shopping paradise and the rapid economic development of this area. Beyond the pandemic situation, the Chinese Government intends to encourage the development of the island

⁵⁰ *Daigou* is a term used to indicate the practice of purchasing luxury items abroad and selling them in China with the goal of avoiding import taxes.

⁵¹ AA. VV., (2018). “继 LV 之后, Gucci 今日也开始在中国降价; Bally 将缩减成衣规模”, LadyMax.cn. - <http://news.ladymax.cn/201807/06-33681.html>

⁵² R. Zheng, (2019). “Half of Chinese Luxury Spending To be Domestic by 2025: Bain & Co.”, Jing Daily. - <https://jingdaily.com/half-of-chinese-luxury-spending-domestic-2025-bain/>

as part of its plan of keeping luxury consuming domestic. The reopening of Chinese borders and the abandonment of the zero-Covid policy settled for the beginning of 2023 will be a fundamental moment for the Chinese luxury market, because it will demonstrate whether the domestic luxury spending trend will slow down or whether it will become a stable trend. Chinese citizens have shown their willingness to travel again after three years of restrictions, and indeed the great majority of them decided to travel in January of this year, in occasion of the Chinese New Year, causing the rate of outbound flights to rise by 83% in the days immediately after the revocation of the zero-Covid policies⁵³.

Compared to the optimistic attitude shown at the beginning of the COVID-19 pandemic⁵⁴, Chinese consumers today are much more concerned and uncertain about future economic prospects and about how the Government is managing the crisis. Luxury brands have to consider the fact that young generations of Chinese consumers are experiencing an economic downturn for the first time in their life, so they are now adopting a more cautious approach when it comes to spending habits. The crisis generated by the pandemic has forced them to adopt a more long-term approach, forcing them to think twice when spending their money and to think more about the future. The luxury market growth significantly slowed down in 2022, the number of coronavirus cases has risen and there is still a lot of unpredictability about China's reopening toward the outside world. Despite the slowdown, China's economy and luxury market are still growing and Chinese consumers are still key actors in the global luxury market growth. However, the uncertainty has instilled them a more cautious approach towards luxury consumption, and much will depend on the guidelines that the Chinese Government will decide to implement in 2023.

The crisis has also contributed to increase the already fierce competitiveness of the Chinese luxury market. Luxury brands are struggling to stay afloat in China, but there is no doubt that some brands that were already digitally savvy are having more success in maintaining their competitiveness. Furthermore, since the crisis has made consumers more demanding about products' quality, more careful about how they spend their money and more health conscious, luxury brands have to work even harder to deliver a product that meets consumer demands both in terms of quality and price. Chinese consumers have also put a lot of attention on the approach that luxury brands adopted during the pandemic, displaying strong appreciation for brands that adopted conscious and effective responses to the crisis.

⁵³ Z. Suen, (2023). "How China's 'Revenge Travel' Will Boost Luxury", Business of Fashion. - <https://www.businessoffashion.com/briefings/china/how-chinas-revenge-travel-will-boost-luxury/>

⁵⁴ J. Ho, D. Hui, A. Kim, Y. Zhang, (2020). "Cautiously optimistic: Chinese consumer behaviour post-COVID-19", McKinsey & Company. - <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/cautiously-optimistic-chinese-consumer-behavior-post-covid-19>

The pandemic has certainly forced foreign luxury brands to adopt temporary solutions in response to the situation and in order to “navigate the now”, but there is no doubt that the crisis has also forever reshaped the Chinese luxury market and consumer behaviour, and that some trends are here to stay, so the luxury-goods sector must be prepared for the so-called “new normal”. Therefore, companies must take a long-term view and develop effective strategies that will ensure that they maintain their competitiveness in the Chinese market even after the emergency is over.

2.3 The new customer journey

The digitalization trend has also had an important impact on the Chinese customer journey, contributing to fundamentally reshaping it. Today, the greatest part of Chinese consumer journey touchpoints take place online, and even if most Chinese consumers still prefer to make luxury purchases in physical stores, the steps before the purchase phase, especially those in which information about brands and products are collected and awareness is generated, greatly rely on digital channels (*figure 2.7.*).

Figure 2.7. – Online and offline touchpoints in Chinese customer journey

Information and channel preference of Chinese luxury consumers
Sources consulted and channel of last purchase experience



Source: China luxury report 2019, McKinsey & Company (2019)

Nowadays, when consumers go to physical luxury stores, they already know what they want to buy and already possess all the information about the product, for example about materials, manufacturing, place of production, and so on. Sometimes, they are even more informed than the in-store staff, and

this is because they make a massive use of online channels to collect all the knowledge they need in order to evaluate a brand and a product.

The traditional customer journey used to be represented as a funnel, with its main touchpoints being awareness, evaluation, purchase, loyalty, and advocacy⁵⁵. Consumers are influenced in different ways and use different types of channels across all the phases of the journey; therefore, the ability of luxury brands resides in their capability to reach customers at the right moment through the right channel.

The first step, namely the awareness phase, is the one in which consumers start expressing a need, so they start looking for products that can satisfy this necessity. At this stage, they come into contact with a vast array of brands. Immediately after comes the evaluation phase, in which consumers start evaluating and comparing the proposals of different brands, looking for other consumers' reviews and spending a consistent amount of time on brands-owned channels, such as websites or social media pages, but also on platforms that provide consumers' reviews. By the end of this second phase, the circle of brands under consideration was usually narrowed in the traditional customer journey, but in the modern journey, thanks to the amount of information available online, it is increasingly possible that consumers exit this stage having added brands they weren't considering at the beginning. The third stage is the purchase, and according to statistics, at this step offline experience still outclasses online channels, with Chinese consumers still preferring going to brick-and-mortar boutiques to purchase luxury items. The last two phases of the customer journey, i.e., loyalty and advocacy, are called post-purchase phases. At the loyalty stage, brands try to keep costumers engaged offering post-purchases services: they reach out to consumers to collect feedbacks about their shopping experience and about the product they purchased, they provide tailored messages and invite them to return to the store, also by keeping them updated about new arrivals. The purpose is to retain customers and get them to make more purchases becoming regular consumers. Last but not least, the advocacy phase is the most delicate one, because it expects that most loyal customers also become brand ambassadors who recommend the brand to other potential consumers. This last phase has gained increasing importance as digitalization and the New Retail trends advanced, because, as already highlighted in the first section of this chapter, in the New Retail consumers have become prosumers, meaning that they themselves generate content for luxury brands, and digitalization has provided them with an ever-growing number of channels through which they can do it.

Today, the phases of the customer journey in China are still the five presented above, but it no longer makes sense to define the Chinese consumer journey as a funnel but rather as a loop. The modern Chinese consumer does not fit in the traditional funnel anymore, because they have become active

⁵⁵ AA. VV., (2022). "Understanding the Chinese Consumer Journey", Melchers. - <https://www.melchers-china.com/posts/understanding-the-chinese-consumer-journey/>

actors that are not just influenced by the inputs they receive at each touchpoint of the journey, but instead are able to influence it at any stage. In particular, while the main goal of the old journey was the purchase phase, nowadays the post-purchase phases are even more important for brands, because it is at this steps that loyalty, engagement and advocacy are pursued and achieved. Luxury brands that are able to succeed in the last two stages of the journey can create a bond with their consumers that will inspire them not only to come back for another purchase, but also to become brand ambassadors that voluntarily promote and suggest the brand and its products to others, creating a loop. One of the most important peculiarities of the new customer journey is that brands can now influence it at each of the stages, not just in the awareness one, meaning that until the customer has not purchased the item, other brands can interfere with their choice and make their journey change direction.

Furthermore, the channels used throughout the new Chinese consumer journey are different than in the past. Chinese luxury consumers now rely almost exclusively on digital channels to gather information and recommendations about luxury products and to share their impressions and feedbacks in turn after the purchase. Foreign luxury brands need to understand how these channels work and at which stages it is better to use one rather than another, in order to allow the consumer to have an omnichannel customer journey and for brands to be effective at every touchpoint of it. While in the past advertising was the most used tool in the pre-purchase phases, modern Chinese consumers now actively look for products and recommendations on the Internet and advertising is no longer effective. During the awareness phase, for example, potential consumers rely a lot on user-generated contents on social media and KOLs suggestions. Similarly, during the evaluation phase, they no longer only consult search engines and luxury brands' websites in order to collect information about products, but they make more use of social platforms such as Xiaohongshu, where they can read about other consumers' experiences with a specific brand and products. Livestreaming platforms and videos have also gained importance in the evaluation phase because the modern Chinese luxury consumer like to see the product via video before going to the store to finalize the purchase. Finally, these channels are of fundamental importance in the post-purchase phases as well, in particular during the advocacy one. In this last stage, consumers become themselves brand ambassadors and use the same channels they used in the pre-purchase phases, but this time with a different purpose: they no longer use platforms such as Xiaohongshu to access information and recommendations, but they themselves become those who provide reviews and advice to other users. In this loop that is the new consumer journey, advocacy is not anymore just the last step of the funnel, but also the propeller for the start of a new customer journey.

2.4 Brand-owned, brand-paid, and brand-earned channels

When talking about marketing channels, both online and offline, we can distinguish between three main different categories: brand-owned, brand-paid, and brand-earned channels.

Brand-owned channels are property of the brand, which can directly control them, such as official brand channels, online and offline, and e-commerce, even if the latter can be either brand-owned or brand-paid. Brand-paid media are those in which brands invest a sum of money in order to gain exposure such as traditional and digital ads, e-commerce, media and celebrity or sponsorship, that can be classified both as paid or earned channels. Brands have some control over the content of paid media, but not full authority. Finally, brand-earned channels are those over which brands have no control whatsoever because the content is created by third parties without any involvement from the brand and does not necessitate any investments in terms of money, so it is cost-effective. Brand-earned channels comprise celebrities and sponsorship, Key Opinion Leaders and Word of Mouth.

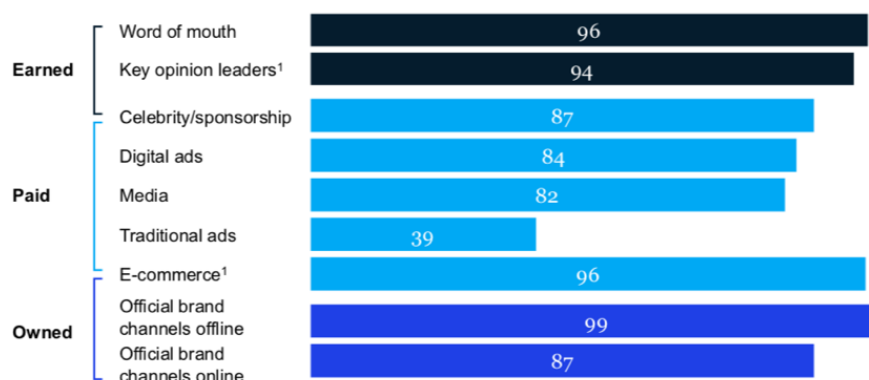
These three kinds of channels present different levels of effectiveness, and it is up to brands to understand when and where one type of media can be more valid than another. According to McKinsey & Company 2019 China Luxury Report⁵⁶, the channel that commands the lowest level of engagement among Chinese luxury consumers is represented by traditional advertising (*figure 2.8.*). This is because traditional ads do not target a specific segment of the market and are not tailored according to consumers' needs and characteristics, they are just general promotions of a product. Traditional advertising is one of the main tools of push marketing, that is a marketing strategy brands use to push their products onto consumers in order to make them gain exposure. Push marketing has proven to be no longer effective in the modern Chinese luxury market, that today asks for targeted and more sophisticated promotional contents.

⁵⁶ AA. VV., (2019). "China Luxury Report 2019 – How young Chinese consumers are reshaping global luxury", Mc Kinsey & Company.

Figure 2.8. – Which channels command the highest level of engagement

How do you get information about new luxury brands?

% of respondents



¹KOLs can be either paid or earned; Ecommerce can be either paid or owned.

SOURCE: China Luxury Report 2019

Source: China Luxury Report 2019, McKinsey & Company (2019)

Owned channels allow brands not only to have full control over the content displayed but also full access to consumers' data. For example, talking about brands' official websites, companies can track the activity of potential customers on their site, they can monitor how much time visitors spend on it and what is their path within it. This allows brands to adopt the so-called remarketing or retargeting strategy: potential customers often leave the website without making any purchase but tracking and collection of data make it possible for brands to show again to users the precise products they have seen on their websites when they start browsing again, even if on other platforms. This tactic allows brands to improve the conversion rate of their website, because it is highly possible that after seeing retargeting advertising, they will come back to visit brands' pages or look for further information about that same product on other channels. There are also some precautions that companies can adopt in order to increase the effectiveness of their official online channels. For example, the design, the usability, the quality of content, the presence of a safe e-commerce space and information about payment and return policy can help brands to provide a thorough and valuable experience to potential consumers that visit their websites⁵⁷.

Luxury brands should also invest in Search Engine Optimization (SEO) and Search Engine Marketing (SEM). Search engines are an important tool, because when consumers look for a brand or a product on the Internet, they usually start from here. Brands should be present when potential consumers start looking for a product, it is important that a brand's name is the first to appear among the results of the research.

⁵⁷ T. L. Tuten, M. R. Solomon, (2018). "Social Media Marketing", SAGE.

Both owned and paid channels are effective tools for luxury brands, but according to Chinese consumers, brand-earned channels are the ones that most of all help brands to build trust among their customers. The fact that this type of content is not directly controlled by companies is a mixed blessing. On the one hand, indeed, luxury brands can't directly drive WOM and KOLs or consumers' recommendations and have no control over this type of contents, therefore if the opinion about the product is negative, they have no way to intervene on earned channels. On the other hand, precisely because this kind of contents are not created by the brand itself, potential consumers are more likely to trust them, and they have more power in creating brand reputation. Let's take the example of celebrities and KOLs, that can be both paid and earned channels. Chinese luxury consumers tend to give more credit and value to KOLs' opinions if they are not directly cooperating with the brand but are voluntarily promoting a product. Earned channels are becoming increasingly important in the New Retail and digitalization of the luxury market era, because they are fundamental tools to create brand loyalty and advocacy and because every satisfied consumer can become themselves a brand-earned media. Earned channels can help luxury brands win not just common customers, but also the so called "super fans"⁵⁸.

