Università
Ca'Foscari
Venezia

Corso di Laurea magistrale (*ordinamento ex D.M. 270/2004*)
in Lingue e Istituzioni Economiche e Giuridiche dell'Asia e dell'Africa Mediterranea

Tesi di Laurea

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# Italian Design Furniture across Borders:
## An Analysis of the Chinese Market

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**Anno Accademico**
**2014 / 2015**

# 前言

该论文的目的是了解意大利设计家具公司在中国市场的竞争能力。该论文将通过中国家具市场特点的说明，中国消费者消费态度的分析及意大利公司在中国市场经验的分析表现在中国市场最成功的经营策略案例，尤其是分销及营销策略案例来展开。

近年来，中国逐渐成为世界发展最快的国家。从一九九零年到二零一零年中国国内生产总值的增加率大概每年都超出百分之十， 最近三年为百分之七多。[1] 中国经济发展给千万人带来福利和财富。越来越多人，特别是住在东部沿海地区的人， 买得起自己的房子。买房子以后要购买家具，房子需要被装修。随着国内房地产市场发展，二零一一年中国家具市场产量达到 831.6 亿美元，和二零一零年相比增加 25.28%。[2] 二零零五年中国超过意大利，成为世界第一出口家具产品的国家。但虽然中国是世界上出口家具的第一国，家具进口也逐步地增加了:二零一一年进口是 880 亿美元，和二零一零年相比增加 10.5%。[3] 中国从东亚，美国及欧洲进口。意大利就是中国在从欧洲除德法家具进口第三个合作国家。中国消费市场最近二十年有了巨大变化。八十年代的改革开放后，消费者的年收入不断地增加了。现在大部分消费者属于中产阶级。中产阶级分为上层中产阶级及下层中产阶级。中国已经成为了世界上第二销售市场，根据 McKinsey《‘会面’二零二零年中国消费者》[4] 报告，在不久的将来大多

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[1] THE WORLD BANK, http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=4, 22-12-2014.

[2] ITALIAN TRADE COMMISSION, *Furniture Market in China*, “Italian Trade Agency Website”, 2012, http://www.ice.gov.it/paesi/asia/cina/upload/174/Market%20Report%20Furniture%20China%202012.pdf, 15-10-2014, p. 4.

[3] Donata VIANELLI, Patrizia DE LUCA, Giovanna PEGAN, *Modalità d’entrata e scelte distributive del made in Italy in Cina*, Milano, FrancoAngeli, 2012, p.93.

[4] Y. ATSMON, M. MAGNI, L. LI, W. LIAO, *Meet the 2020 Chinese consumer*, “McKinsey Insights China”, 2012, https://solutions.mckinsey.com/insightschina/_SiteNote/WWW/GetFile.aspx?uri=%2Finsightschina%2Fdefault

数消费者会属于上层中产阶级，越来越多消费者会购买非生活必需品。从追求基本功能（如电子产品的耐用、服装的舒适、食品和饮料的口味等）的初级消费者，成长为对商品和服务有更高要求的成熟消费者。中国消费者会逐渐转变成追求个性的消费者，这是一个很重要的趋势。小众品牌未来也可能更受欢迎。

这对意大利家具企业来说是很好的一个契机，意大利公司大部分都是中小型企业，生产高质量，高科技，时尚设计的产品，目标客户就是消费者的一小部分，也就是小众消费者。意大利因生产设计家具而世界闻名。设计家居属于四个〝意大利制作〞的产品。其他是饮食业，时装业，机械制造业。意大利公司一直都有很强的出口能力，可随着二零零八年的全球经济危机，意大利公司损失较大。不仅国内市场的需求量减少了，而且美国 — 意大利最重要的出口市场 — 也缩减了对意大利的进口。因此意大利为了保持它的重要地位应该集中能力打开发展市场。二零一二年中国是意大利出口到发展市场中的第三个市场。[5] 第一是俄罗斯，第二是阿拉伯联合酋长国。中国和阿拉伯联合酋长国从意大利进口的产量相近。

打开中国市场可根本不简单。经营策略上有不少理论建议公司怎么打开外国市场。特别重要的因素就是全球化， 全球化深深地影响了公司在国外做生意的方式。托马斯·弗里德曼， 一位著名的美国记者， 通过他的著作，告诉我们全球化缩减了世界国家之间的区别， 使世界 成为‘平坦’。[6] 反而，潘卡吉·盖马沃特， 一位哈佛商学院的教授， 一位为世界取名的管理谋士，觉得我们不住在一个全球化的世界而住在一个

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%2Fen-us%2Fabout%2Four_publications%2FFiles%2Fwp2055036759%2FMcKinseyInsightsChina-MeetThe2020ChineseConsumer_fd6a761f-2b88-4e8f-a7cc-8afac03a88f1.pdf, 20-12-2014.

[5] CENTRO STUDI CONFINDUSTRIA, PROMETEIA, *Esportare la dolce vita. Il bello e il ben fatto italiano nei nuovi mercati. Ostacoli, punti di forza e focus Cina*, Roma, Editore SIPI, 2013, p. 24.

[6] THOMAS L. FRIEDMAN, *The World is flat: a brief history of the Twenty-First Century*, Vancouver, Douglas and McIntyre, 2007, p.8.