2.5 Traditional e-commerce

Even before the outburst of the COVID-19, e-commerce had already experienced a great development and expansion in the Chinese market, which has only been further fostered by the pandemic situation. According to Statista, today China is the leading country worldwide in terms of e-commerce market penetration, with a penetration rate of around 80% as of June of 2022⁵⁹, contributing to about half of the world's e-commerce retail sales⁶⁰. As of October 2022, indeed, China ranked first among the countries with the highest percentage of online retail sales, with a percentage of 46.3%⁶¹, three times higher compared to that of the United States (*figure 2.9.*). China also boasts the world's largest digital buyer population, which accounted for 842.1 millions⁶² of online shoppers as of the end of 2021,

⁵⁸ AA. VV., (2021). "What is the Difference Between Paid Owned and Earned Media", Pediaa. - <https://pediaa.com/what-is-the-difference-between-paid-owned-and-earned-media/>

⁵⁹ Y. Ma, (2023). "Penetration rate of online shopping in China from 2012 to June 2022", Statista. - <https://www.statista.com/statistics/302071/china-penetration-rate-of-online-shopping/>

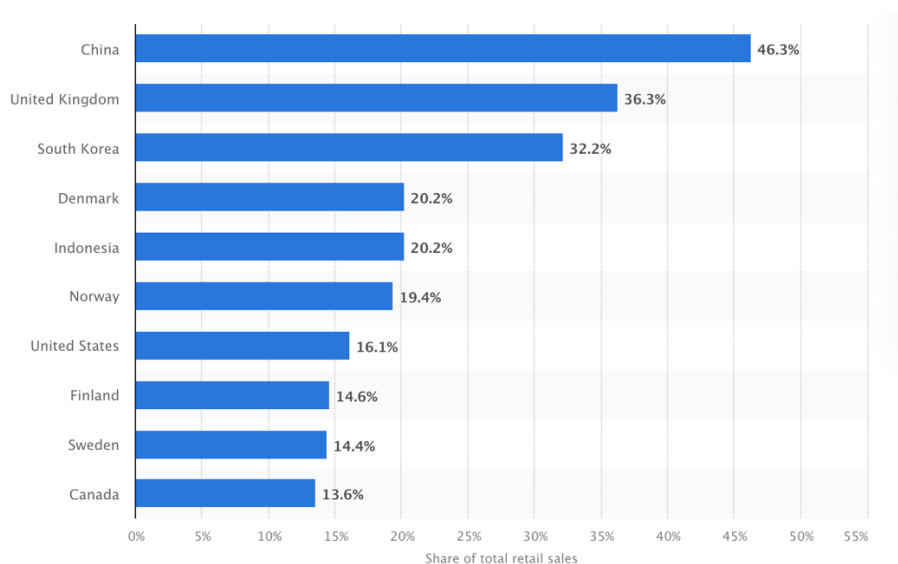
⁶⁰ Y. Ma, (2022). "E-commerce in China - statistics & facts", Statista. - <https://www.statista.com/topics/1007/e-commerce-in-china/#topicOverview>

⁶¹ D. Coppola, (2022). "Countries with the highest percentage of retail sales taking place online in 2022", Statista. - <https://www.statista.com/statistics/1042763/worldwide-share-online-retail-penetration-by-country/>

⁶² Y. Ma, (2022). "Number of online shoppers in China from 2011 to 2021", Statista. - <https://www.statista.com/statistics/277391/number-of-online-buyers-in-china/>

having undergone an exponential growth in just a decade. With regard to Gross Merchandise Volume (GMV), in 2021 online shopping in China reached roughly RMB 13.09 trillion⁶³.

Figure 2.9. – Countries’ percentage of retail sales conducted online in 2022



Source: Statista (2022)

In terms of leading B2C e-commerce platforms, JD.com and Tmall are the two giants competing in the Chinese online market. Tmall (天猫, *Tiānmāo*), owned and managed by the tech colossus Alibaba Group, was part of Taobao (淘宝, *Táobao*) until 2010, two years after its launch, when it became an independent business-to-consumer e-commerce platform. Today, Tmall is the most used Chinese B2C e-commerce site, which in the third quarter of 2022 accounted for approximately 63.1% of transactions conducted on Chinese B2C platforms⁶⁴.

Thanks to the high diversification of Chinese e-commerce platforms and the strict control over products sold through these channels, today online retail has become a great opportunity for luxury brands as well. First of all, as already anticipated, given the huge proportions of the Chinese market, foreign luxury brands cannot establish their physical presence everywhere, therefore e-commerce allows them to sell their products also in areas and cities where they don't have a store. Furthermore, e-commerce provides customers with a convenient and fast shopping experience, which is key in a

⁶³ Y. Ma, (2022). “Gross merchandise volume (GMV) of China's online shopping market from 2015 to 2021”, Statista. - <https://www.statista.com/statistics/278555/china-online-shopping-gross-merchandise-volume/>

⁶⁴ Y. Ma, (2022). “B2C online retail market platforms' transaction share in China in 3rd quarter of 2022”, Statista. - <https://www.statista.com/statistics/866847/china-b2c-online-retail-market-platforms-by-transaction-share/>

fast-paced environment like the Chinese one. As a matter of facts, Chinese consumers are always looking for the most convenient way to purchase items and indeed the greatest percentage of online purchases is conducted via mobile devices.

Traditional e-commerce platforms are adopting different strategies to attract luxury brands, by creating branches that are specifically dedicated to luxury products. A perfect example is that of Tmall, which in 2018 launched Tmall Luxury Pavilion, a sort of “app within the app” focused on luxury brands and items⁶⁵. Tmall Luxury Pavilion has a strict policy both over brands and users that are allowed to join the platform; in fact, brands that want to establish their presence on it need to apply and get through the platform’s audit, while in terms of users, only VIP ones are allowed to access the Luxury Pavilion. The purpose is on one hand to allow luxury brands to exploit the high traffic of Tmall and to become more accessible for a larger segment of the market, while on the other side to maintain a certain level of elitism and exclusivity. Furthermore, luxury brands that join the platform, are given the possibility to maintain full control over their digital store in terms of design, product assortment, customer experience, and so on, giving them the chance to create a visible link between their physical and online stores.

Despite the initial scepticism Tmall Luxury Pavilion has proven to be a trustworthy channel and since 2018 more and more brands have decided to join the platform, *Bulgari*, *Burberry*, *Bottega Veneta*, *Versace* and *Jil Sander* among the others. The number of users of Luxury Pavilion is constantly growing and, according to data, the GMV on the platform has seen a 309% growth since 2019⁶⁶. In terms of users’ age distribution, the biggest percentage is constituted by Millennials, who in 2021 accounted for roughly 67% of overall GMV⁶⁷.

However, when talking about the modern Chinese luxury market, traditional e-commerce is no longer enough and cannot be the main focus of foreign luxury brands. Western luxury brands that are not just willing to increase their sales in the Chinese market but also to stand out from the crowd and really engage with modern Chinese luxury consumers need to move their focus on what can be considered an evolution of traditional e-commerce, namely social commerce.

⁶⁵ AA. VV., (2021). “Why E-commerce is Essential for Luxury Brands in China?”, GMA. - <https://fashionchinaagency.com/why-e-commerce-is-essential-for-luxury-brands-in-china/>

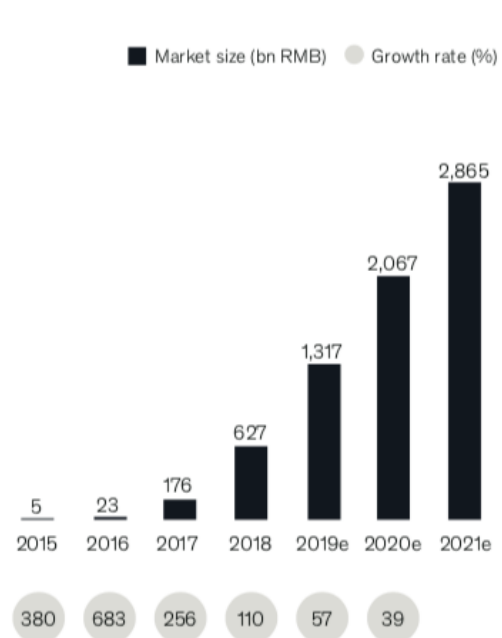
⁶⁶ G. A. Williams, (2022). “From 2017 To 2022: Five Years of Tmall Luxury Pavilion So Far”, Jing Daily. - <https://jingdaily.com/tmall-luxury-pavilion-five-years/>

⁶⁷ Ibid.

2.6 Social commerce

Notwithstanding the relevance of traditional e-commerce in China, today the actual major disruptive trend in the Chinese luxury market is represented by social commerce, which already surpassed traditional e-commerce in terms of relevance. Since 2018, indeed, social commerce has experienced a triple-digit growth and increase in market size (*figure 2.10.*), while traditional e-commerce growth significantly slowed down⁶⁸. According to Statista, in 2021 the market size of social commerce in China reached about RMB 2.53 trillion⁶⁹, with approximately 850 million social commerce users⁷⁰. In the same year, social commerce accounted for 14.3% of total e-commerce retail sales in China⁷¹.

Figure 2.10. – Social commerce market size and growth



Source: China Consumer Report 2021, McKinsey & Company (2021)

⁶⁸ AA. VV., (2020). “China Consumer Report 2021 – Understanding Chinese Consumers: Growth Engine of the World”, McKinsey & Company. Chapter 3, pag. 120, “Harnessing the power of social commerce to fuel growth in China”.

⁶⁹ Y. Ma, (2022). “Annual growth of social commerce market in China from 2015 to 2021”, Statista. - <https://www.statista.com/statistics/1129885/china-growth-of-social-commerce/>

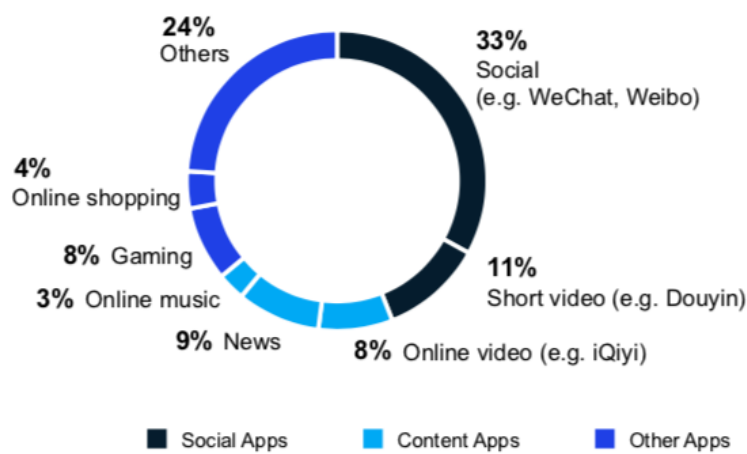
⁷⁰ Y. Ma, (2022). “Number of social commerce users in China from 2016 to 2021”, Statista. - <https://www.statista.com/statistics/1134257/china-number-of-social-commerce-users/>

⁷¹ Y. Ma, (2022). “Share of social commerce sales value in e-commerce retail sales value in China from 2019 to 2021 with estimates until 2025”, Statista. - <https://www.statista.com/statistics/1143103/china-penetration-rate-of-social-commerce/>

Social commerce can be defined as a perfect mix and match between social media and traditional e-commerce, where social media platforms represent the major driving force behind sales. As of 2022, China has the largest social media population in the world, with 1.02 billion social network users, expected to reach 1.2 billion by 2027⁷². According to McKinsey’s China Digital Consumers Trends 2019, time spent on social media apps in China accounts for 44% of the total time spent online, while more or less two-third of the time is spent on social and content apps (*figure 2.11.*).

Figure 2.11. – Online time spent on social media apps

% of time spent by digital consumers on different online applications & activities



Source: China Digital Consumers Trends 2019, McKinsey & Company (2019)

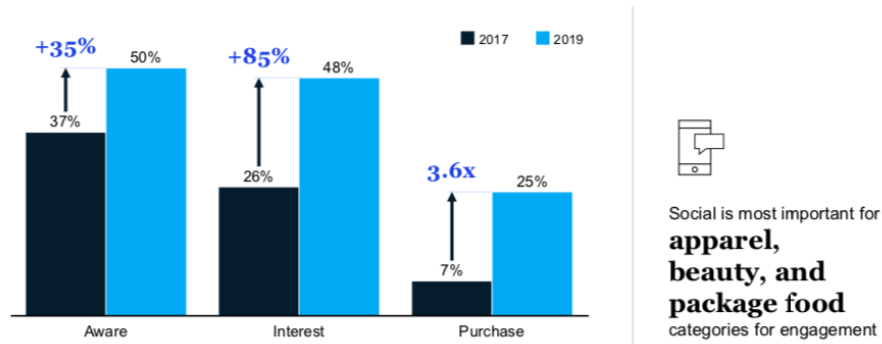
In 2018, social commerce gained particular momentum and in the period between 2017 and 2019 there has been a significant increase of the relevance social media have in the Chinese luxury customer journey. The influence of social media on the customer journey in China has grown respectively of 35% and 85% in the awareness and interest phases (*figure 2.12.*). But social media have gained relevance also in driving of purchases, with around 84% of Chinese declaring they have conducted purchases via social media platforms in 2022⁷³. This means that today Chinese netizens no longer use social media apps just to connect to their friends and families, but also with the intention of gaining knowledge about luxury brands and products, using these channels to look for information and recommendations that can help them make decisions about the purchasing of a luxury item.

⁷² S. Dixon, (2022). “Number of social network users in selected countries in 2022 and 2027”, Statista. - <https://www.statista.com/statistics/278341/number-of-social-network-users-in-selected-countries/>

⁷³ Y. Ma, (2022). “Social commerce in China - statistics & facts”, Statista. - <https://www.statista.com/topics/6718/social-commerce-in-china/>

Figure 2.12. – Influence of social media on the Chinese customer journey

% of online shoppers who use social platforms to gain awareness / evaluate / purchase



Source: China Digital Consumer Trends 2019, McKinsey & Company (2019)

Chinese social media apps now have implemented e-commerce features as well, developing their own marketplaces and payment methods, giving users the possibility to purchase within the app, without leaving the platform. This represents the most important feature for luxury brands and the main driving force for sales, because new Chinese luxury consumers look for convenience and there is nothing more convenient and appealing than having the possibility to purchase a luxury item just in a few clicks. The main difference between e-commerce and social commerce concerns the number of steps potential customers have to take before finalizing the purchase. Social commerce reduces the number of steps, meeting the consumers where they already are, i.e., social media platforms, and hence also reducing the risk of losing the customer throughout the journey⁷⁴.

Furthermore, the innovation of social commerce resides also in the fact that brands can engage in direct communication with their consumers. This is an important boost for brand loyalty, because consumers can get the chance to interact with brands and ask them information about their products. Besides, social commerce greatly relies on User Generated Content (UGC) and consumers are given the possibility to express their feelings and thoughts about luxury brands and products, a characteristic that makes them feel special and valuable for luxury brands and directly involved in the luxury world. Traditional e-commerce platforms also understand the increasingly relevance of this trend, and this is why, in order not to lose their competitiveness, they have already implemented social media features within their app. For example, this has been the case for Alibaba’s e-commerce platform Taobao, which in 2015 integrated livestreaming functions, with the launch of Taobao Live⁷⁵.

⁷⁴ AA. VV., (2022). “Social Commerce 101: How to Boost Ecommerce Sales Using Social Media Platforms”, Big Commerce. - <https://www.bigcommerce.com/articles/omnichannel-retail/social-commerce/#what-is-social-commerce>

⁷⁵ AA. VV., (2022). “Taobao Live – Live Streaming Driving Massive Profits”, GMA. - <https://ecommercechinaagency.com/taobao-live-live-streaming/>

The Chinese Government impose strict guidelines in order to regulate and control the access and the use of Internet domestically, which goes under the name of Great Firewall (防火长城, *Fánghuǒ Chángchéng*), part of the wider Golden Shield Project (金盾工程, *Jīndùn Gōngchéng*). The Great Firewall has the aim of blocking and censoring foreign websites, apps and social media platforms in China, as well as the so-called “mirror websites”, i.e., those sites that are not directly subjected to censorship, but which could lead Chinese users to platforms the use of which is forbidden in China. This hence means that Chinese consumers cannot access the contents published by brands on Western social media platforms, such as Instagram. Therefore, it is important that foreign luxury brands not only engage in social commerce and develop effective social media marketing strategies, but that they do so by using the right channels, establishing their official presence on the main Chinese social media platforms.

Social commerce of course entails a number of new disruptive trends that are fundamentally affecting and reshaping the Chinese luxury market and first and foremost Chinese luxury consumers behaviours. The next three sections of this paragraph will analyse three of these tendencies, which have become the common thread underpinning luxury fashion brands’ digital marketing strategies in China.