‘半全球化’的世界。[7] 他认为第二十世纪快速的信息技术发展、第二十世纪输运方式的进步、第二十世纪的欧盟、联合国、世界贸易组织这类共同体的造成，虽然帮助去掉很多国家之间的贸易、文化、沟通等壁垒，让住在两个很远的国家的人感觉很近，可是没有消去每一个国家的独特特质。在经营策略下随着前者的概念，公司之所以可以采用统一经营策略打开外国市场是因为世界已经全球化了，这个策略民称〝全球性策略〞。可是，许多公司打开中国市场时发现全球性策略不一定成功。看来在中国市场后者的概念更符合事实。他认为文化，行政，地理和经济方面深深地影响外国公司在中国市场的竞争力。 在这样的情况下， 公司应该采取适应中国市场的不同策略。

该论文表述的关键包括建立关系、投资方式、目标客户、零售店管理 、展开中国大陆的发展地区、在新（微信、新浪微博等）、旧（杂志， 电视等）的媒体广告、顾客服务、品牌推广、进行设计师、消费者的培训。

研究中国市场以后结果表述意大利公司先需要开一所代表处 ， 代表处能帮家具企业进行消费者调查 ， 进行市场研究。 产品 还是通过进口商进口到中国。 根据中国法律，开代表处两年后有权进行贸易业务。以后公司也能建立外商独资企业或者合营企业。管理商店特别重要， 这样能直接和客户沟通， 了解客户买了产品后有什么反馈。研究中发现年轻人 （20/30 岁）喜欢意大利设计家具但是他们需要有很高的购买能力，因为意大利产品的价格比较高。最重要的关键就是营销，目标就是使意大利家具品牌成为全国著名， 现在只有意大利时装业、饮食业在中国为全国著名。

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[7] PANKAJ GHEMAWAT, *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter [E-reader version]*, Boston, Harvard Business School Publishing, 2007, Apocalypse now? Paragraph 5.

该论文分为七个章节。第一章节是论文的前言， 第二章节简述意大利家具公司的现状，中国家具市场的最近发展。第三章关于中国消费者的特点，先分析中国消费市场的目前状况，再描写中国消费者，说明他们的品味和购买行为，最后总结对中国家具消费者进行的调查结果。第四章说明意大利公司通过哪些投资或者出口方式能进入中国市场。第五章节表述三家意大利公司的中国经营经验。这三家公司的经营战略被态势分析法[8]分析。第六章节在中国市场成功的关键表述出来，将这三家公司的经营战略相比， 第七章节讨论研究的发现和结果，描写在中国家具市场最成功的经营策略。

公司的研究方式包括：第一，在线研究已经打开中国市场的意大利家具公司，第二，和公司的出口部门联系，第三，邀请公司加入研究项目，第四，和公司的一位代表人进行结构化面试。一开始公司的数量定位三家， 在接受邀请的公司中选择 Magis, Arper 和 Scavolini 的决定因素是:

1. 打开中国市场的年份
2. 出口能力
3. 经营范围

感谢威尼斯国际大学的奖学金，该论文的研究是在意大利及在中国，上海，同济大学二零一四年秋学期进行的。除了和相关企业联系，这个研究包括参观博览会，家具商店，家具购物中心，给消费者进行调差，采访相关专家，进口商和代理商。采访的内容在附录被报告。意大利商务机构，意大利家具公司联合会也提供有关的数据库和信息。

[8] 态势分析法又民称 SWOT（Strengths Weakness Opportunity Threats）分析法，用来确定企业自身的竞争优势（strength）、竞争劣势（weakness）、机会（opportunity）和威胁（threat），从而将公司的战略与公司内部资源、外部环境有机地结合起来。

# INDEX

# CHAPTER ONE

# INTRODUCTION

China's economy has been growing at a fast pace for the last twenty-five years, the reform and opening-up policy started in the late '80s has made it possible for foreign companies to enter this big and potentially very profitable market. However, given the geographic, cultural, administrative and economic distance, notwithstanding globalization, Western companies who wish to enter this market have to devise a country-specific business strategy.

Globalization is a topic that from the beginning of the new millennium has increasingly demanded the world attention (according to the Library of Congress catalogue, more than five thousand books on globalization were published between 2000 and 2004, compared to fewer than five hundred in the 1990s).[1] People have either praised or denigrated the spread of the globalization of markets and, later on, the globalization of production. Views on globalization differ greatly from those who believe that globalization is, soon, going to annul all differences among countries to those more cautious who believe that the world is currently in a state of "semi-globalization". Thomas Friedman belongs to the first category of individuals: the New York Times columnist, in his books and articles, speaks of his discovery that the world is indeed flat: "The global competitive playing field was being levelled. The world was being flattened. […] Clearly, it is now possible for more people than ever to collaborate and compete in real time with more other people on more different kinds of work from more different corners of the planet and on a more equal footing than at any previous time in the history of the world-using computers, e-mail, networks, teleconferencing, and dynamic new software".[2] Of a very different opinion is Pankaj Ghemawat, a Harvard Business School scholar, who stresses the continuous importance of frontiers: "Most types of economic activity that can be conducted either within or across borders are still quite

[1] PANKAJ GHEMAWAT, *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter [E-reader version]*, Boston, Harvard Business School Publishing, 2007, Apocalypse now? Paragraph 1.

[2] PANKAJ GHEMAWAT, *Redefining Global Strategy…*, op.cit., Apocalypse now? Paragraph 3.

localized by country".[3] In his book "Redefining Global strategy", Ghemawat presents its idea of the 10% presumption, showing examples of how the world is only integrated at a 10% level.[4] His purpose is to convince business managers that the world is not, in fact, become a homogenous place, as some other people may have led them to believe, and that a successful global business strategy should take into careful consideration the existing differences between countries.

Following the assumption that China presents unique characteristics and it is not yet completely integrated in the globalization of markets, this study aims at understanding what possible strategies Italian firms operating in the design furniture sector can employ to enter and thrive in the Chinese market. The study focuses on the design furniture industry because of the increasing importance for Italian companies of the fast-developing and very attractive Chinese furniture market. The rising of the middle-class, the increased number of urban consumers, and the westernization of consuming habits coupled with the size of the country and the recent political efforts to boost the domestic demand are critical factors that could lead to good growth opportunities for Italian firms in the region. The Chinese furniture import market, indeed, experienced a constant growth reaching US$ 88 billion of total import value in 2011, with Italy always ranking among the top players.[5] In order to take full advantage of these opportunities , Italian firms, however, have to face a number of challenges: the size of the majority of Italian companies makes it difficult to having adequate financial resources and managerial skills; the government support has not been direct and consistent; the language, the cultural background and the way of doing business is profoundly different; China's local economies and cultural habits vary greatly from province to province; the legal and institutional system does not fully comply with international standards yet; Although these complexities exist, a number of firms decided to face the Chinese challenge and some of them are now performing better than others. To shed light on the competitiveness of Italian firms in this market, it is fundamental to deepen the understanding of their internationalization model. One of the relevant factors for a successful internationalization model is having a thorough understanding of the target customer and deploying consistent

[3] THOMAS L. FRIEDMAN, *The World is flat: a brief history of the Twenty-First Century*, Vancouver, Douglas and McIntyre, 2007, p.8.