2.6.1 Online Word of Mouth (WOM)

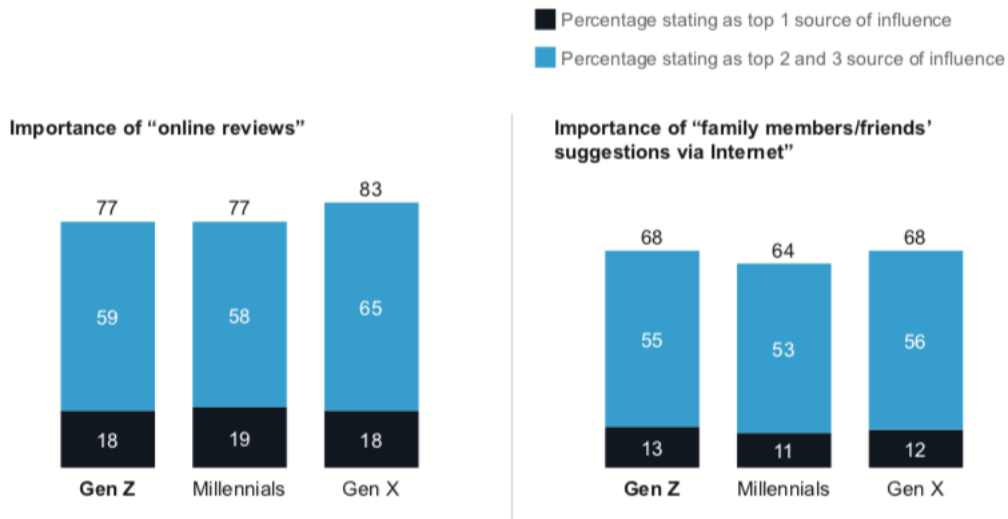
Word of mouth is nothing new for the Chinese luxury market. It has already been analysed throughout the first chapter how China, according to Hofstede’s dimensions of culture, is a highly collectivistic society, meaning that people rely a lot on others’ opinions and recommendations, so Chinese consumers have always been used to look for friends and family’s suggestions when deciding to purchase a luxury item.

However, with the advent of digitalization and social commerce, offline WOM has been replaced by the online version. According to McKinsey & Company report, today word of mouth is one of the channels that most of all is able to create engagement in Chinese luxury consumers, with 96% of respondents declaring they greatly rely on this source⁷⁶. In today’s Chinese market, 77% of Millennials and Gen-Z consumers ranks online WOM among their top three sources of influence (*figure 2.13.*). On the contrary, offline word of mouth is losing relevance among Gen-Z consumers,

⁷⁶ AA. VV., (2019). “China Luxury Report 2019 – How young Chinese consumers are reshaping global luxury”, McKinsey & Company.

with just 43% of them ranking it among the top three sources of influence, against 69% of post-‘65/‘70s consumers⁷⁷.

Figure 2.13. – Relevance of online WOM across generations



Source: China Consumer Report 2021, McKinsey & Company (2020)

Online word of mouth has gained so much exposure and momentum that today, in China, there are social platforms that are built entirely around it, such as Xiaohongshu, and personalities who have based their careers and revenues on providing online recommendations, such as Key Opinion Leaders. The main reason why Chinese luxury consumers place so much importance on WOM is that it is perceived as an authentic and reliable medium. Fashion luxury brands, indeed, have no control on the comments their products receive and on the reputation that is generated online about them. Besides, thanks to digital channels, WOM nowadays travel much faster than in the past and the buzz generated can grow and spread exponentially. However, word of mouth can be a double-edged sword: if brands are able to earn positive comments and feedbacks, WOM will provide them with a significant increase in sales and an invaluable improvement in brand’s reputation; on the other hand, however, if negative WOM is generated, this can make sales collapse drastically and, in some cases, also destroy a brand’s reputation.

⁷⁷AA. VV., (2020). “China Consumer Report 2021 – Understanding Chinese Consumers: Growth Engine of the World”, McKinsey & Company.

2.6.2 KOLs marketing

Key Opinion Leaders (KOLs) can be compared to what influencers are in the West, but they have a much more relevant role in the Chinese luxury market than influencers have in the US and European ones. The KOLs' trend has undergone an incredible growth during the last decade and today they have a prominent role for the Chinese luxury market, becoming one of the most important marketing tools for foreign luxury brands. Chinese KOLs use to provide recommendations and opinions regarding a luxury brand or product and Chinese luxury consumers greatly value their judgement and often turn to them for tips and advice. KOLs in China enjoy enormous credibility and this is because most of them are actually experts and have a background in the field they promote.

Nowadays, KOLs have become a powerful marketing tool that foreign luxury brands should exploit and cooperate with in order to stand out in the Chinese luxury market. However, sometimes it is not easy for foreign brands to understand which KOLs could better meet their needs, even if there are some peculiarities that a KOL have to match in order to be classified as a high-quality one⁷⁸. First of all, high-quality KOLs focus on a specific subject and usually have a professional or study experience related to that topic. Consequentially, they are also really picky regarding brands they decide to collaborate with. Indeed, quality KOLs tend to value more reputation than revenues, and this means that a good KOL would never cooperate with a brand that does not reflect their values and beliefs and would never promote a product belonging to a field in which they do not have strong knowledge. These are the main reasons why KOLs' opinions are deemed as strongly trustworthy by Chinese consumers. Furthermore, brands that engage in collaborations with Key Opinion Leaders need to pay attention not to clash with their values if they don't want to suffer a backlash, as it's been the case for *Dolce&Gabbana* in 2018 when Fan Bingbing, one of the most influential KOLs, publicly took the distances from the brand after the already mentioned scandal.

Secondly, high-quality KOLs don't look for immediate profits, both in terms of money and of followers, but they usually set long-term objectives. Good KOLs are more interested in gradually build a solid and loyal community, they create strong relationships with their followers and use a one-to-one communication approach when interacting with them, for example by answering to followers' questions and comments under their posts. KOLs also invest much time and resources in the creation of their posts and development of strategies, because they want to provide their audience with high-quality and effective contents. KOLs have a specific target and their community is mainly composed

⁷⁸ A.G. Dudarenok, L. Hallanan, (2018). "Working with Bloggers, Influencers and KOLs", Digital China. Chapter 1, "What are KOLs and why do you need them?".

of Gen-Zers and late Millennials⁷⁹, so they have to use the right messages and contents to keep this segment of the market engaged.

Finally, a good Key Opinion Leader is one that is able to develop a unique and distinct personality that makes them immediately recognizable among the vast arrays of influencers. Gen-Z consumers are constantly looking for differentiation and uniqueness, so they are more willing to follow personalities that are able to express themselves and show individuality.

These characteristics help luxury brands to distinguish between a high-quality KOL and a mere 网红 (*wǎnghóng*). *Wǎnghóng* can be defined as Internet celebrities that attract a large followers base not because of their knowledge and skills, but because of their appealing looks and personalities⁸⁰. As a consequence, it is not profitable for brands to cooperate with these people, because they have little influence and credibility among their followers and their audience is too broad, so the messages they convey are poorly targeted.

Chinese Key Opinion Leaders can be ranked among four main categories based on the number of followers⁸¹:

- Top Stars & Celebrities, with more than 10 million followers
- Top-tier KOLs, with over 1 million followers
- Mid-tier KOLs, with more than 10,000 followers
- Micro KOLs, with few thousand followers

Of course, the money investment luxury brands have to make varies among these four categories, as well as their effectiveness. Top Stars & Celebrities certainly are the category able to reach the broadest audience, but in some cases and for some brands it could be even more effective to cooperate with more niche KOLs, that given their narrow audience can generate a higher engagement rate and convey highest sense of authenticity.

Today, in China, there are around 10 million KOLs⁸² so it is becoming increasingly difficult for foreign luxury brands to choose which influencers to collaborate with and identify who are those that can be more effective and aligned with the brand's storytelling and value proposition. Furthermore, the explosion of this trend has posed a new challenge for the Chinese Government and forced it to issue new amendments⁸³ to the Advertising Law of the RPC. The aim of the amendment was to convey the highest level possible of transparency and authenticity, therefore guidelines have been

⁷⁹ AA. VV., (2022). "Ultimate guide to KOL marketing in China: What is a KOL and how to unravel their enormous potential", Daxue Consulting. - <https://daxueconsulting.com/kol-marketing-china/>

⁸⁰ A.G. Dudarenok, L. Hallanan, (2018). "Working with Bloggers, Influencers and KOLs", Digital China. Chapter 1, "Who are KOLs and why do you need them?", pg. 11, "The five main types of Internet personalities".

⁸¹ AA. VV., (2022). "Ultimate guide to KOL marketing in China: What is a KOL and how to unravel their enormous potential", Daxue Consulting. - <https://daxueconsulting.com/kol-marketing-china/>

⁸² Ibid.

⁸³ The Law was promulgated in 1994 and then amended three times: in 2015, in 2018 and in 2021.

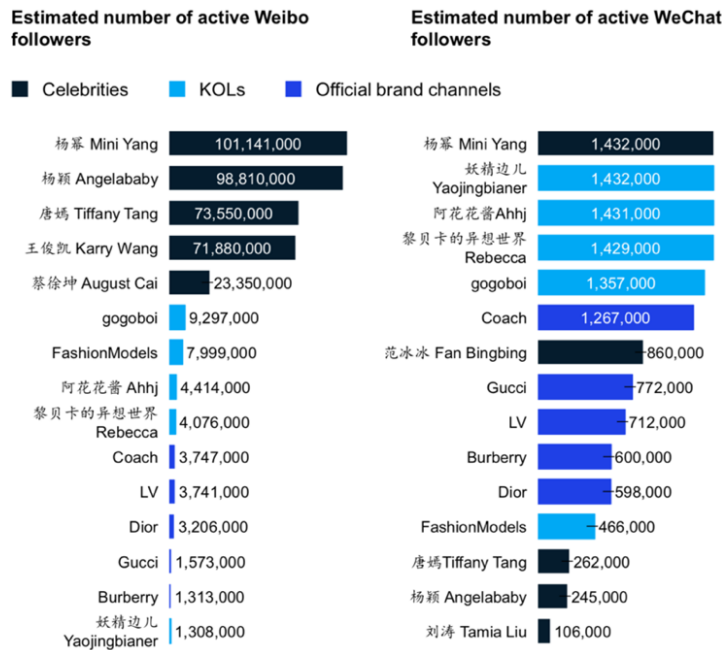
established regarding the use of KOLs by companies and the obligation to clearly state when a content is paid advertising⁸⁴.

When foreign luxury brands decide to engage in KOLs' marketing campaign there are some general guidelines they can follow in order to make their investment successful and to avoid common mistakes. First of all, they need to choose the KOL that better suit their need and that better reflect the brand's strategy and image. They need to select brand ambassadors that target the audience they want to reach and that are credible and consistent with the product they are promoting, and the brand they are representing. They should also avoid KOLs that collaborate with too many brands because this could decrease the brand visibility, generate confusion and reduce influencer's credibility. Luxury brands should take some time to evaluate different Chinese KOLs and collect data about their reputation and their results in terms of likes, comments and engagement rate. Foreign brands also need to pay attention to the platform they choose to use. KOLs are usually active on more than one channel; for example they have official accounts on Weibo, Weixin, Xiaohongshu and Douyin, but it is not said that they have the same level of resonance on all channels and above all the different social media often leverage different strategies and are aimed at different audiences. Once luxury brands have identified the perfect KOL, they need to develop a clear plan of action. They must communicate their strategy and their objectives to the brand ambassador, in order to make sure they are aligned, but at the same time it is key that companies do not limit KOLs' creativity. It is of fundamental importance that brands leave influencers the freedom to promote the product in line with their style of communication, first and foremost because they better understand their own followers and know what kind of content can be appealing to them. It is also crucial to keep in mind that new luxury consumers tend to dislike traditional advertising and are more likely to value a recommendation when it is perceived as authentic and spontaneous.

According to McKinsey & Company China Luxury Report 2019, celebrities and KOLs are now much more influential than brand-owned channels (*figure 2.14.*), therefore foreign luxury brands must exploit this tool as much as possible in the most effective way possible.

⁸⁴ AA. VV., (2020). “中华人民共和国广告法”, www.gov.cn. - http://www.gov.cn/guoqing/2020-12/24/content_5572939.htm

Figure 2.14. – KOLs and celebrities have a broader reach compared to brand-owned channels



Source: China Luxury Report 2019, McKinsey & Company (2019)

2.6.2.1 Mr. Bags (包先生)

Tao Liang, better known as Mr. Bags or as 包先生 (*Bāo xiānsheng*), is one of the most influential Chinese KOLs in China and worldwide. The 27-years-old influencer started sharing his shopping experiences and reviews on Renren⁸⁵ when he was only an 18-years-old student at the University of California (UCLA), then in 2012 he opened his account on Weibo and today he counts more than 10 million followers across his several official pages on Weibo, WeChat and Xiaohongshu⁸⁶. In a decade, Mr. Bags has become a guru in the fashion luxury world and in 2018 he was also named in “Forbes China’s 30 Under 30” list⁸⁷.

As his name suggests, the focus of Mr. Bags are luxury bags, which he reviews and suggests to his followers. On a monthly basis, he publishes on his social media pages a list in which he ranks the most popular 30 luxury bags in the Chinese market for that month (*figure 2.15.*), and not just common

⁸⁵ Renren (人人网 *Rénrénwǎng*) is a Chinese social network similar to Facebook, launched by a group of students in 2005 and particularly popular among university students at the time.

⁸⁶ V. Chen, (2018). “Meet Mr Bags, the Chinese top digital influencer who’s changing the way women shop”, South China Morning Post. - <https://www.scmp.com/magazines/style/people-events/article/2151768/meet-mr-bags-chinese-top-digital-influencer-whos>

⁸⁷ AA. VV., (2023). “Tao Liang Biography”, Business of Fashion. - <https://www.businessoffashion.com/community/people/tao-liang>

consumers but also CEOs of important fashion luxury brands eagerly await Mr. Bags’ verdicts. Tao Liang has been a student of both the UCLA and Columbia University, so he had the chance to travel and gain knowledge about foreign luxury fashion trends. Furthermore, he only focuses on one kind of product, adopts a specific format and has a clear and distinct personality, characteristics that have contributed to making him famous and credible in the eyes of Chinese luxury consumers.

Figure 2.15. – Mr. Bags Top 30 January 2023



Source: Xiaohongshu app (2023)

In 2018, Mr. Bags opened his own mini program on WeChat, called BaoShop, primarily dedicated to collaborations with luxury brands and aimed at offering exclusive products to his followers⁸⁸. Today, the Chinese KOL boasts numerous collaborations with important fashion luxury brands such as *Louis Vuitton*, *Givenchy*, *Tod’s*, *Chloé*, *Fendi*, *Burberry* and *Dior*, and has helped these brands achieve unimaginable results in the Chinese market. In 2018, Mr. Bags collaborated with *Givenchy* for the launch of a capsule collection consisting in a limited-edition bag for Valentine’s Day worth RMB 1.2 million, exclusively dedicated to his followers, that went sold out in twelve minutes⁸⁹. The numerous

⁸⁸ V. Chen, (2018). “Meet Mr Bags, the Chinese top digital influencer who’s changing the way women shop”, South China Morning Post. - <https://www.scmp.com/magazines/style/people-events/article/2151768/meet-mr-bags-chinese-top-digital-influencer-whos>

⁸⁹ AA. VV., (2018). “Mr. Bags x Givenchy”, mrbags.com. - <http://www.mrbags.com/index.php/2018/02/14/mr-bags-givenchy-2018/>

collaborations with *Tod's* also provided high reputation to the KOL and visibility to the brand, in particular the one they carried out in 2018 for the celebration of the Chinese New Year. *Tod's* launched 300 bags resembling a dog to celebrate the Year of the Dog through Mr. Bags' WeChat "BaoShop": the bag went sold out in 6 minutes, generating a profit of RMB 3.24 million (USD 500,000) for the Italian luxury brand. In June 2020, he engaged in a collaboration with *Burberry* for the launch of 100 limited-edition Pocket Bags that were sold exclusively on his mini program "BaoShop" and that went sold out in just one minute⁹⁰.

Mr. Bags has now become an influential, well-known and respected figure not only in the Chinese scene but also internationally. Tao Liang has now a verified account on Instagram as well, where he has more than 53k followers: a clear sign of how his presence has become fundamental also on Western social media. He gained extraordinary visibility when Fendi invited him to his show in Milan in June 2022, making him "the first Chinese blogger to get a front-row seat at a fashion show"⁹¹ and then recently renovated its invite for FW23 show. During Fashion Week 2022, a lot of other brands wanted him to their SS23 fashion shows in Milan, such as *Louis Vuitton*, *Tory Burch*, *Coach*, *Tod's* and *Gucci*. These are clear indicators of the relevance and credibility Chinese KOLs are gaining not just in the Chinese market but also worldwide.