[4] PANKAJ GHEMAWAT, *Redefining Global Strategy…*, op.cit., Apocalypse now? Paragraph 5.

[5] Donata VIANELLI, Patrizia DE LUCA, Giovanna PEGAN, *Modalità d'entrata e scelte distributive del made in Italy in Cina*, Milano, FrancoAngeli, 2012, p.93.

marketing strategies. This study, therefore, also, analyses the way Chinese consumers perceive Made in Italy design furniture products and what marketing strategies are put into effect to push Chinese consumers to buy Italian products.

The research for the purpose of this study was conducted in Italy and China. The third, fifth and sixth chapters as well as the seventh chapter present the results of the research, whereas the other chapters outline the current state of the Chinese furniture market. In order to reach the objectives, three firms were chosen among the many that have already started exporting to the Chinese market. The choice has been made according to the following factors: business scope, size, performance in the domestic market, number of years of export to the Chinese market. The sample of the research has been set at three in order to have a deeper understanding of each firm. The profiles of a number of firms have been analysed and, in the end, Magis S.p.a., Arper S.p.a and Scavolini S.p.a agreed to participate in the study.

Information on Magis S.p.a. were collected during one tour visit and a 2-week internship at Magis headquarters in Torre di Mosto, near Venice, during the summer of 2014. The rest of the research was conducted in China during the fall semester of the 2014/15 academic year at Tongji University, in Shanghai. It was possible thanks to the award of the Globalization Program scholarship from the Venice International University. The research involved carrying out surveys on Chinese consumers, administering questionnaires, conducting structured and non-structured interviews with the marketing and export managers of the three firms as well as importers and distributors of Italian high-end furniture brands.

The study comprises the following steps: after a first chapter that serves as introduction, the second chapter focuses on outlining the furniture industry in China, the values for import and export, the main characteristics and the important role it plays for the Italian export. The third chapter presents the Chinese demand for furniture design; it describes the main traits of the Chinese consumers, their values and their attitudes towards imported brands. It includes, also, the presentation and discussion of the consumer survey conducted in China. The fourth chapters aims at depicting the possible legal choices that a firm can choose from when it wants to expand in the Chinese market and it, also, presents the Chinese distribution system. The fifth and sixth chapter analyse and compare the strategies of the three Italian firms researched in the study. The fifth aims at showing the stand-alone cases, the activities of each firm are described through their global value chain analysis and their current performance is evaluated with the SWOT (Strengths, Weaknesses, Opportunities, and

Threats) analysis. In the sixth chapter, a comparative study of the three firms is presented: the strategy of each firm is compared and analysed with respect to a number of key factors for success. These key factors emerged from the research as well as from all the points discussed in the previous chapters. Lastly, in chapter seven, the conclusions are drawn and a possible strategy for success in the Chinese market is presented.

Even though the study has its limitations due to the complexity of the topic and the fast-paced changes that occur in the Chinese market , the outcome of the research could, anyhow, be relevant for other firms in the industry that want to expand their business to China. There are, in fact, not many studies on Italian Small and Medium Enterprises (SMEs) operating in the Chinese market; the international management literature comes mainly from English-speaking countries whose firms' business model differs greatly from the Italian one.[6] Therefore, the study could contribute, also, to the improvement of the related literature.

[6] TIZIANO VESCOVI, (edited by), *Libellule sul drago. Modelli di business e strategie di marketing per le imprese italiane in Cina*, Padova, CEDAM, 2011, p. VIII.

# CHAPTER TWO

# THE CHINESE FURNITURE MARKET: AN OVERVIEW

SUMMARY: 1.The recent development of the Chinese furniture market – 2. Import-export – 3. Local manufacturers, international players and Global Value Chains – 4. Key market trends – 5. Geographical classification

## 1. The recent development of the Chinese market

The Chinese furniture market has quickly developed since the start of the opening-up and reform period in the eighties. In 2011 the industry production value accounted for US$ 83.16 billion with a 25.28% increase compared to the previous year.[1] The growth was mainly driven by the development of the real estate market which led to higher data registered not only for the internal production but also for the export. The internal production in 2008 was US$ 43 billion and in 2010 it grew to US$ 66 billion, registering a growth of 32.9% compared to 2009.[2] The Chinese export grew from US$ 161.9 billion in 2008 to US$ 217.5 billion in 2011.[3] This data was compiled including *furniture*, *lighting*, *household appliances* and *tiles*. If only *furniture and bedding* are considered, more recent data shows that from almost US$ 13 billion in 2003 the export grew to US$ 86.4 billion in 2013.[4] The data is impressive and China, in fact, overtook Italy as the world leader in furniture export in 2005.[5] In figure 1 below, it is possible to find some further data explaining the import-export exchange flow between China and the rest of the world.

[1] ITALIAN TRADE COMMISSION, *Furniture Market in China*, "Italian Trade Agency Website", 2012, http://www.ice.gov.it/paesi/asia/cina/upload/174/Market%20Report%20Furniture%20China%202012.pdf, 15-10-2014, p. 4.
[2] Donata VIANELLI, Patrizia DE LUCA, Giovanna PEGAN, *Modalità d'entrata e scelte distributive del made in Italy in Cina*, Milano, FrancoAngeli, 2012, p.90.
[3] *ibid*.
[4] Appendix I, Italian Trade Agency (ITA) data.
[5] Appendix II, ITA data.

**Figure 1: Import-Export exchange -- China and the rest of the world ( 2006-2011 )**

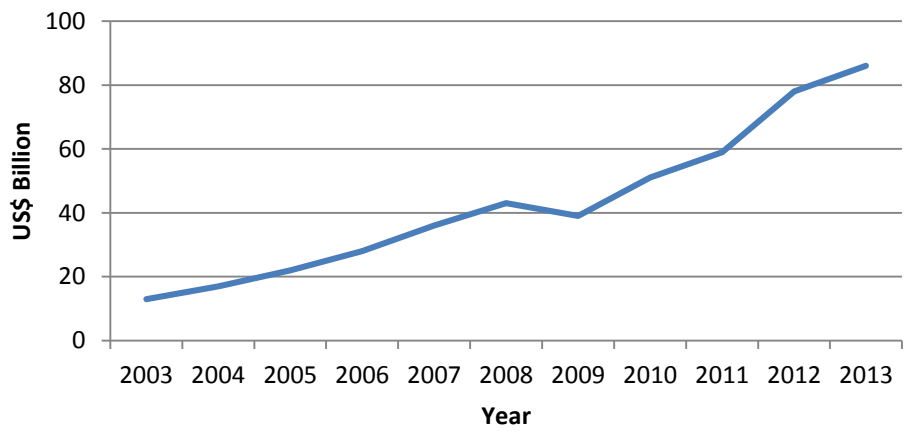
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| **Exports to the rest of the world** | 109,155 | 135,243 | 161,899 | 140,467 | 186,019 | 217,536 |
| **% of change** | 25.1 | 23.9 | 19.7 | -13.2 | 32.4 | 16,9 |
| **Imports from the rest of the world** | 51,389 | 60,340 | 66,078 | 60,506 | 79,764 | 88,149 |
| **% of change** | 21 | 17.4 | 9.5 | -8.4 | 31.8 | 10.5 |

Source: VIANELLI ET AL. , *Modalità d'entrata…,* op. cit., p. 91.

## 2. Import-Export

China's export is, primarily, directed to the United States of America, Japan, Germany, South Korea, United Kingdom and India. Italy ranks 12th among China's world importers and it is fifth among the European partners. [6] Figure 2 exemplifies the consistent growth of China's export to the rest of the world, with only a minor drawback following the 2008 world economic crisis and the consequent fall in demand.

**Figure 2: China's furniture export to the rest of the world (2003-2013)**
Source: Appendix 1, ITA data analysis

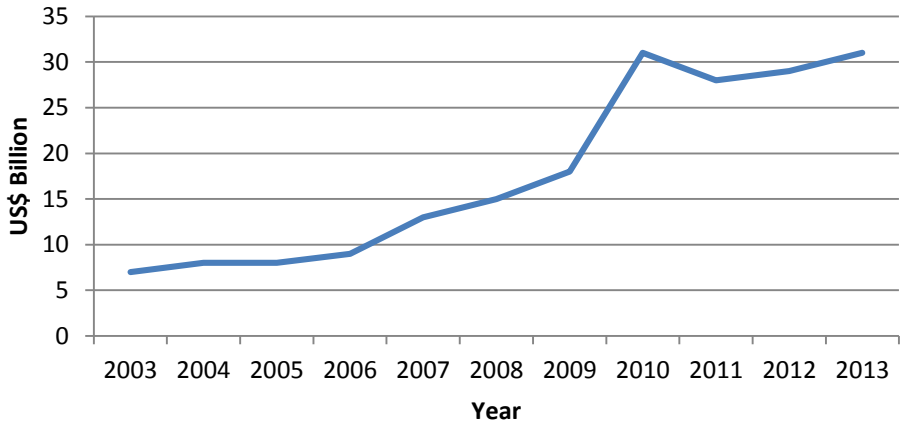



The data most interesting for Italian companies is that despite being the number one world exporter, China's imports from the rest of the world have consistently increased and the Chinese market was less affected by the 2008 crisis than the rest of the world. China's

[6] VIANELLI ET AL. , *Modalità d'entrata…,* op. cit., p. 91.

total import accounts for USD 88 billion in 2011, with a 10.5% increase compared to 2010.[7] China mainly imports from East Asia, the European Union and the United States. The product items that accounts for 90% of total import are "seats", "wooden and metal furniture" and "lighting and lamps". Italy is the third European Union partner after Germany and France. Figure 3 below explains the growth of the import relative to the *furniture and bedding* category.

**Figure 3: China's furniture import from the rest of the world (2003-2013)**
Source: Appendix 1, ITA data analysis




## 3. Local manufacturers, international players and Global Value Chains (GVCs)

### 3.1 Local manufacturers

The Chinese industry is highly fragmented, with over 50,000 furniture manufacturers, where the first six producers have 20% share of the market.[8] These companies produce household, office and kitchen furniture, as well as mattresses, bedding and parts of furniture. The majority of them are small and medium size enterprises producing low-end furniture or Originally Equipment Manufacturers (OEM) orders. The manufacturers are geographically located in five main provinces: Zhejiang, Guangdong, Fujian, Shandong, and Henan. The furniture production by these provinces accounts for 80% of the total national production.[9] All of these provinces with the exception of Henan are the most developed provinces in the country.

[7] VIANELLI ET AL. *Modalità d'entrata…,* op. cit., p. 93.
[8] ITALIAN TRADE COMMISSION, *Furniture Market…,* op. cit., p. 5.
[9] *ibid.*

They employ different raw materials but the wooden and metal furniture production accounts for 88% of the total furniture production. [10] More recently Chinese producers were driven to raise the quality level to respond to higher competitiveness in the market, they became aware that their competitive advantage based only on low production costs was not enough anymore to compete on the global markets. In China, in fact, lower production costs are possible because of the availability of low cost labour, and other advantages in transportation costs and purchase of raw materials cost as well as less strict government regulation to build factory plants than in Europe.

However, one of China's characteristics is the fast pace of change, whether in the past machinery were imported from Europe and the U.S., nowadays local manufacturers are investing in advanced technologies and a better control over the production process, as for example they try to obtain certifications to supply better quality products to the market. A number of Chinese producers have also started to invest in some branding and export strategies, relying on product innovation, better control on distribution channels and corporate and social responsibility awareness.