2.6.3 Livestreaming

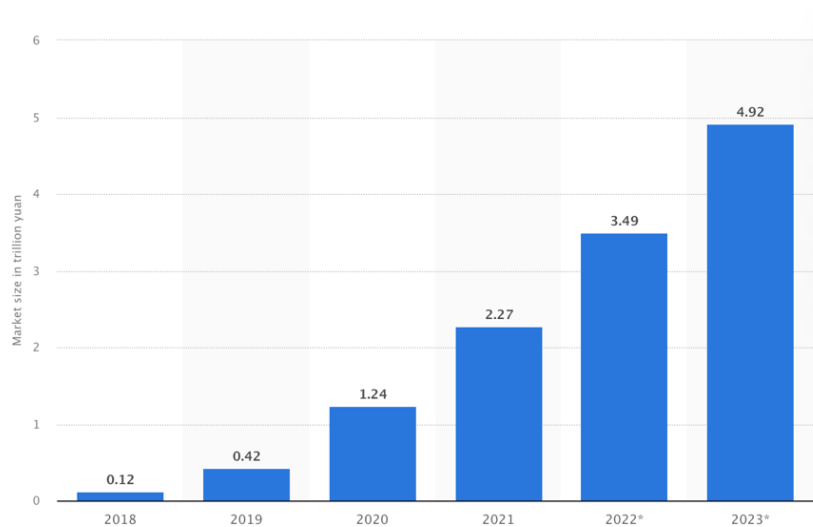
Since 2019, livestreaming has experienced an impressive development and today it is one of the main trends boosting sales in the Chinese luxury market. Throughout these years, livestreaming has gone from being a simple means of entertainment to becoming a fundamental tool for the fashion luxury industry, capable of driving sales with impressive effectiveness. Last year the market size of livestreaming reached RMB 3.49 trillion (*figure 2.16.*) and is expected to reach RMB 4.92 trillion in 2023⁹². In particular, it is interesting to analyse how the growth of livestreaming e-commerce has increased during the COVID-19 pandemic years. In fact, since brick-and-mortar stores were forced to shut down, luxury brands had to develop new strategies to keep in touch with their customers and livestreaming has been one of the best options to achieve this goal.

⁹⁰ AA. VV., (2020). "Mr. Bags x Burberry", mrbags.com. - <http://www.mrbags.com/index.php/2020/06/30/mr-bags-x-burberry/>

⁹¹ T. Tarafdar, (2022). "Meet Mr. Bags, China's top influencer ruling the shopping game", Lifestyle Asia. - <https://www.lifestyleasia.com/hk/style/fashion/who-is-mr-bags-chinas-top-fashion-influencer/>

⁹² Y. Ma, (2022). "Market size of live streaming e-commerce in China from 2018 to 2021 with estimates until 2023", Statista. - <https://www.statista.com/statistics/1127635/china-market-size-of-live-commerce/>

Figure 2.16. – Market size of livestreaming e-commerce in China



Source: Statista (2022)

In terms of numbers of users, according to Statista, by the summer of 2022 there were about 727.9 million live streaming users in China, with a penetration rate of 68.1% among Chinese Internet users⁹³. Talking about age distribution, the main segment is composed by Gen-Zers and Millennials. According to McKinsey & Company, then, apparel and fashion represent the leading category in livestreaming events, accounting for 36% of total share⁹⁴.

Livestreaming has become a major and disruptive tool for luxury brands because it allows consumers to have a clearer vision of the product. What attracts Chinese consumers is the fact that livestreaming proposes real-time contents and give them the opportunity to interact directly with live streamers, asking them questions about the product they are presenting and giving users the chance to immediately collect all kind of information about it. In particular, livestreaming e-commerce leverage the “see now, buy now” trend that is booming in the modern Chinese luxury market. Chinese consumers, in particular younger generations, are used to have their needs immediately satisfied and they usually spend less time to make a purchasing decision, compared to elder generations.

Nowadays, there are social media platforms that entirely rely on livestreaming, such as Douyin, but an increasing number of other channels is integrating livestreaming features, such as Weixin,

⁹³ L. L. Thomala, (2022). “Number of online streaming users in China from 2016 to June 2022”, Statista. - <https://www.statista.com/statistics/1061708/china-online-streaming-user-number/#:~:text=>

⁹⁴ D. Glaser, A. Arora, A. Kim, S. Kohli, (2021). “How live commerce is transforming the shopping experience”, McKinsey & Company. - <https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/its-showtime-how-live-commerce-is-transforming-the-shopping-experience>

Xiaohongshu and even the already mentioned e-commerce giant Taobao. Livestreaming is now a medium widely exploited by KOLs, who use it on their official channels to present products they are sponsoring or that are voluntarily recommending to their followers. This tool gives them the opportunity to better show the product to potential consumers and to show an item while wearing it. Mr. Bags, for example, frequently uses this tool on his Xiaohongshu account to involve his followers during the unboxings of his bags.

Of course, in order for this strategy to be effective, luxury brands have to plan it in the best way possible. First of all, they need to decide what their target is, in order to organize livestreaming events on the channel that best suits their needs. Secondly, it is important for fashion companies to remember that while it is true that Chinese users watch videos and livestreaming contents in the most disparate times of their days, fashion livestreaming events require a certain level of attention, therefore they must ideally reach their audience when they are at home relaxing. In order to achieve this, luxury companies need to study insights about users' digital habits, to figure out at what time of the day their campaign have the highest possibility to be successful and to reach the widest audience possible.

2.7 Social commerce channels

2.7.1 Weixin (微信): the bridge between online and offline

Weixin (微信), also known as WeChat in its international version, is a multi-functional app halfway between a messaging app and a social network launched in January 2011 by the tech giant Tencent. With its 1.02 billion monthly active users, it is the first social media platform in China for share of internet users⁹⁵, the fifth most used social network worldwide⁹⁶ and the one that counts the highest number of monthly active users among the leading apps in China (*figure 2.17*).⁹⁷

⁹⁵ L. L. Thomala, (2022). "Share of internet users of the leading social media in China as of 3rd quarter 2021", Statista. - <https://www.statista.com/statistics/250546/leading-social-network-sites-in-china/>

⁹⁶ S. Dixon, (2023). "Most popular social networks worldwide as of January 2023, ranked by number of monthly active users", Statista. - <https://www.statista.com/statistics/272014/global-social-networks-ranked-by-number-of-users/>

⁹⁷ L. L. Thomala, (2023). "Monthly active users of the leading apps in China in June 2022", Statista. - <https://www.statista.com/statistics/1032630/china-leading-apps-by-monthly-active-users/>

Figure 2.17. – Monthly active users of the leading apps in China in June 2022 (in millions)



Source: Statista (2022)

Chinese netizens use Weixin to carry out any kind of activity: they can keep in touch with friends and relatives, but also hail a taxi, book a flight or a train ticket, send and receive money thanks to Weixin Pay (微信支付, *Wēixìn zhīfù*), available only for the Chinese version of the app, publish and see other users' pictures thanks to the Moments function, read news, shopping and follow brands' official accounts.

In 2017 the app launched a function called “mini programs” (微信小程序, *Wēixìn xiǎo chéngxù*), particularly convenient for luxury brands since it offers advanced features to users so they can turn their accounts into platforms more suited to e-commerce, all within the same app, with no necessity to download external applications⁹⁸. One year after the launch, in January 2018, they had already registered an impressive growth, with a total of 580,000 mini programs present on the app⁹⁹. In 2020 and 2021, Weixin also launched two fundamental functions for fashion luxury brands: channels and livestreaming, in order to allow its users to watch videos published by other accounts, especially by celebrities and fashion brands.

In this decade, WeChat has gone through an evolution that has brought it from being a simple messaging application to being the most complete social platform in China, as well as an incredible and fundamental tool for the luxury-goods sector. The implementation of the mini program function in 2017 has allowed fashion luxury brands to carry out incredibly effective marketing campaigns on the platform, adopting different strategies. According to a McKinsey & Company report, WeChat mini-programs are “responsible for one-fourth of the awareness in the digital consumers' decision journey”¹⁰⁰. In July 2018, *Off-White* and *Rimowa* launched a mini program for the presentation of a

⁹⁸ R. Zheng, (2018). “Report: The Hyper Growth of WeChat’s Mini-Programs in 2018”, Jing Daily. - <https://jingdaily.com/wechats-mini-programs-2018/>

⁹⁹ Ibid.

¹⁰⁰ L. Bu, J. Wang, K.W. Wan, D. Zipser, (2019). “China digital consumer trends 2019”, McKinsey Digital.

limited-edition suitcase resulting from the collaboration between the two brands¹⁰¹. This marketing campaign capitalized on the impulse that pushes young consumers to buy luxury goods, especially when they know that these are limited and unique editions. Another successful strategy is the one adopted by *Gucci*, that through its mini programs allows users to wear a virtual *Gucci* face mask when taking a selfie¹⁰². This strategy leverages on the gamification trend: Chinese luxury consumers, especially Millennials and Gen-Zers, greatly enjoy platforms that allow them to engage in some sort of game or challenge. At the same time, users that utilize this function become a sort of brand ambassadors, because they share their selfies with their community, who then feel enticed to try on the same feature and to visit the brand Weixin page. Another successful campaign that exploited the gamification trend conducted on Weixin, is the one carried out by *Dior* for the opening of its new store in Shanghai. The French luxury brand organized a virtual treasure hunt allowing winners to receive tickets to the opening event¹⁰³.

In 2022, the French luxury brand *Chanel* earned the title of the most active and popular luxury brand on the platform. Over the past year, the fashion brand published a total of 72 articles on Weixin, gaining important results also in terms of performance, with an average readership between 5,000 and 10,000¹⁰⁴. *Chanel* has been one of the slowest brands engaging in digital in China, for this reason this result acquires an even more significant meaning and is indicative of the fact that even the brands initially more reluctant are now understanding the relevance of Chinese digital channels.

The fact that in 2013 Weixin also launched WeChat Pay, integrating a payment method within the app, has made the platform even more complete and essential for luxury brands. Users can indeed complete the entire customer journey within the same app, from research to the final transaction, using a secure payment method, and this plays a fundamental role in increasing brand's sales. Sometimes, in fact, it is precisely in the transition between the evaluation and the purchase phase that potential customers are lost; as a matter of fact, when they have to switch to another platform to finalize the transaction, they sometimes tend to postpone the purchase or it simply happens that other brands take over and manage to steal their attention.

Weixin is a fundamental tool not only in increasing luxury brands sales, but also in creating a close relationship and engagement with consumers. Luxury brands must leverage this platform for Customer Relationship Management (CRM) and to create a bridge between the online and offline

¹⁰¹ L. Sim, (2018). "Top 5 Luxury WeChat Mini-program Marketing Tactics", Jing Daily. - <https://jingdaily.com/wechat-luxury-tactics/>

¹⁰² Ibid.

¹⁰³ Z. Suen, (2018). "Impulsive, Addictive Social Commerce Is China's Latest Craze, Business of Fashion. - <https://www.businessoffashion.com/articles/china/impulsive-addictive-social-commerce-is-chinas-latest-craze/>

¹⁰⁴ R. Douglass, (2023). "Chanel was most active luxury brand on China's WeChat in 2022", Fashion United. - <https://fashionunited.uk/news/business/chanel-was-most-active-luxury-brand-on-china-s-wechat-in-2022/2023011067180>

world. In the post-purchase phase, it is of essential importance to keep in touch with customers in order to create loyalty and make them to come back to purchase other products. When luxury consumers go in store to purchase an item, sales assistants can add them on Weixin, giving them the impression that on that day they not only gained a luxury item, but also established a bond. Boutique's staff can use Weixin to reach out to their customers, ask them for feedbacks about the product they bought and the experience they had, keeping them updated about latest arrivals and new trends, offering them special promotions. By adopting this strategy, luxury brands will make consumers feel valued and important, and they will be more likely to develop brand-loyalty. Of course, this could become a double-edged sword for companies, and luxury brands need to make the most of this strategy if they don't want it to backfire. First of all, brands must make sure that sales assistant that engage in relationships with consumers are consistent with the image and the values of the brand. Secondly, for consumers it must be clear that they are creating a relationship with the brand and not with the individual seller, which is only the means through which the company communicates with them. For these reasons, luxury brands often prefer to use chat bots to communicate with their clients via Weixin.

Weixin could therefore be a key tool in generating loyalty and advocacy, since it is not just a social media, but also a private and intimate channel that allows brands to create a one-to-one approach and connection with their customers.

2.7.2 Xiaohongshu (小红书)

Xiaohongshu, also known as Little Red Book or RED, is the most influential social commerce platform in China as well a powerful digital marketing tool for foreign luxury brands. The platform has been launched in 2013 by Miranda Qu and Charlwin Mao and has its headquarters in Shanghai. It was originally born as a shopping guide for Chinese consumers for the purchase of premium products overseas, and during these ten years has experienced an incredible development, reaching in the end the status of perfect balance between a social media and an e-commerce platform with the stated mission of “inspiring lives”¹⁰⁵.

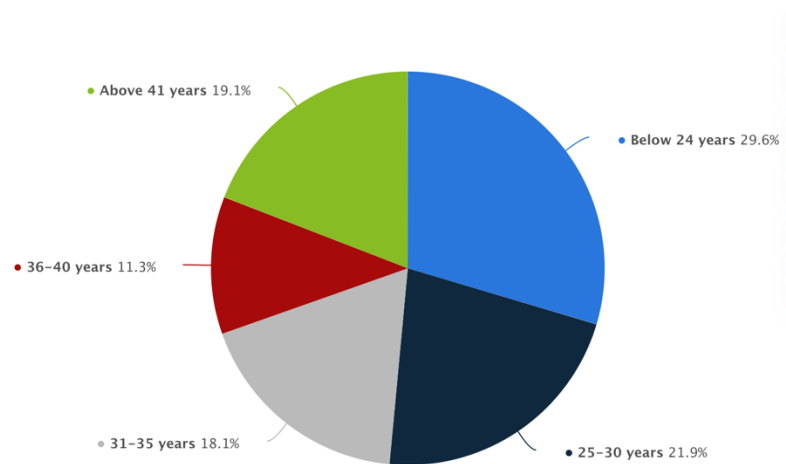
In 2014, the e-commerce function has been integrated into the platform with the name of “RED Mall”, allowing users to purchase premium products within the app, and since 2018, Little Red Book is also linked to the e-commerce platform Taobao. In 2019, the channel also introduced the livestreaming

¹⁰⁵ AA. VV., (2023). Xiaohongshu Homepage, “The mission”. - <https://www.xiaohongshu.com/en?source=official>

function, allowing users to get the chance to see the products better and have an enhanced customer experience. In 2021, the social media also created a link with WeChat, allowing users to directly click through from Xiaohongshu brand’s pages to their WeChat mini programs¹⁰⁶. This represents a clear sign of how digital channels in China are increasingly collaborative and interrelated.

Nowadays, Xiaohongshu has more than 300 million active users, with around 158 millions of them being monthly active users¹⁰⁷. In terms of user age distribution, more than 50% of active users are under 30 years old (*figure 2.18.*), meaning that the platform is aimed primarily at an audience made up mostly of Millennials and Gen-Z consumers. Of its over 300 million users, 70% are female¹⁰⁸ and one third resides in tier-one cities¹⁰⁹.

Figure 2.18. – Xiaohongshu active users age distribution as of July 2022



Source: Statista (2022)

Despite having a very large user base, Little Red Book is a rather niche platform compared to others such as WeChat or traditional e-commerce channels. Its users are savvy young consumers who have wide knowledge about the fashion luxury world, therefore the contents offered are usually of high quality.