### 3.2 International players and GVCs

China's emergence on the global market has inevitably reshaped the organizational structure of the industry worldwide. The low cost of labour is an attractive factor for foreign companies that decide to purchase from local producers and relinquish production in their respective domestic markets. U.S. furniture companies represent a prime example of these changes, in particular, North Carolina's case good manufacturers have increasingly offshore outsourced production to Asian countries: starting from the late '90s their core value chain function shifted from production to logistics and distribution.[11] Their relationship with local Asian OEMs is generally loose and managed through non-equity deals which allows them to benefit from the swift changes of the market. This is just an example of a strategy that has been implemented by a number of firms operating in various industries. This phenomenon, generally referred to as the "international fragmentation of production" has been analysed by many experts and different theoretical frameworks have been proposed. The Global Value

[10] ITALIAN TRADE COMMISSION, *Furniture Market…,* op. cit*.,* p. 5.
[11] Giulio BUCIUNI, Giancarlo CORO', Stefano MICELLI, "Rethinking the role of manufacturing in global value chains. An international comparative study in the furniture industry", *Industrial and Corporate Change*, Volume 23, Number 4, 2013, p. 977.

Chain model, which will be also employed to analyse the organizational structure of the firms in the case study, is one of them.

The framework, theorized by Gereffi, Humprey, Sturgeon, aims at describing the organizational structure of the contemporary globalized economy. [12] It first examines each function of the value chain, where it is located geographically and by whom it is performed (is it performed in-house or outsourced?) and secondly analyses the governance of the links between each function, trying to understand how tight the relationships with the external entities are. Along with governance, upgrading is another keyword in the GVC analysis, it is generally defined as the improvement of a firm's profitability through its repositioning in the value chain. [13] As seen in the example of the North Carolina's manufacturers, mostly, firms have decided to outsource production and focus on more intangible activities of the value chain (i.e. design, marketing and distribution), more famous examples are represented by the strategy employed by IKEA and Apple. However, there are instances of companies that have retained manufacturing and have invested more in the downstream functions of the value chain, as for example the Italian furniture manufacturers, that decided to continue to produce locally and, instead, focused on the export to foreign markets and consequently invested more on the distribution and retail activities of the value chain. China's growing presence on the globalized market plays an important role not only for the labour arbitrage but also for the hidden potentialities of the domestic market. A number of foreign companies have already entered the market, the most important of which is Ikea which as of 2011 has a market share of 1%. [14] This study focuses on Italian players in the Chinese market but it is worth mentioning how also, Ikea, the global company leading in the distribution and retail of convenient furniture had to adapt its strategy to the Chinese market: they mainly had to reduce prices, since Chinese consumers had cheaper substitutes to Ikea products and also focus less on the do-it-yourself assembly of furniture, which is the trademark of Ikea in the rest of the world but was not well welcomed by Chinese consumers who are more used to ready-to-use furniture.

[12] Gary GEREFFI, John HUMPHREY, Timothy STURGEON, "The Governance of Global Value Chains", *Review of International Political Economy*, Volume 12, Number 1, 2005, pp. 78-104.
[13] BUCIUNI ET AL., "Rethinking the role of manufacturing…", op. cit., p. 971.
[14] VIANELLI ET AL, *Modalità d'entrata…,* op. cit., p. 92.

### 3.3 The Italian furniture in China

The high-end Italian furniture industry is one of the four industries (Fashion, Food & Beverage, Furniture, Automation and Machinery) that belong to the so called *made in Italy*. Internationally renowned for the quality of the materials and the refined product design, Italian firms in this industry have always been export-oriented. However, the 2008 economic and financial crisis urged them to increase and invest more in their export strategies. The traditional European and North American markets could not, in many cases, bring the same profits of the pre-crisis period. Coincidentally, new and emerging markets have been demanding more upscale, luxury products. A study carried out by Confindustria and Prometeia in 2013 predicts how in 2018 the export of Italian high-end furniture to the new and emerging markets will reach € 3.4 billion, 1.3 billion more than in 2012 (see figure 4).[15]

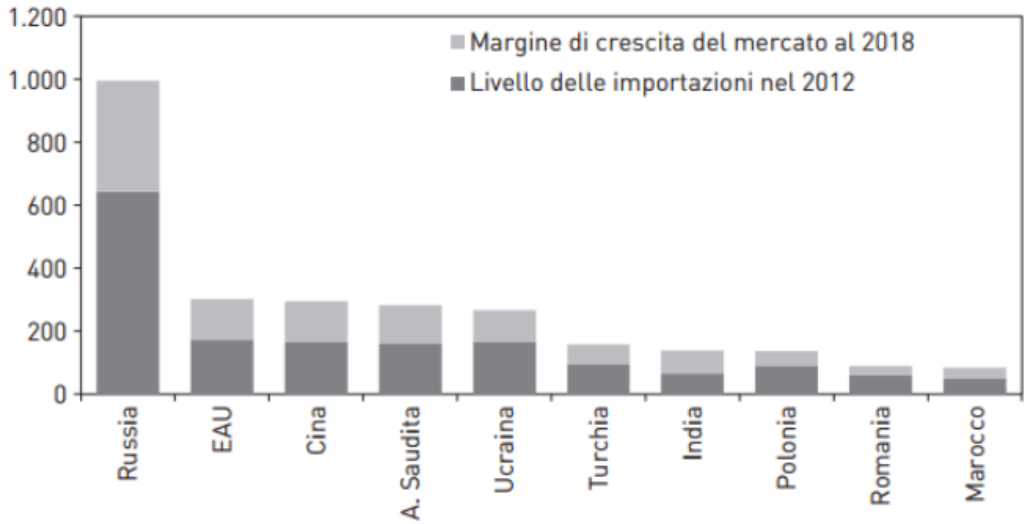



**Figure 4: High-end furniture import from Italy, first 10 emerging markets, € Million, in dark grey 2012 import level, in light grey 2018 projected margin of growth.**
Source: CONFINDUSTRIA, PROMETEIA, *Esportare…,* op. cit., p. 25.

The increasing demand of high-end Italian furniture in new and emerging markets could help Italian companies overcome the reduction of the EU market demand and the difficulties of a further expansion in the U.S. market. The position of the Italian firms in these traditional markets is also threatened by low-end furniture producers that are more competitive on price

[15]CENTRO STUDI CONFINDUSTRIA, PROMETEIA, *Esportare la dolce vita. Il bello e il ben fatto italiano nei nuovi mercati. Ostacoli, punti di forza e focus Cina*, Roma, Editore SIPI, 2013, p. 24.

in markets deeply affected by the 2008 crisis. The Asian markets represent a good growth opportunity for the Italian firms provided that good strategies are implemented. As seen from figure 4, Russia is already a profitable market for Italian firms: in 2012, it accounts for almost 30% of all the high-end furniture export to new and emerging markets. [16] China is currently Italy's third trade partner, in 2012 Italian upscale furniture sales reached € 166 Million, almost as much as Italian sales in the UAE. [17] The data that most indicates the growing importance of the Chinese market for Italian companies is that presented in figure 5: the Italian market share in China accounted for 9% in 2011, with a growth of more than 3% in the five-year span considered. [18]

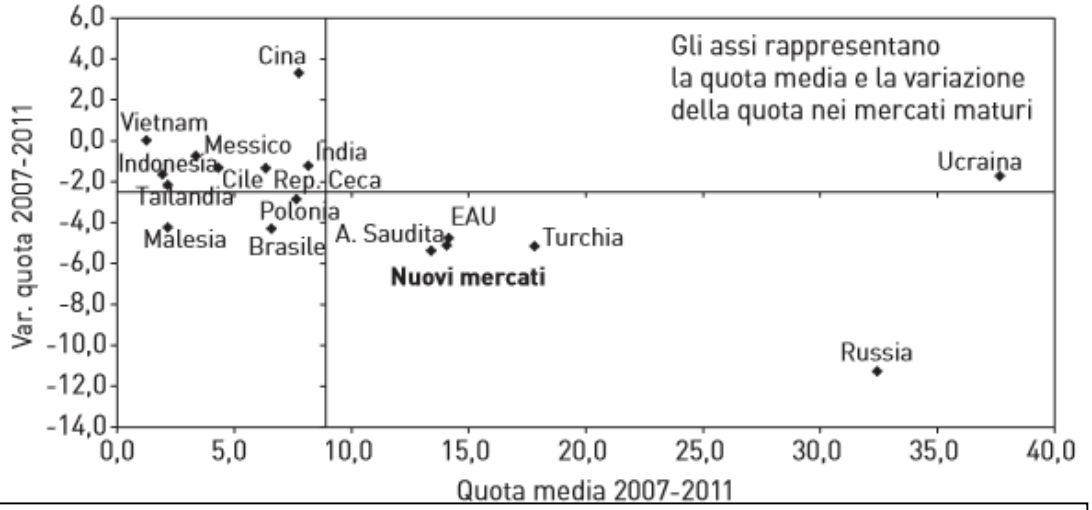



**Figure 5: High-end furniture, Italian market share, on the x-axis average market share 2007-2012, on the y-axis the % change in market share over 2007-2011.**

Source: CONFINDUSTRIA, PROMETEIA, *Esportare…,* op. cit., p. 27.

## 4. Key market trends

According to the ITA market report the most important market trends in this industry are the contract projects, the children furniture and the wooden and metal furniture. [19]

[16] CONFINDUSTRIA, PROMETEIA, *Esportare…, op. cit.,* p. 25.

[17] CONFINDUSTRIA, PROMETEIA, *Esportare…, op. cit.,* p. 26.

[18] CONFINDUSTRIA, PROMETEIA, *Esportare…, op. cit.,* p. 27.

[19] ITALIAN TRADE COMMISSION, *Furniture Market…,* op. cit., p. 18.

### 4.1 Contract projects market

Following the construction frenzy of the last ten years and the urbanization there are more and more buildings built not only for residential but also for office purpose. The office layout in China has become increasingly similar to the American one of modular, open-air space, so there is market for both newly made offices and also renovation of old offices to upgrade to the modern style.

The market for hotel furbishing is also in expansion, at the moment there are 15,000 star-ranked hotels and it is estimated that more than five million hotel rooms require refurbishing and upgrading. The promotion of the development of the tourism industry could also create good growth opportunities in this area.

### 4.2 Children furniture

Another important segment is children furniture. Because of the China's one-child policy, families give a lot of importance to their only child, grandparents and parents alike dedicate most their energy and money to raising their only child and grand-child. The phenomenon has attracted a lot of public and experts' attention and even the term "little prince" has been used to refer to these spoiled children born after 1990. This phenomenon together with the growth of the household income and the increased westernization of habits will likely lead to more people buying imported furniture for their children, especially rich families.

### 4.3 Wooden and metal furniture

Wooden furniture occupies first place as to what regards production, sales revenue and market proportion. Wooden furniture belongs to the traditional local style, it is therefore very much loved by older generations, whereas metal and plastic products are more popular with young people. According to the ITA data, when it comes to sales, although the majority of customers would like to buy wooden products, 70% of the buyers settle for panel furniture, because it is cheaper and because it may offer more variety in terms of design. They also report that the environmentally friendly issue, although neglected at the moment, will start to get some attention in the next few years.

It appears that product safety, is already a "hot" topic for all product categories and with significant media coverage. Any health-related problem, even if a mere allegation, usually brings a heated reaction from the market and the press. [20]

## 5. Geographical classification

China is a country with a surface of around 9,600,000 square metres and a population of 1.357 billion.[21] It would be impossible to devise a single strategy to be applied to the entire country. China should be approached by taking into consideration all the regional, urban/rural and jurisdictional differences. From an administrative point of view, China is divided in twenty-two provinces, five autonomous regions, four municipalities (Beijing, Shanghai, Tianjin and Chongqing) and two special administrative regions (Hong Kong and Macau). [22] Differences exist among the different provinces (each one with a significant autonomy from the central government) and also within the provinces, especially between rural and urban areas. Generally, coastal areas (Shanghai, Jiangsu, Zhejiang, Guangdong, etc.) due to geographic and historic reasons are the most developed, followed by the North-East, Central and South-West provinces. North West provinces (Xinjiang and Tibet are among them) are still under-developed and they are the provinces with the most social unrest for the presence of ethnic minorities like the Muslim Uighur and the Tibetan people.