¹⁰⁶ Q. Yang, (2021). “Luxury Brands Jump into WeChat’s New Xiaohongshu Collab”, Business of Fashion. - <https://www.businessoffashion.com/news/china/luxury-brands-jump-into-wechats-new-xiaohongshu-collab/>

¹⁰⁷ L. L. Thomala, (2023). “Number of monthly active users of Xiaohongshu app in China from December 2020 to June 2022”, Statista. - <https://www.statista.com/statistics/1327421/china-xiaohongshu-monthly-active-users/>

¹⁰⁸ Y. Ma, (2023). “Active user gender distribution of Xiaohongshu in China as of July 2022”, Statista. - <https://www.statista.com/statistics/1053571/china-xiaohongshu-user-gender-distribution/>

¹⁰⁹ L. L. Thomala, (2022). “Share of Xiaohongshu (RED) users in China as of October 2021, by city tier”, Statista. - <https://www.statista.com/statistics/1288210/china-xiaohongshu-red-user-breakdown-by-city-tier/>

Xiaohongshu homepage provides its users with three main sections of research, namely “follow”, with contents published by one’s own network of following accounts; “explore”, and “nearby” which provide contents based on the users’ location and preferences¹¹⁰ (figure 2.19.). When registering on the platform, users are asked to choose four different areas of interest, allowing the app to provide its users with the best experience possible tailored according to their interests and preferences.

Figure 2.19. – Xiaohongshu homepage



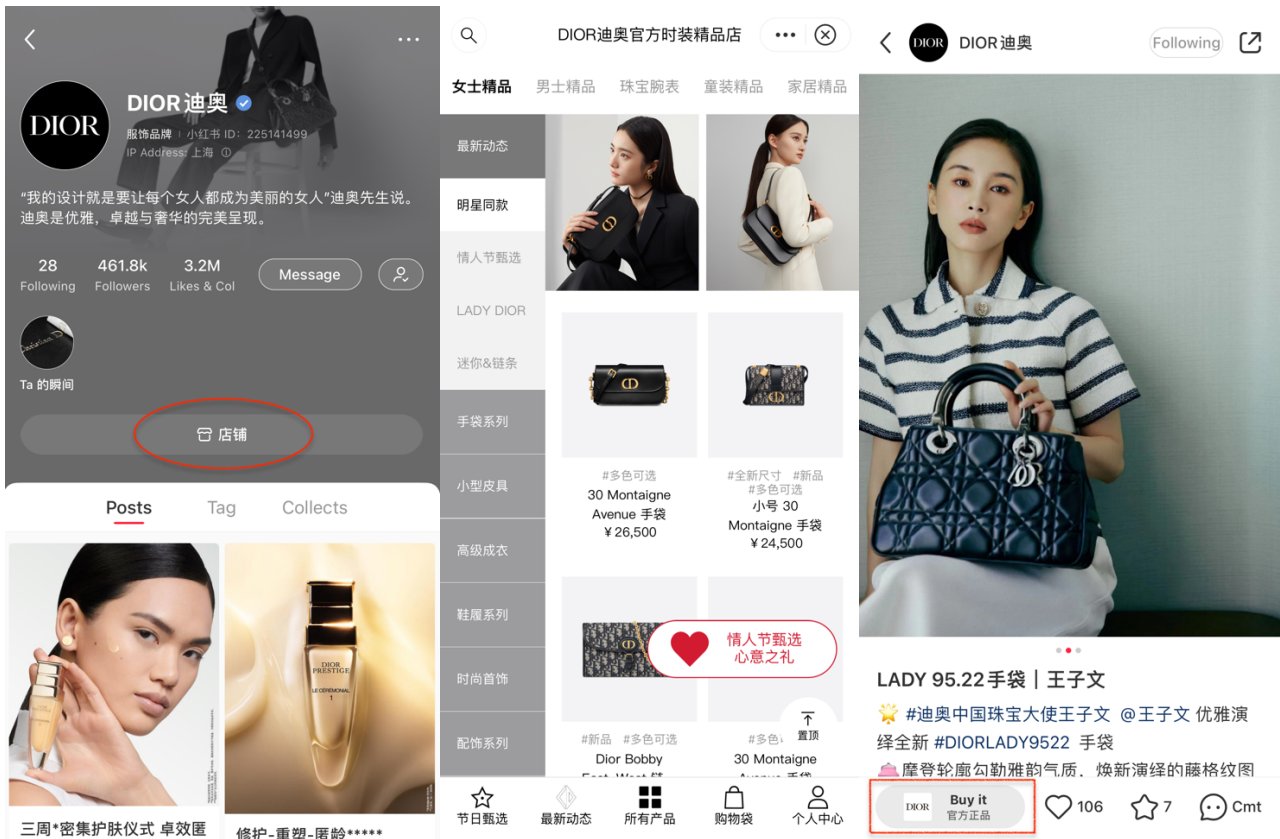
Source: Xiaohongshu app (2023)

Brand’s pages on Xiaohongshu, such as *Dior*’s, can implement a “store” button (店铺, *diànpù*) that leads directly to the brand’s online shop and allow them to conveniently purchase items. In addition, many of *Dior*’s posts on Xiaohongshu feature a “buy it” button that also takes consumers to the brand’s digital shop. The wording “certified product” (官方正品, *guānfāng zhèngpǐn*) also

¹¹⁰ A. Colarizi, (2022). “Xiaohongshu, molto più di un Instagram cinese”, China Files. - <https://www.china-files.com/xiaohongshu-molto-piu-di-un-instagram-cinese/>

appears under this button to guarantee the authenticity of luxury items sold through the platform (figure 2.20.).

Figure 2.20. – Dior Xiaohongshu page



Source: Xiaohongshu app

Compared to traditional e-commerce platforms, the journey users take when browsing on Xiaohongshu is driven more by curiosity than necessity. When surfing on a traditional e-commerce channel, users are generally looking for a specific product, then they start evaluating different offers and finally choose the best option. RED users usually start browsing the homepage out of curiosity, then their attention is captured by a specific content, therefore they start to look for information about the product and hopefully finalize the purchase¹¹¹. This means that the final result is largely based on how captivating the published content is and that users do not simply use the platform to look for specific products, but also to discover new fashion trends, luxury brands and premium products they are not aware of yet.

¹¹¹ T. L. Tuten, M. R. Solomon, (2018). “Social Media Marketing”, SAGE.

Little Red Book relies on User Generated Content (UGC) and uses a peer-to-peer approach, which gives users a sense of authenticity. Consumers utilize the platform to talk about their purchase experience with a brand and a product, they publish their feedbacks about products and in case of positive experiences also suggest them to other users. Consumers still use this channel as a shopping guide, they look for recommendations from other consumers on RED and are greatly influenced by what other users say on their accounts about a certain luxury product or brand. Luxury brands sales are then driven by the digital WOM that is generated on this social media.

It can be said that Little Red Book has largely contributed to the nurturing of the so-called “种草 economy”. 种草 (*zhòngcǎo*) literally translates into “to grow grass”, but in the Internet slang the term has acquired a completely new meaning and now translates into “to recommend a product to somebody”. 种草 is one of the most important trends for social luxury commerce in the Chinese market, because most part of fashion luxury brands’ sales are now driven by recommendations posted by new Chinese luxury prosumers on their social media pages.

RED also uses an algorithm that allows the platform to convey to its users a tailored experience. In fact, by collecting data about their users and their habitual path on the app, Little Red Book is able to suggest to its members contents that are aligned with their preferences and habits, suggesting them products they could like even before they knew about their existence¹¹².

Xiaohongshu also gives luxury brands the possibility to create official brand accounts, and even though not all foreign luxury brands are officially present on the platform, the number of fashion companies that choose to leverage this channel is increasing year by year. Through the creation of official accounts, luxury brands can get the chance of engaging in direct communication with their users and nourish their brand loyalty, as well as accessing to data insights and information about their shopping habits. Since 2018, RED also gives brands the possibility to pay for advertisement spaces on the platform, even though surveys have demonstrated that in the social commerce era ads are much less valued compared to contents and promotions perceived as more spontaneous and authentic.

Key Opinion Leaders are certainly among the most influential users on the platform and luxury brands can choose to cooperate with them. Since 2018, indeed, the platform has implemented a feature called “Brand Partner Platform” with the aim of connecting brands and KOLs. Brands can monitor influencers’ key metrics, such as number of likes, comments and the engagement rate of their profiles, and decide who they want to collaborate with. KOLs will then become brand ambassadors of a specific brand and will be in charge of recommending its products on their RED’s page. Given the fact that fashion companies don’t have direct control on the contents published on this social media,

¹¹² AA. VV., (2022). “Why Little Red Book app is a great e-commerce tool in China?”, GMA. - <https://fashionchinaagency.com/little-red-book-app-new-e-commerce-tool-china/>

this could be a good chance for them to try at least to drive to some extent their products' recommendation on this platform, but they need to choose wisely who they want to be represented by and select the influencers who most of all are in line with their brand's value proposition.

However, even though KOLs are highly influential, sometimes for the sake of authenticity and credibility Key Opinion Consumers (KOC) can be even more effective¹¹³. The main difference between KOLs and KOCs is in the number of followers; KOCs have a much smaller fan base and are basically common consumers who like to share their opinions and reviews about luxury products through their accounts. Even if they can reach and influence a smaller audience compared to KOLs, Key Opinion Consumers often prevail in terms of authenticity, because their followers can more easily identify with them. Today, Chinese consumers tend to disregard products promotion when they know they it derives from a paid partnership with brands, this is why they value more genuine contents that comes from regular consumers. Key Opinion Consumers are basically customers that have chosen to become brands' advocates.

In 2019, Xiaohongshu issued new guidelines regarding the use of KOLs on the platform, stopping the businesses of thousands of influencers. The new policy stipulates that only influencers with more than 5,000 followers and average post views higher than 10,000 can engage in business relationship with brands¹¹⁴. In January of the same year, Little Red Book also issued a new policy regarding KOLs' paid contents: the measure establishes that influencers must clearly state when a post is a paid sponsorship or not, so as to ensure maximum transparency to its users¹¹⁵. The platform is very strict about the quality of the content displayed and tries reach an increasingly high level of quality. Xiaohongshu is also very careful to the quality of the products sold through its marketplace and operates a strict check on the authenticity of luxury items. All of this gives provides luxury brands with a sense of security and reliability and ensured that in recent years more and more foreign luxury brands have decided to establish their official presence on this channel.

The implementation of the livestreaming function in 2019 contributed to further increase the platform's popularity. Users can now employ more than words to provide reviews and recommendations about luxury products, they can directly display items using livestreaming and short videos, giving other users the chance to see the product being worn and used and to intervene with live questions and comments.

¹¹³ AA. VV., (2020). "KOC marketing in China often gets more bang for the buck than KOL marketing", Daxue Consulting. - <https://daxueconsulting.com/koc-marketing-in-china/>

¹¹⁴ A. Achim, (2019). "The Growing Influence of Little Red Book", Jing Daily. - <https://jingdaily.com/the-growing-influence-of-little-red-book/>

¹¹⁵ R. Zheng, (2019). "Full Disclosure: Little Red Book Now Unmasks KOLs' Paid Posts", Jing Daily. - <https://jingdaily.com/little-red-book-china-influencer/>

Foreign luxury brands have landed quite late on this social media, with *Louis Vuitton* being the pioneer in 2019, followed by *Chanel*, *Gucci* and *Dior*. Foreign luxury brands are now understanding the great potential of this channel and today Xiaohongshu counts 8,000 verified brands. Establishing their presence on RED could be profitable not only for luxury brands willing to engage in more straightforward communication with their customers, but also for foreign luxury brands that are not yet present in the Chinese luxury market. Entering Little Red Book could indeed be a good first step for brands that want to approach the Chinese market because it can help them test Chinese luxury consumers' response to and interest in their products.

2.7.3 Douyin (抖音)

Douyin (抖音), known in its international version as TikTok, is a livestreaming and video app developed in 2016 by Bytedance, that allows users to share, create and modify short videos. In 2017, after one year from its launch, the app already counted 100 million users and today it has more than 800 million monthly active users and 600 million daily active users¹¹⁶. In particular, between 2020 and 2022, during the lockdown period due to COVID-19 pandemic, the platform registered an increase of +200% in its daily active users¹¹⁷. According to Insider Intelligence, in terms of age distribution, nearly 50% of Douyin users base is made of Gen-Z and 70% of total users lives in first and second-tier cities.

In June 2020, the platform implemented its own marketplace and in January 2021 it launched Douyin Pay. This allowed the platform to become a social media channel integrated with e-commerce features and today Douyin ranks among the top five e-commerce apps with the largest market share¹¹⁸. Before the implementation of its marketplace, Douyin was an entertainment app able to generate awareness among its users and consequentially generate traffic and drive sales on e-commerce platforms such as JD.com and Tmall. Now, thanks to the integration of e-commerce functions, the social commerce platform can keep the entire consumer journey loop within the app, because the user can finalize their purchase without exiting Douyin. Similarly to Xiaohongshu, consumers don't browse the platform looking for a specific product, they look for an inspiration and are captured by brands' contents.

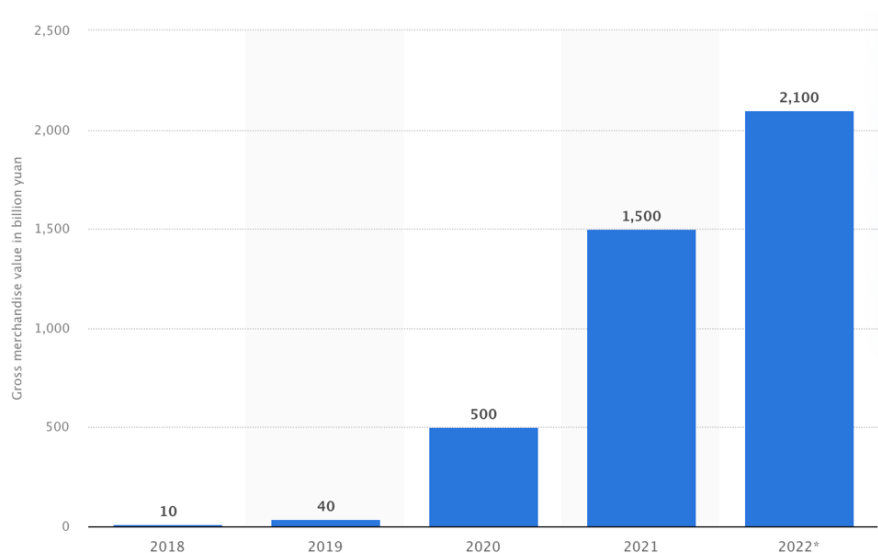
¹¹⁶ AA. VV., (2022). "China Luxury Market Guide", GMA. - <https://marketingtochina.com/china-luxury-market-guide/>

¹¹⁷ Ibid.

¹¹⁸ AA. VV., (2022). "最新电商市场份额公布，未来难以预料", Sohu. - https://www.sohu.com/a/524246709_465282#:~:text=

Livestreaming is one of the main features of this application and, according to Statista, in 2021 the platform generated RMB 1.5 trillion GMV from livestreaming¹¹⁹. In particular, it is interesting to note the exponential growth that this value has experienced since 2019, throughout the years of the pandemic (*figure 2.21.*).

Figure 2.21. – GMV of livestreaming shopping on Douyin in China



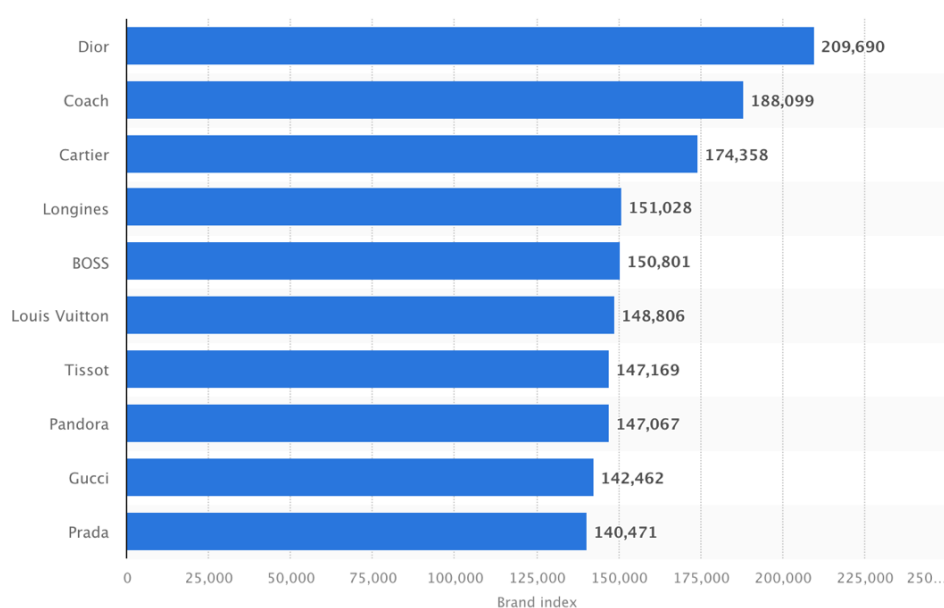
Source: Statista (2022)

Even if TikTok is deemed as the international version of Douyin, the two platforms are actually two completely separate systems that provide their users with completely different search results; for example, not all accounts are present on both versions of the social media. This is why it is fundamental for foreign luxury brands to be present on the Chinese version of the platform and nowadays they have demonstrated to have understood the key role Douyin has in the Chinese luxury market, with more and more fashion companies deciding to establish their official presence on the channel: among them are *Louis Vuitton, Gucci, Chanel, Dior, Celine*. In 2022, *Dior* was the leader luxury brand on Douyin (*figure 2.22.*), scoring the highest brand index in December 2022¹²⁰.

¹¹⁹ Y. Ma, (2022). “Transaction value of livestream commerce on Chinese short video app Douyin (Tik Tok) in China from 2018 to 2021 with an estimate for 2022”, Statista. - <https://www.statista.com/statistics/1174906/china-gmv-of-live-streaming-commerce-on-douyin/>

¹²⁰ L. L. Thomala, (2023). “Brand index of major luxury brands on Douyin in China as of December 10, 2022”, Statista. - <https://www.statista.com/statistics/1327660/china-douyin-leading-luxury-brands-by-brand-index/#:-:~:text=>

Figure 2.22. – Most successful luxury brands on Douyin (December 2022)



Source: Statista (2022)

Foreign luxury brands usually collaborate with celebrities and KOLs to livestream their products on their Douyin channels. In particular, challenges launched within the app have proven to be particularly successful because they involve users and challenge them to create their own content, generating high traffic and contributing to the spread of brands' products. For example, *Burberry* collaborated with the famous Chinese actress Zhou Dongyu in creating a short video on the platform and then launched a challenge inviting followers to film the same short video using *Burberry's* exclusive filters¹²¹, generating 1.37 billion views. Another successful marketing campaign is the one carried out by *Coach* which invited its followers to publish their own content with the hashtag *#wowcoach* with the possibility of winning a money reward¹²². The hashtag received 210 million views.

During the last year, also *Prada* and *Gucci* carried out two successful marketing campaign on Douyin. In January, *Prada* collaborated with four famous Chinese athletes by inviting them to participate in a series of videos under the hashtag *#prada*, which have been played more than 48 million times and made *Prada* rank up from 12th to 5th place on the Douyin Luxury Hot List just after three days from the release¹²³. In April, *Gucci* likewise engaged four celebrities to shoot a short video for the launch

¹²¹ C. Wu, (2022). "How Luxury Fashion Brands Approach Douyin Marketing in China", Launch Metrics. - <https://www.launchmetrics.com/resources/blog/douyin-marketing>

¹²² Ibid.

¹²³ Ibid.

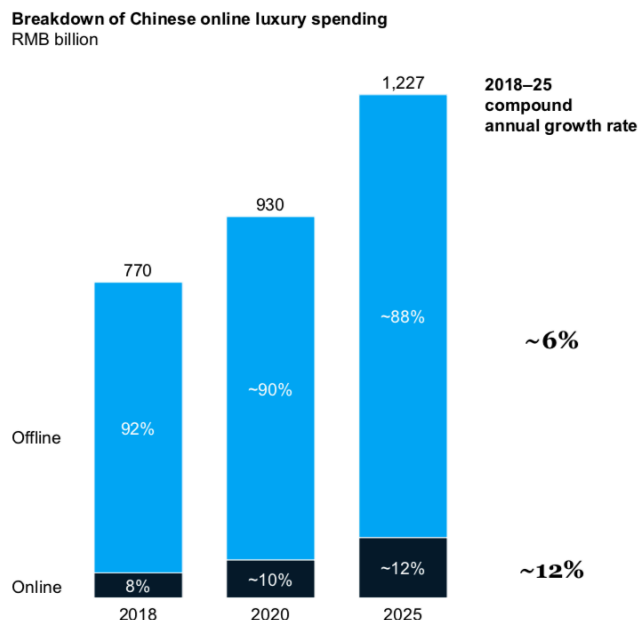
of its Gucci Bamboo 1947 bag. As a result of this marketing campaign, the hashtag #guccibamboo1947 received 68.7 million hits¹²⁴.

2.8 In-store experience still counts

Despite the enormous relevance digital media have acquired throughout the Chinese luxury customer journey, offline channels are still the preferred vehicles when it comes to purchase and are expected to maintain their key role in luxury sales in the years to come.

Luxury shopping, indeed, is not just about products but also about experience. When Chinese consumers purchase a luxury item, they are especially looking for unique service and unforgettable experiences, and this is particularly true for younger generations, with two-thirds of Gen-Z consumers declaring that the experience has a great impact on their purchase decision and on their decision to come back to offline stores to make another purchase¹²⁵. According to McKinsey & Company China Luxury Report 2019, offline channels still account for the greatest percentage of Chinese total luxury spending and are expected to maintain their predominance in the near future as well (*figure 2.23*).

Figure 2.23. – Offline is still the preferred luxury sales channel in China



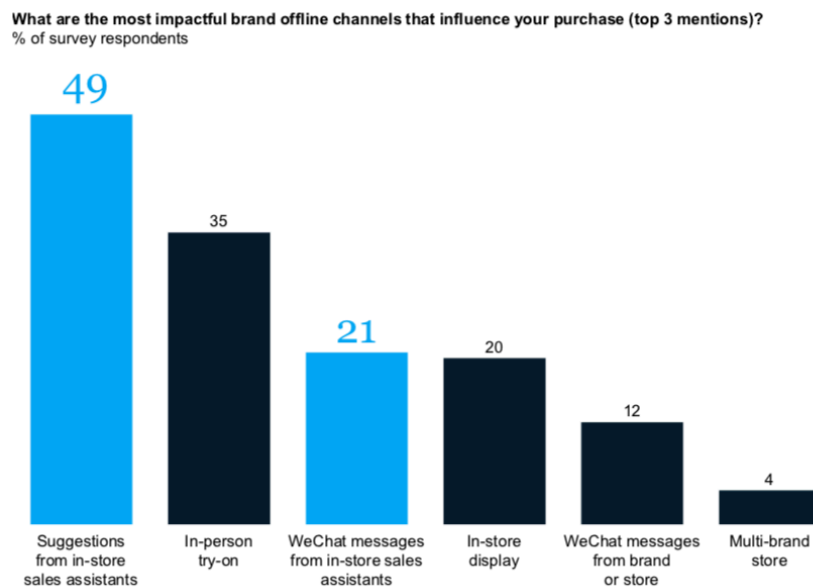
Source: China Luxury Report 2019, McKinsey & Company (2019)

¹²⁴ Ibid.

¹²⁵ AA. VV., (2019). “China Luxury Report 2019 – How young Chinese consumers are reshaping global luxury”, McKinsey & Company.

Therefore, it is of primary importance for foreign luxury brands that want to maintain their competitiveness in the Chinese market to find a perfect balance between online and offline channels and develop a truly omnichannel strategy, without forgetting the importance that brick-and-mortar stores and in-store experience have in the Chinese luxury market. In this sense, in-store staff could be a perfect means through which create a bridge between online and offline worlds. In fact, according to McKinsey & Company report, sales assistants have a key role in influencing Chinese luxury consumers purchasing decision and in creating brand loyalty among their customers. According to Chinese luxury consumers, suggestions from in-store staff still represent the most impactful offline channel that most of all is able to influence their luxury shopping (*figure 2.24.*). In-store sales assistant can pursue this both offline, when customers visit brick-and-mortar stores, but also via digital channels such as WeChat, through which they can keep in touch with customers and provide them suggestions, enticing them to come back to the store and providing them with a 360-degree luxury shopping experience.

Figure 2.24. – The most impactful offline channels for Chinese luxury consumers



Source: China Luxury Report 2019, McKinsey & Company

Young Chinese consumers are increasingly looking for a seamless luxury shopping experience that creates a perfect balance and blend between online and offline channels. In terms of future possibilities, this goal can be achieved by luxury brands by leveraging next-level digital tools that use Artificial Intelligence (AI) and Virtual Reality (VR). Tools such as virtual try-on or chatbots can provide Chinese consumers with a more valuable shopping experience and a more satisfactory

customer service, while AI tools can help brand also to read and analyse the huge amount of data collected about customers¹²⁶. Today the development of AI is already a priority in China, whose Government has established a “Next Generation Artificial Intelligence Development Plan” (新一代人工智能发展规划, *xīnyīdài réngōngzhìnéng fāzhǎn guīhuà*) in 2017 with the goal of becoming a leader in the AI industry by 2030¹²⁷, and a lot foreign luxury brands have already engaged in the use of these new technologies.

¹²⁶ AA. VV., (2021). “What Artificial Intelligence Means for Luxury Brands in China?”, GMA. - <https://marketingtochina.com/what-artificial-intelligence-mean-for-luxury-brands-in-china/>

¹²⁷ AA., VV., (2017). “新一代人工智能发展规划的通知”, Central People’s Government of the People’s Republic of China. - http://www.gov.cn/zhengce/content/2017-07/20/content_5211996.htm

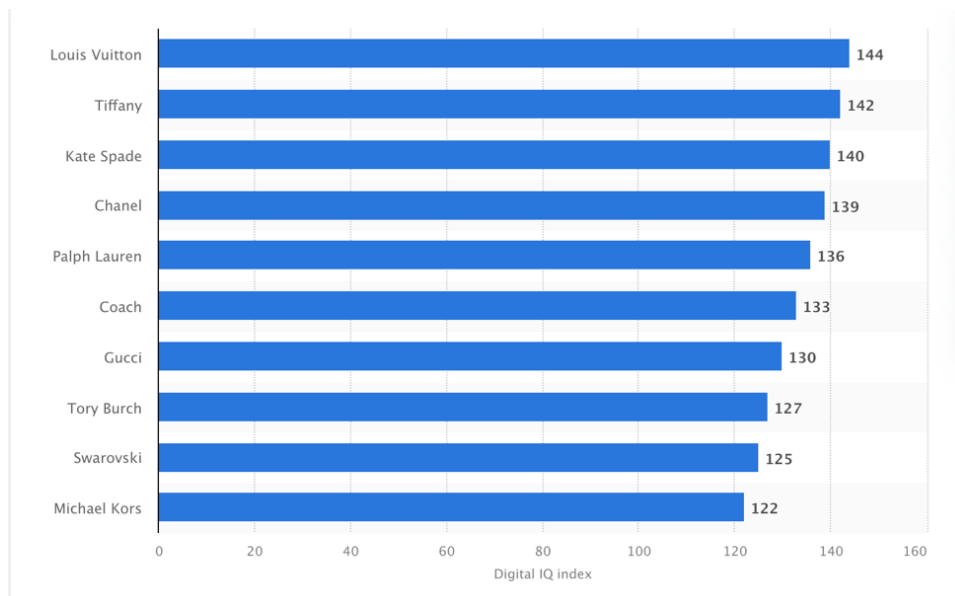
3 *Louis Vuitton's case study*

3.1 The history of *Louis Vuitton* in China

The fashion luxury house headquartered in Paris was founded in 1854 by Louis Vuitton and since 1987 it is part of the LVMH group, born in that same year from the merger of *Louis Vuitton* and *Moët Hennessy*. *Louis Vuitton* was the first luxury brand to enter the Chinese market in 1992, establishing its physical presence in a Beijing hotel. The brand then opened its first flagship store in Beijing in 2005 and today it counts forty stores in Mainland China, with its biggest Chinese flagship stores opened in Shanghai in 2012. The brand also owns three self-operated online stores.

Nowadays, *Louis Vuitton* brand value worldwide is approximately USD 23.4 billion¹²⁸, with China representing one of the biggest markets for the French luxury brand. *L.V.* is considered one of the top five fashion luxury brands in China and, according to statistics, it has been the leading luxury brand in the Chinese market for the third consecutive year in 2022¹²⁹, based on the Gartner Digital IQ index¹³⁰ (figure 3.1.).

Figure 3.1. – Leading luxury brands in China based on Digital IQ Index



Source: Statista (2023)

¹²⁸ T. Sabanoglu, (2022). “Brand value of Louis Vuitton worldwide from 2016 to 2022”, Statista. - <https://www.statista.com/statistics/980552/louis-vuitton-brand-value-worldwide/>

¹²⁹ Y. Ma, (2023). “Leading luxury brands in China as of 2021, based on the Digital IQ index”, Statista. - <https://www.statista.com/statistics/979302/china-leading-luxury-brands-based-on-the-digital-iq-index/>

¹³⁰ The Gartner Digital IQ Index helps brands to understand the impact of digitalization on their industry and provides them with a thorough analysis of their performances relative to competitors. The Index takes into account four areas for its analysis, namely Owned Channels, Search, Social Media and Paid & Earned Media.

Louis Vuitton entered the Chinese market as a pioneer of the first wave of foreign luxury brands that joined this market in 1990s, with all the implications that being a first-comer brand entailed. While on one hand this had several positive implications because there were few or zero competitors on the market and there was no fierce struggle between brands to stand out of the crowd, on the other the challenges were just as numerous. When *Louis Vuitton* entered the Chinese market, indeed, it found itself dealing with an audience of consumers with an enormous newly acquired purchasing power but lacking knowledge of the luxury world, when compared to their European counterparts. *Louis Vuitton* was already a well-known and well-established brand, with a reputation also in the Chinese market, but at the time Chinese consumers were lacking any kind of luxury sophistication and cultural barriers were even more difficult to overcome than today. Despite the challenges, the arrival of the French luxury brand in China has been warmly welcomed by Chinese consumers, who at the time were eager to display their status by carrying the already iconic *Louis Vuitton*'s handbags.

The fact that after thirty years the brand is still a leader in the Chinese luxury market is also due to the fact that *Louis Vuitton* has been able to adjust its strategies according to the new needs of the Chinese luxury market and consumers, while at the same time maintaining its aura of heritage and exclusivity. One of the main strengths of the brand is that it sells evergreen and timeless products that have now become iconic, such the *L.V.* monogram bag, with a very few changes in the collection throughout the years. At the same time, however, the brand has also been able to maintain an approach of constant innovation and renewal, avoiding becoming an obsolete brand in the eyes of younger consumers. This double strategy made it possible for *Louis Vuitton* on one side to maintain the loyalty of its older customers, who have been the driving force of its business for years, and on the other to engage Millennials and Gen-Z consumers, who nowadays are the new big spenders as well as the main driving force of the Chinese luxury market.