A firm willing to enter the Chinese market should have a clear strategy of which provinces and cities have more growth potentialities. To this end, it is viable to segment the country using various methods other than the administrative subdivision. The Chinese government provides a solution with its classification of cities in tiers: tier 1, tier 2a, tier 2b, tier 2c, tier 3a, tier 3b (tier 2b and 2c are commonly referred to as tier 3, tier 3a as tier 4 and tier 3b as tier 5). This classification is obtained by considering factors like population, GDP, historic and political relevance. Figure 6 below shows which cities belong to each tier. A McKinsey Institute study confirms how if before the first tier cities were those targeted by foreign firms, nowadays following the growing trend of tier 2 and 3 cities many firms decide to expand also in these markets. The Italian design furniture firms, for now, given the recent entry in the market are still focusing on the first tier city where the richest consumer resides.

[20] ITALIAN TRADE COMMISSION, *Furniture Market…,* op. cit., p. 19.
[21] WORLD BANK, *Data-China*, 2015, http://data.worldbank.org/country/china, 20-01-2015.
[22] To the purpose of this analysis Hong Kong and Macau would not be taken into consideration as they are regulated by different laws and require different business strategies.

But tier 2 and tier 3 cities should also be taken into consideration because of all the future growth opportunities.

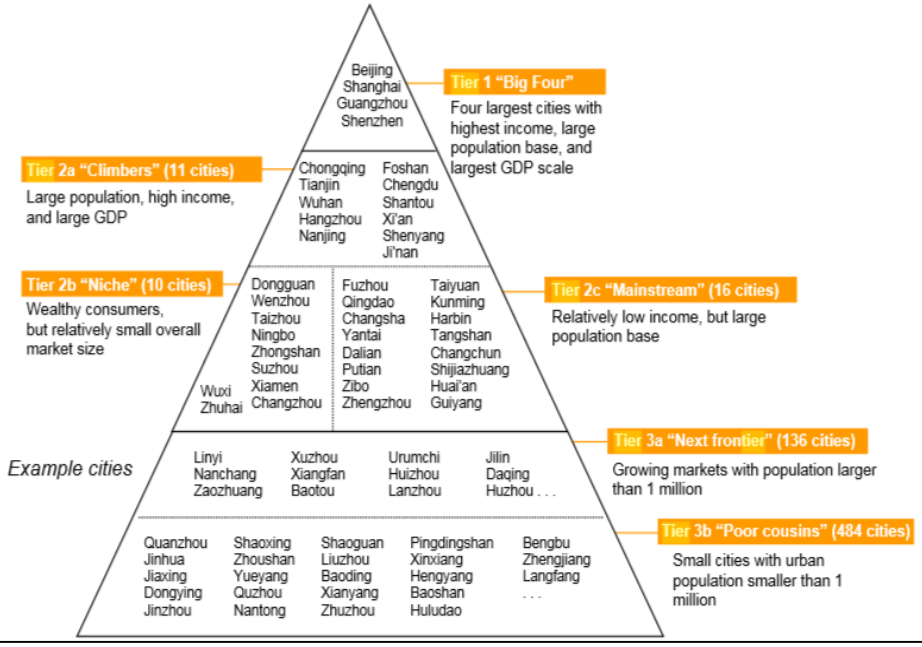


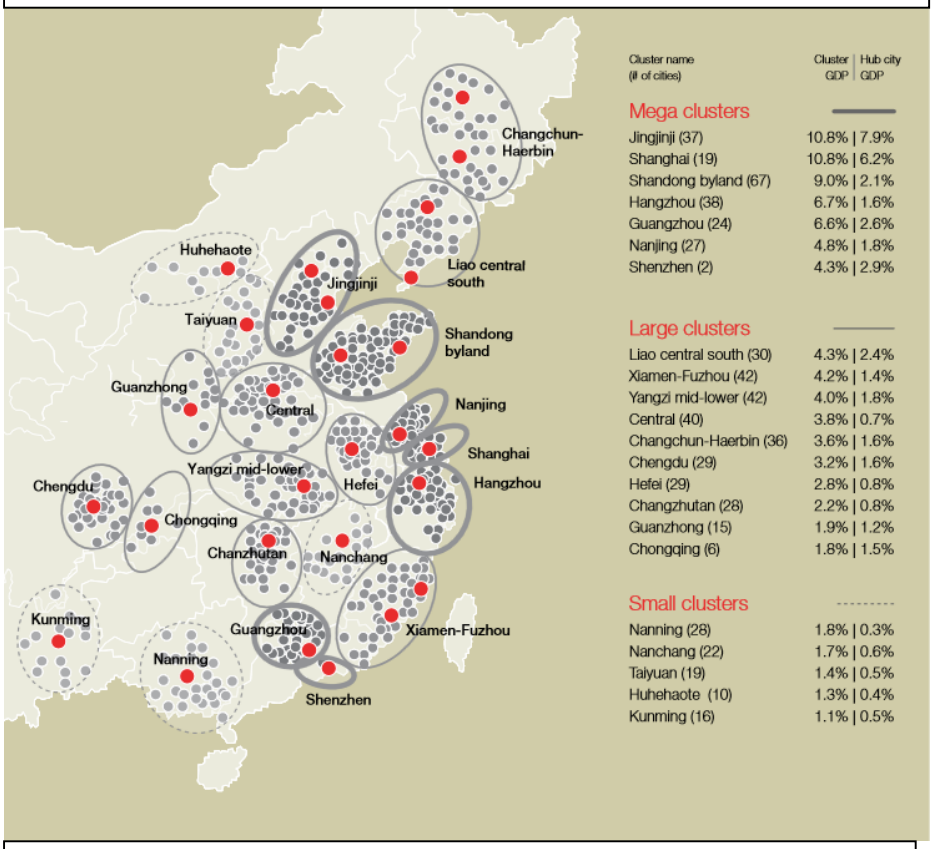

**Figure 6: China- City Tier Classification**

Source: D. FARRELL et al., *From 'made in China' to 'sold in China': The rise of the Chinese urban consumer*, "McKinsey Global Institute", 2006, http://www.mckinsey.com/insights/urbanization/from_made_in_china_to_sold_in_china, 20-12-2014, p.54.