3.2 *Louis Vuitton*'s strategy in the Chinese market

Finding the perfect balance between tradition and avant-garde in a market that is constantly and rapidly evolving like the Chinese luxury market is not easy for foreign fashion brands. The main challenge for *Louis Vuitton*, today, is to value its long heritage while satisfying the needs of a cluster of consumers that is constantly looking for something new, unique and innovative. In particular, there

are four main strategies that have proven to be extraordinarily successful for *Louis Vuitton* to reach this balance in the Chinese luxury market¹³¹.

First of all, the French fashion house has a strong focus on younger consumers. This thesis has already highlighted how Millennials and Gen-Zers are the two fundamental clusters of luxury consumers in the modern Chinese luxury market. The fact that younger consumers are less brand focused and brand loyal compared to their predecessors implies that foreign luxury brands, especially those with a long history and heritage, need to find new ways to communicate with this segment of the market. *Louis Vuitton* has used collaborations with streetwear brands to achieve this goal, such as the collaboration with *Supreme* launched in 2017. Young Chinese luxury consumers sincerely appreciate the streetwear world, not only because they like to wear items that are deemed as cool, but also because they identify with the values and storytelling of these brands. *Supreme*, in particular, is one of the major representatives of the streetwear world, therefore the collaboration between these two brands was perceived by young Chinese consumers as an attempt to bring traditional fashion luxury closer to the new disruptive trends of the luxury market. This collaboration also capitalizes on the hype that is created around limited-edition products. It has already been discussed how Millennials and Gen-Z consumers particularly desire products that are unique and can help differentiate themselves from their peers¹³², this is why the launch of a limited-edition luxury items in collaboration with a streetwear brand has been a winning strategy for *Louis Vuitton* in China, not just in terms of revenues but first and foremost in winning the hearts of younger Chinese consumers.

An even more successful move for *Louis Vuitton* was to name Virgil Abloh, founder of the streetwear luxury brand *Off-White*, as artistic director of menswear collection in 2018¹³³. Virgil had already engaged in cross-brand collaborations with brands such as *Moncler* and *Jimmy Choo* before 2018 and his brand was already well-established in the fashion luxury world. His arrival at *Louis Vuitton* brought a breath of freshness and innovation and established an indelible link, first and foremost in young Chinese consumers' minds, between the French luxury house and the world of streetwear. In February 2023, *Louis Vuitton* announced to have appointed Pharrell Williams as the new menswear creative director¹³⁴, after Virgil's death in 2021. This choice highlighted the French fashion brand's willingness to proceed along the path already undertaken with *Off-White* founder. Pharrell Williams

¹³¹ AA. VV., (2021). "Louis Vuitton China: Online Marketing Case Study", GMA. -

<https://fashionchinaagency.com/louis-vuitton-china-online-marketing-case-study/>

¹³² J. Rapp, (2019). "Digital Luxury Drops in China: Why They Work", Jing Daily. - <https://jingdaily.com/digital-luxury-drops/>

¹³³ V. Friedman, E. Paton, (2018). "Louis Vuitton Names Virgil Abloh as Its New Men's Wear Designer", The New York Times. - <https://www.nytimes.com/2018/03/26/business/louis-vuitton-virgil-abloh.html>

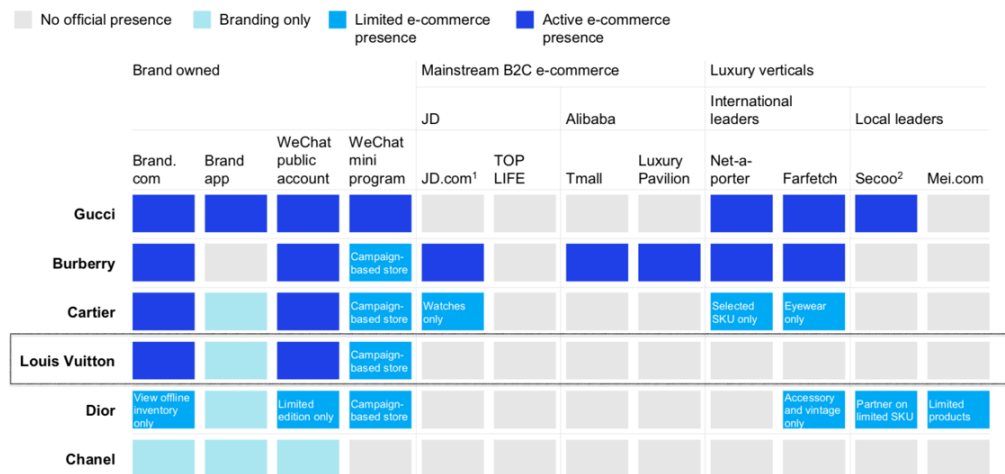
¹³⁴ T. O'Connor, (2023). "Confirmed: Pharrell Williams Will Usher in a New Era at Vuitton Men's", Business of Fashion. - <https://www.businessoffashion.com/articles/luxury/report-louis-vuitton-in-talks-with-pharrell-williams-luxury-lv-mens-designer/>

is indeed a music producer, an icon in the streetwear world and a celebrity with millions of followers on social media, and this demonstrate how much *Louis Vuitton* wishes to continue to engage with young consumers creating a bridge between heritage, streetwear and social media.

The second strategy is embracing digital innovation. Unlike other Western luxury brands that stalled for a long time before deciding to engage in the use of digital channels and that today remains partially inaccessible, such as *Chanel*, *Louis Vuitton* has been one of the first fashion luxury brands to establish its online presence worldwide. Today it counts 51.2 million Instagram followers and 9.7 on Twitter. Similarly, the French fashion brand has also proved to be a pioneer in the use of Chinese social platforms as well. *Louis Vuitton* has well understood the prominence of social commerce in China and decided to develop digital strategies that will be analysed more in depth in the next section of this chapter.

The third main feature of *LV*'s strategy in China is the strict control on its distribution channels. *Louis Vuitton* has little or no presence on Chinese B2C e-commerce platforms, therefore its e-commerce strategy only relies on its brand-owned channels, namely official website, its Weixin public account and its app (*figure 3.2.*).

Figure 3.2. – Louis Vuitton only sells via brand-owned channels



Source: China Luxury Report 2019, McKinsey & Company (2019)

Louis Vuitton opened its official Chinese website louisvuitton.cn in 2004 and in July 2017 the brand implemented its official e-commerce store in China. The French luxury brand adopted a cautious approach toward the e-commerce world and firstly implemented it just in twelve cities, such as

Shanghai, Beijing and Guangzhou¹³⁵. One year after the launch, in May 2018, *Louis Vuitton* expanded the service to twenty-six cities and finally, in the second half of the same year, to all Chinese cities¹³⁶. The implementation of e-commerce on its website allowed the brand to provide its customers with a full omnichannel experience, for example through click-and-collect services, and to allow customers that resides in cities where *Louis Vuitton* does not have an offline presence to shop comfortably from their devices.

In 2021 *Louis Vuitton* announced its partnership with the e-commerce giant JD.com. However, this does not mean that *LV* will sell through the e-commerce platform, because users will be redirected to *Louis Vuitton*'s Weixin mini program to complete the purchase¹³⁷. This partnership is favourable for both JD.com and *Louis Vuitton*. On the one hand, by implementing this model, JD.com can attract more luxury partners, thus competing with the giant Alibaba; on the other hand, the Western luxury brand can take advantage of the e-commerce platform's huge traffic and provide its customers with a seamless omnichannel experience, while at the same time keeping the online retail activity and prices under its direct control.

The decision to sell its own products only through brand-owned channels has a very specific objective, which is to maintain a high level of exclusivity. Indeed, while the luxury world is becoming increasing approachable via digital channels, one of the pillars of luxury still is exclusivity and Chinese luxury consumers do not want to invest in a product that is available anywhere.

The fourth and last strength of *Louis Vuitton* in China is staying on top of trends. The French luxury house is well aware of the most disruptive trends that are affecting the Chinese luxury market and always keeps up to date with the latest tendencies. For example, in October 2018 the brand launched its own sneakers personalization program "Now Yours Run Away", allowing its customers to customize their *LV*'s pair of sneakers before buying it¹³⁸. While keeping its product line pretty classic, this implementation leverages young Chinese luxury eagerness for customization and for new ways to express themselves and their personalities.

¹³⁵ R. Zheng, Q. Qian, (2017). "Louis Vuitton Quietly Launches E-Commerce Platform in China", Jing Daily. -

<https://jingdaily.com/louis-vuitton-quietly-launches-e-commerce-platform-in-china/>

¹³⁶ R. Zheng, (2018). "Exclusive: Louis Vuitton Expands E-commerce Reach to Cover All of China", Jing Daily. -

<https://jingdaily.com/louis-vuitton-expands-e-commerce/>

¹³⁷ C. Hall, (2021). "Louis Vuitton Partners with JD.com to Expand E-Commerce in China", Business of Fashion. -

<https://www.businessoffashion.com/news/china/louis-vuitton-partners-with-jdcom-to-expand-online-reach-in-china/>

¹³⁸ AA. VV., (2021). "Louis Vuitton China: Online Marketing Case Study", GMA. -

<https://fashionchinaagency.com/louis-vuitton-china-online-marketing-case-study/>

3.3 Social commerce strategies

While *Louis Vuitton* is not willing to establish its presence on Chinese traditional e-commerce channels, he has engaged greatly in the use of social commerce platforms, becoming in some cases a pioneer and an example to follow for other foreign luxury brands. *Louis Vuitton* has already demonstrated many times to be digitally savvy and to be able to master Chinese social channels, gaining huge success on platforms such as Weibo, Weixin and Xiaohongshu.

In December 2021, *Louis Vuitton* was the first luxury brand to open a Weixin service account, adopting a customer-centric WeChat marketing strategy¹³⁹. The French brand succeeded in exploiting the live chat function of the platform to deliver an excellent customer service to its consumers. Five years later, in December 2017, *Louis Vuitton* was also the first luxury brand to open a brand official zone on Weixin, which “allows brands to have a homepage with a comprehensive list of information and content”¹⁴⁰.

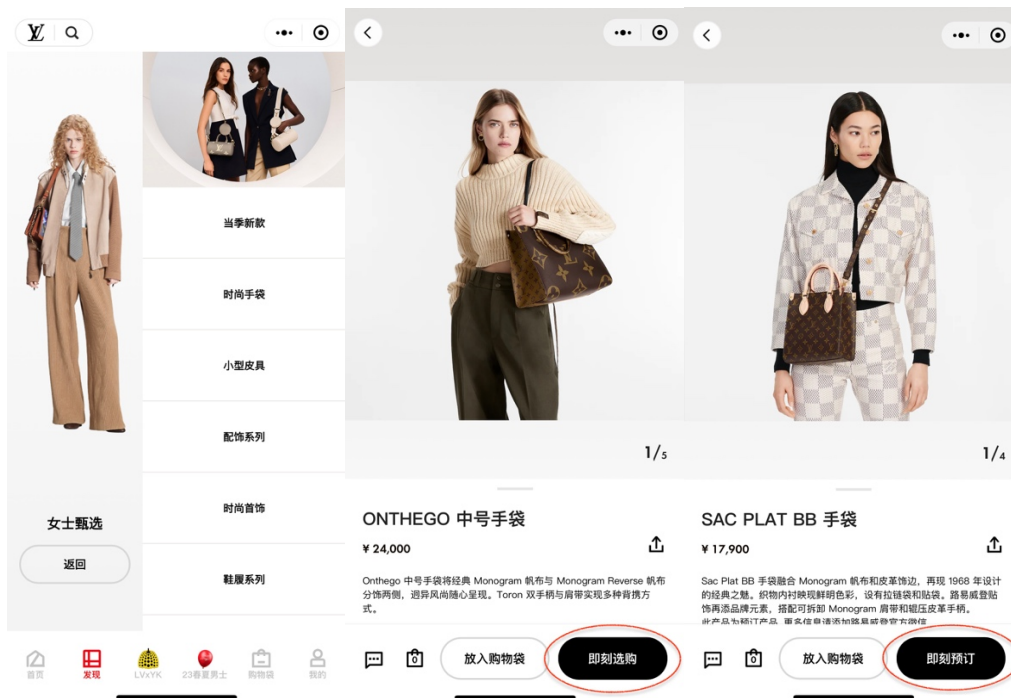
In February 2019, *Louis Vuitton* then opened its WeChat mini program specifically for the launch of its Virgil Abloh’s designed sneakers¹⁴¹. The sneakers were sold exclusively on the brand’s Weixin mini program for RMB 8,850 to RMB 12,500 (USD 1,316 to USD 1,860) and the launch generated strong hype among the brand’s younger segment of consumers. Today, *Louis Vuitton*’s digital pop-up store on Weixin is one of the online channels the French brand uses to sell its products in China. Consumers can buy items straight from the *Louis Vuitton*’s public account and use its WeChat customer service to directly interact with the brand and ask for any kind of information. Through the “Discover” button (发现, *fāxiàn*) users can get access to *Louis Vuitton*’s entire collection and immediately purchase the item if it is available (即刻选购, *jíkè xuǎngòu*) or select the “book it” (即刻预订, *jíkè yùdìng*) option (figure 3.3.).

¹³⁹ Ibid.

¹⁴⁰ Ibid.

¹⁴¹ R. Zheng, Y. Pan, (2019). “Latest Drop: Louis Vuitton Debuts Sneaker Collection via WeChat Mini-program”, Jing Daily. - <https://jingdaily.com/drop-louis-vuitton-wechat/>

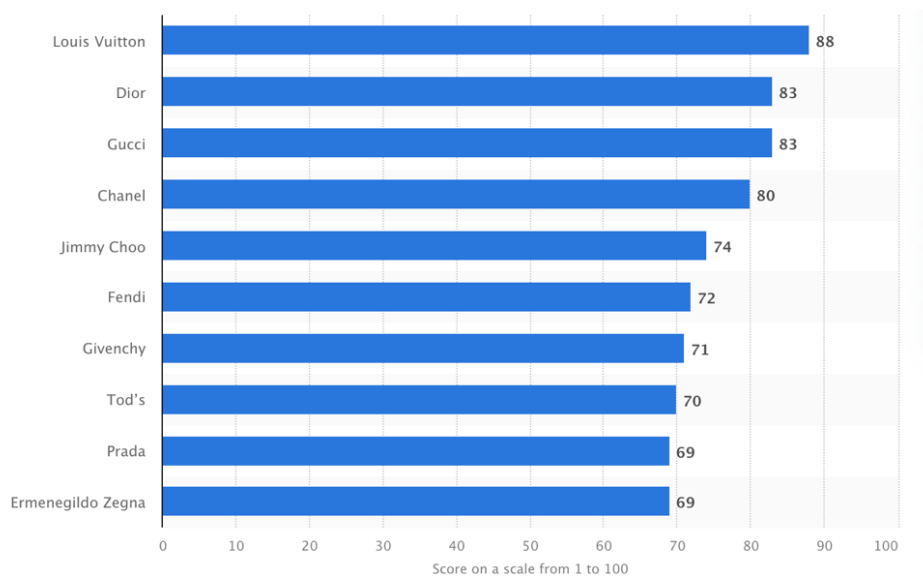
Figure 3.3. – Louis Vuitton’s WeChat mini program



Source: WeChat app (2023)

According to Statista¹⁴², as of May 2022, *Louis Vuitton* is the most popular luxury brand on Weixin and Weibo (figure 3.4.).

Figure 3.4. – Most popular luxury brands on Weixin and Weibo

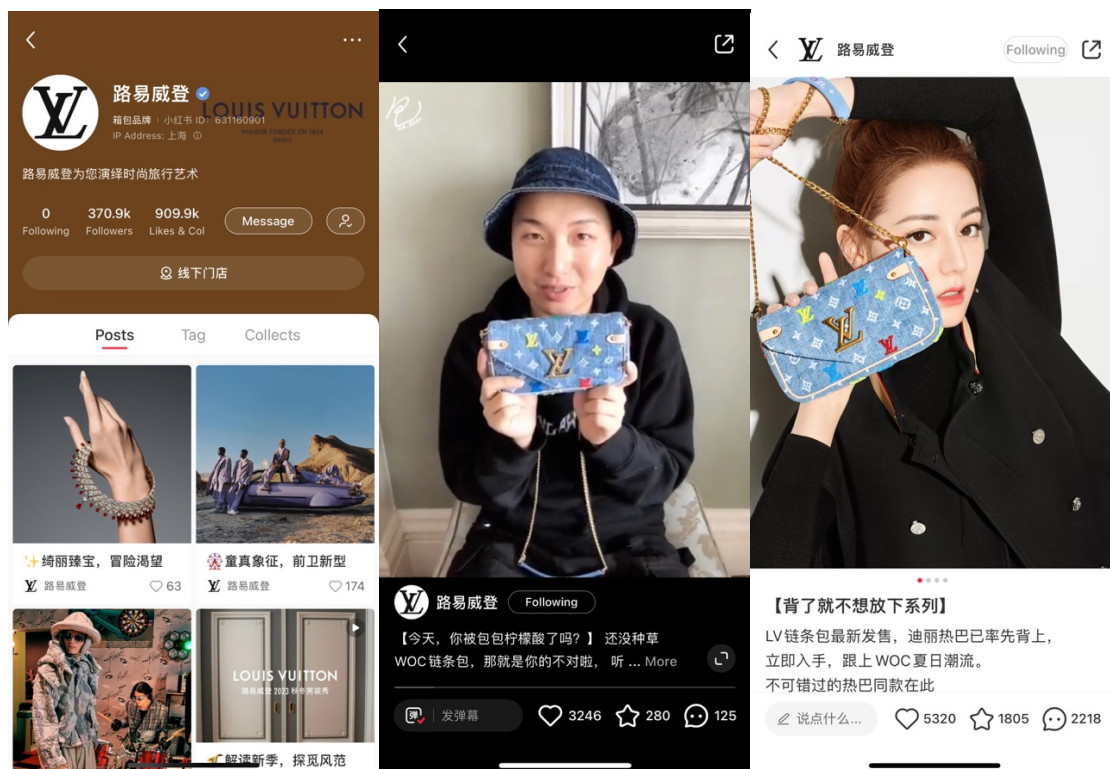


Source: Statista (2023)

¹⁴² J. Faria, (2023). “Most popular luxury brands on Wechat and Weibo among luxury consumers worldwide as of May 2022”, Statista. - <https://www.statista.com/statistics/1325868/luxury-brands-popularity-wechat-weibo/>

In May 2019, *Louis Vuitton* became the first foreign luxury brand to land on Xiaohongshu, opening its official account. The first content posted on the platform by the brand was a short video featuring the famous KOL Mr. Bags in which he presented the new *LV*'s bag from the “New Wave Collection”. During the video, Mr. Bags reviewed and talked about the fabric of the product, showing his audience the capacity of the bag through a practical demonstration and allowing users to ask any kind of questions about the item. After this first post, the fashion brand posted some pictures of the famous actress Chen Baiyang carrying the same bag (*figure 3.5*). One month after joining the platform, the fashion brand already boasted an audience of 19k followers¹⁴³. Today, *Louis Vuitton* has 371k followers on Xiaohongshu, being quite an active user in terms of posts publication.

Figure 3.5. – Louis Vuitton Xiaohongshu homepage and first posts



Source: Xiaohongshu app (2023)

In addition to the use of Xiaohongshu, *Louis Vuitton* has also been wise in choosing the influential personalities to be represented by. Mr. Bags, who has already been largely introduced in the previous chapter, is certainly one of the most noteworthy brand ambassadors for Louis Vuitton. The Chinese KOL is one of the brand’s most loyal influencers and with his monthly “Mr. Bags Top 30”,

¹⁴³ R. Zheng, (2019). “After Landing Louis Vuitton, Can Little Red Book Attract More Big Luxury Brands?”, Jing Daily. - <https://jingdaily.com/louis-vuitton-little-red-book-luxury-brands/>

in which he ranks the 30 most desirable luxury bags for the Chinese market, he surely makes a huge contribution to the French fashion brand. In fact, out of a ranking of thirty handbags, an average of seven positions is always covered by *Louis Vuitton*'s bags. The brand has even commissioned him to manage a Beijing pop-up store for a day, making crystal clear how offline and online worlds are interconnected in today's Chinese luxury market¹⁴⁴, and invited the Chinese influencer to its latest fashions shows.

Alongside with Mr. Bags, *Louis Vuitton* also engaged in collaborations with other influential personalities, especially valued among Gen-Z consumers. For example, in 2015 the French luxury brand was the first to let a KOL take over its Weibo account, launched in 2010. In March of that year *Louis Vuitton* invited the most famous Chinese influencer Gogoboi to manage the brand's Weibo account during the Paris Fashion Week, with the aim of reaching the widest audience possible¹⁴⁵. Furthermore, in 2019 *Louis Vuitton* featured the Gen-Zers' music idol Fan Chengcheng for its digital campaign "Bags on Chain", with the hashtag #爱上 LV 链条包#, generating an incredible buzz among the younger generations of consumers¹⁴⁶.

In 2021, *Louis Vuitton* had to cut the ties with its former brand ambassador Chris Wu, a famous rapper and television celebrity, after he has been charged for rape. It has already been discussed how much reputation and *mianzi* counts in the Chinese society, therefore it is fundamental for foreign luxury brands to choose wisely who they want to engage with. *Louis Vuitton* immediately ran for cover and engaged with new brand ambassadors. In June 2022, the French luxury brand announced its new partnership with the Chinese boy band TNT, composed by seven Chinese males aged between sixteen and twenty¹⁴⁷. Then, at the beginning of this year, *Louis Vuitton* appointed as its brand ambassador, the famous Chinese actor Dylan Wang (王鹤棣, *Wáng Hèdì*), who took part in many Chinese teen dramas winning the heart of younger generations¹⁴⁸. Both TNT and Dylan Wang have a huge audience on their Weibo accounts (TNT members have a social fan base between 14 and 20 millions, while Dylan Wang counts 5 millions followers), meaning that they can help *Louis Vuitton* reach a wide segment of the market. Both the announcements have been warmly received by *Louis Vuitton*'s

¹⁴⁴ AA. VV., (2019). "China Luxury Report 2019 – How young Chinese consumers are reshaping global luxury", McKinsey & Company.

¹⁴⁵ T. Zhang, (2019). "Louis Vuitton Debuts on China's Xiaohongshu", WWD. - <https://wwd.com/feature/louis-vuitton-debuts-on-chinas-xiaohongshu-1203126591/>

¹⁴⁶ R. Zheng, (2019). "After Landing Louis Vuitton, Can Little Red Book Attract More Big Luxury Brands?", Jing Daily. - <https://jingdaily.com/louis-vuitton-little-red-book-luxury-brands/>

¹⁴⁷ W. Wu, (2022). "After Kris Wu, Louis Vuitton Picks New China Ambassadors", Jing Daily. - <https://jingdaily.com/louis-vuitton-teens-in-times-ambassadors/>

¹⁴⁸ J. Zhang, (2023). "China's Next Big Thing? Who Is Louis Vuitton's Latest Ambassador Dylan Wang?", Jing Daily. - <https://jingdaily.com/louis-vuitton-ambassador-dylan-wang/>

young consumers and the choice of these brand ambassadors simply confirms the brand's desire to approach and involve even more Gen-Z consumers.

In December 2018, *Louis Vuitton* also firstly approached the short video and livestreaming platform Douyin by publishing a Christmas campaign¹⁴⁹. Today the brand has a public account on the platform which counts more than 250,000 followers¹⁵⁰. The French fashion brand has also implemented a feature called "VIP Room" on its Douyin page. The section is used by luxury brands to display contents related to their marketing campaigns, new products, promotional messages and also direct links to their websites that allow users to reach their official page and make purchases directly from the brand's website.

Louis Vuitton has proven its avant-garde vision in the use of livestreaming as well. In August 2020, when the majority of foreign luxury brands were cancelling their fashion shows due to the pandemic, *Louis Vuitton* decided to reinvent its event livestreaming its SS2021 runway show held in Shanghai worldwide. The event was held outdoors with just a few participants wearing masks and sitting at a proper distance according to the rules. However, the fact that *Louis Vuitton* decided to find a solution that implied the use of social channels is a clear sign not only of the innovative drive that leads *Louis Vuitton*'s strategy in China but also of the necessity of integrating digital media and offline world. Then again, *Louis Vuitton* decided to livestream on Douyin its 2021 Fall/Winter Men's Fashion Show, reaching 27 million views¹⁵¹ and showing its commitment to this new medium.

Today, *Louis Vuitton* is not the only Western luxury brand to have developed a social commerce strategy to adapt to the development of the Chinese luxury market, but it can be said that its strategies have been among the most successful. The main strength of *Louis Vuitton* has been to understand the importance of its history and heritage and of maintaining its aura of exclusiveness, while at the same time becoming more accessible and approaching younger generations of consumers.

¹⁴⁹ AA. VV., (2019). "Why Dior, Chanel and Louis Vuitton look to Douyin, China's hot video app, to boost profiles", South China Morning Post. - <https://www.scmp.com/magazines/style/people-events/article/2183462/why-dior-chanel-and-louis-vuitton-look-douyin-chinas>

¹⁵⁰ C. Wu, (2022). "How Luxury Fashion Brands Approach Douyin Marketing in China", Launch Metrics. - <https://www.launchmetrics.com/resources/blog/douyin-marketing>

¹⁵¹ Ibid.

CONCLUSIONS

The incredible expansion and growth experienced by the Chinese luxury market is expected to continue in the next years, with China being predicted to become the world's largest luxury market by 2025. Despite the slight slowdown experienced in the last year, due to the effects of the crisis brought by the COVID-19 pandemic, luxury consumption in China is still solid and predictions indicate that the Chinese luxury market's growth will bounce back throughout 2023. Notwithstanding the continuation of restrictions and the increasing uncertainty about the future that characterized the 2022, Chinese consumers have continued to spend their money on luxury goods and, according to statistics, the number of upper-middle and high-income consumers has continued to grow during the last year.

Along with economic growth, changes and development of new trends will also continue to occur, posing new challenges to Western luxury brands that operate in China. In terms of Chinese luxury consumers, young generations of customers are destined to become more and more demanding and savvy both in terms of new trends and products' quality. As analysed in the first chapter of this study, Millennials and especially Gen-Z consumers have a much higher luxury awareness compared to their predecessors, they have developed distinct needs and when purchasing luxury items, they pursue goals that are different from those that guided the purchasing choices of previous generations. Young Chinese luxury consumers are driven by the search for uniqueness and distinctiveness, attach greater importance to brand's storytelling and value proposition, rather than the name of the brand itself. They have an enormous purchasing power and want to satisfy their needs quite rapidly, but at the same time they are cautious and wise in the way they invest their money. Before buying a product, young consumers spend a lot of time online looking for information and in recent years, especially after the COVID-19 pandemic, they have become much more attentive to environmental issues. Foreign luxury brands that entered the Chinese market in the 1990s, such as *Louis Vuitton*, have now to deal with a new kind of consumer and adapt their strategies to the modern Chinese consumer behaviour, considering these characteristics are likely to become even more predominant in future generations of consumers. In particular, Western luxury companies need to keep in mind that in the Chinese New Retail, consumers are no longer passive entities that only receive promotional messages from brands but have become key players capable of influencing the luxury market and the choices of other consumers in turn. In the New Retail era, consumers have turned into prosumers, meaning that they now help brands in the creation of their contents and have become a sort of brand ambassadors.

Digitalization is unquestionably the trend that has had the greatest impact on the Chinese luxury market and that is fundamentally reshaping it. China already is the most digitalized country in the

world, and as far as it concerns the luxury goods sector this trend is only bound to grow. This study has highlighted the consequences digitalization had on the Chinese luxury consumer behaviour, contributing to design a completely new customer journey, in which the greatest part of touchpoints is now conducted online. It has also been analysed how social commerce is actually the main disruptive force driving sales in today Chinese luxury market. Social commerce represents the blend between traditional e-commerce and social media, with these platforms now driving approximately 50% of overall e-commerce sales in China. Foreign luxury brands need to invest much of their resources in developing social commerce strategies that can help them stand out in the Chinese luxury market. In particular, this thesis has focused on three major social commerce trends that are affecting the Chinese luxury consumer behaviour, namely digital word of mouth, KOLs marketing and livestreaming. The study has presented the opportunities that these tools give to fashion luxury brands, but at the same time also highlighted the challenges and potential backlashes that luxury companies need to pay attention to.

Western luxury brands that have established their presence on Chinese social media platforms, like *Louis Vuitton*, are already starting to reap the rewards of their choice, while luxury brands that are still stalling in undertaking this path are starting to struggle in the Chinese luxury market. The pandemic situation has further accelerated this trend and urged Western brands to take action. Most of Chinese wealthy consumers were indeed prevented from going to brick-and-mortar stores, due to the repeated lockdowns. Accordingly, Western brands needed to find new ways not just for selling their items via online channels, but first and foremost to keep their customers highly engaged until they had the possibility to return to physical stores. The second chapter of this thesis has focused on the leading social commerce platforms in the modern Chinese luxury market, in particular Weixin, Xiaohongshu and Douyin. These channels are of primary importance for the modern Chinese luxury consumers, which today spend much of their customer journey browsing them looking for information about luxury items and brands. The analysis of these three social media channels has highlighted their peculiarities, but first and foremost the common thread between them, namely the willingness to bring together mainstream e-commerce platforms and social media features to provide luxury consumers with a brand-new customer experience. The main strength of these platforms, indeed, is to have implemented marketplaces within their apps, giving their users the chance to complete their customer journey, from collection of information to purchase, within the same channel. *Louis Vuitton* is a good example of a brand that has been able to accept the continuous challenges posed by the fast-paced changing Chinese environment and China's luxury market, always staying on top of major trends and in some cases being a forerunner in establishing its presence on Chinese social media platforms. *Louis Vuitton's* main strength in the Chinese luxury market is to have

managed to find a balance between innovation and tradition. On the one hand, the French fashion brand has been able to approach and capture the attention of younger consumers adopting strategic moves such as the use of KOLs and young Chinese celebrities as brand ambassadors, the launch of collaborations and limited-edition products, the approach to the world of streetwear and the implementation of social platforms popular among Gen-Z consumers, such as Douyin.

However, as already mentioned, the Chinese luxury market is constantly and rapidly evolving, therefore even successful brands like *Louis Vuitton* must keep up with the latest trends if they don't want to fall behind. One of the key trends that has already started to influence the Chinese luxury market and that will increase in predominance in the next few years is undoubtedly the implementation of AI and VR tools. With the Chinese Government already setting guidelines to become a leader in the Artificial Intelligence industry by 2030, it is clear that these new technologies will gain more and more importance in the Chinese luxury market as well. Foreign luxury brands must certainly monitor the course of this trend and some of them have already begun to approach these tools, the development of which represents an opportunity for Western luxury companies to provide their customers with an ever-better customer and purchasing experience.

2023 will certainly be a decisive year for the Chinese luxury market recovery, with China struggling to exit the crisis and gradually loosening restrictions. Earlier this year, the Chinese Government decided to lift its zero-Covid policy and to reopen its borders, a decision that certainly will impact the world's luxury market, with Chinese consumers finally returning to the main European cities and a probable return to the so-called "shopping tourism". The easing of restrictions will surely have an impact on the level of optimism of Chinese consumers as well, which had dropped significantly over the last year, due to the continuation of the pandemic situation and the lockdown. Chinese consumers will now be able to travel again, both within their own country and abroad, and this is expected to lead to an increase in luxury sales both domestically and globally.

With regard to long-term goals, the main objective of foreign luxury brands must be to develop a strategy that adapts to the China's New Retail by working hard to achieve a seamless integration between the online and offline worlds, enhancing their digital and social commerce strategies, without neglecting the experience given in brick-and-mortar stores, with the final aim of creating a 360-degree customer experience.

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