As useful as this classification method can be, it is worth mentioning another one devised by McKinsey experts and called the cluster city classification. It divides China's 800 cities into twelve or more city clusters. These clusters - consisting of as few as two and as many as seventy neighbouring cities - are defined not only by income and geographic location, but also by economic linkages and trade flows between cities, as well as common consumer attitudes and preferences. [23] By organizing China as such, it is possible to immediately identify the right cities where to entry and expand. Figure 7 shows the twelve clusters on China's map.

[23] Y. ATSMON, J. DING, V. DIXIT, G. LEIBOWITZ, M. MAGNI, D. ZIPSER, *2009 Annual Chinese Consumer Study. Part II: One Country, Many Markets – Targeting the Chinese Consumer with the McKinsey ClusterMap*, "McKinsey Insights China", 2009, http://www.mckinsey.com/App_Media/Reports/Asia%20Consumers/Annual_chinese_customer_study_one_country_many_markets.pdf, 25-11-2014, p. 7.

**Figure 7: China – City Cluster Classification**




Source: Y. ATSMON et al., *2009 Annual Chinese Consumer Study…,* op. cit., p. 9.

# CHAPTER THREE

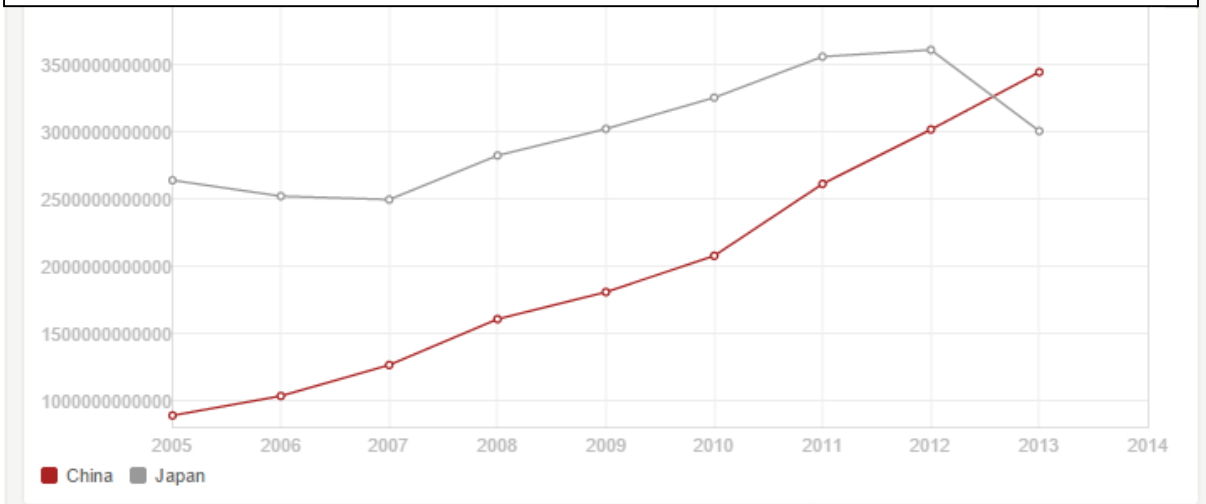
# THE CHINESE DEMAND FOR DESIGN FURNITURE

SUMMARY: 1.The growth of the consumer market – 2. Changing in demographics and socio-demographics profile of Chinese consumers – 3. Lifestyle and values of consumers – 4. Attitude towards foreign brands: Country of Origin effect and brand image – 5. Segmentation of consumers – 6. Results and discussion of the consumer survey

## 1. The growth of the consumer market

As we have seen China's economic development process is unique and unprecedented, if in the past years we have witnessed extraordinary GDP growth percentages, the exponential growth of the consumer market will call for the world attention in the years to come. Investments have been driving China's growth until now. However, in order to achieve a sustainable long term growth the government decided to focus on increasing the private consumption share of the GDP and, in fact, in the 12th five-year plan (2010-2015) the CCP (Chinese Communist Party)planned to take some active measures to boost internal demand. As shown in figure 1, the household final consumption expenditure [1]

**Figure 1: Household final consumption expenditure ($US current prices), China, Japan (2005-2013)**




Source: THE WORLD BANK, http://data.worldbank.org/indicator/NE.CON.PRVT.CD/countries/CN-JP?display=default, 22-12-2014.

[1] Household final consumption expenditure is defined by the World Bank as the market value of all goods and services, including durable products (such as cars, washing machines, and home computers), purchased by households. It excludes purchases of dwellings but includes imputed rent for owner-occupied dwellings. It also includes payments and fees to governments to obtain permits and licenses. Here, household consumption

has in fact been growing steadily since 2005 and in 2013 it even surpassed Japan's.[2] Japan, a country that up until 2013 occupied the second place among the largest consumer markets. In the first place we can still find the United States (U.S.), and they will remain in this position for a long time to come considering the large gap in absolute value: China reached US$ billion 3,446 in 2013 while the U.S. value for the same year accounts for US$ billion 11,446. [3]

According to the McKinsey report on the 2020 Chinese consumers, rapid urbanisation will most likely contribute to a great length to fuel the Chinese consumer market, the growth will depend also on government intervention in terms of social security policies and its ability to foster private consumption and promote financial sector and industrial reforms that will lead to the creation of service sector employment and increase incomes.[4] All of the above factors including the fast pace growth of the GDP have already and will in the next few years bring about considerable changes in the consumption patterns of the Chinese consumers. Firms need to understand these changes and tackle these important new growth opportunities emerging in the Chinese market. If until now the Chinese market favoured multinational and global company targeting the mass market consumers, the future will reward those companies who will be able to cater to the needs of increasingly more self-indulgent and individualistic consumers looking to distinguish themselves from the mass. Niche brands that will be able to target these consumers could indeed be the winners in the rush to profit from the second biggest consumer market there is.

## 2. Changing in demographics and socio-demographics profile of consumers

As shown in figure 1 below, the Mckinsey report segments Chinese consumers in four categories according to their yearly income: "affluent", "mainstream", "value" and "poor". In other terms, value consumers ($6000 to $16000) belong to the lower middle class,

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expenditure includes the expenditures of non-profit institutions serving households, even when reported separately by the country.

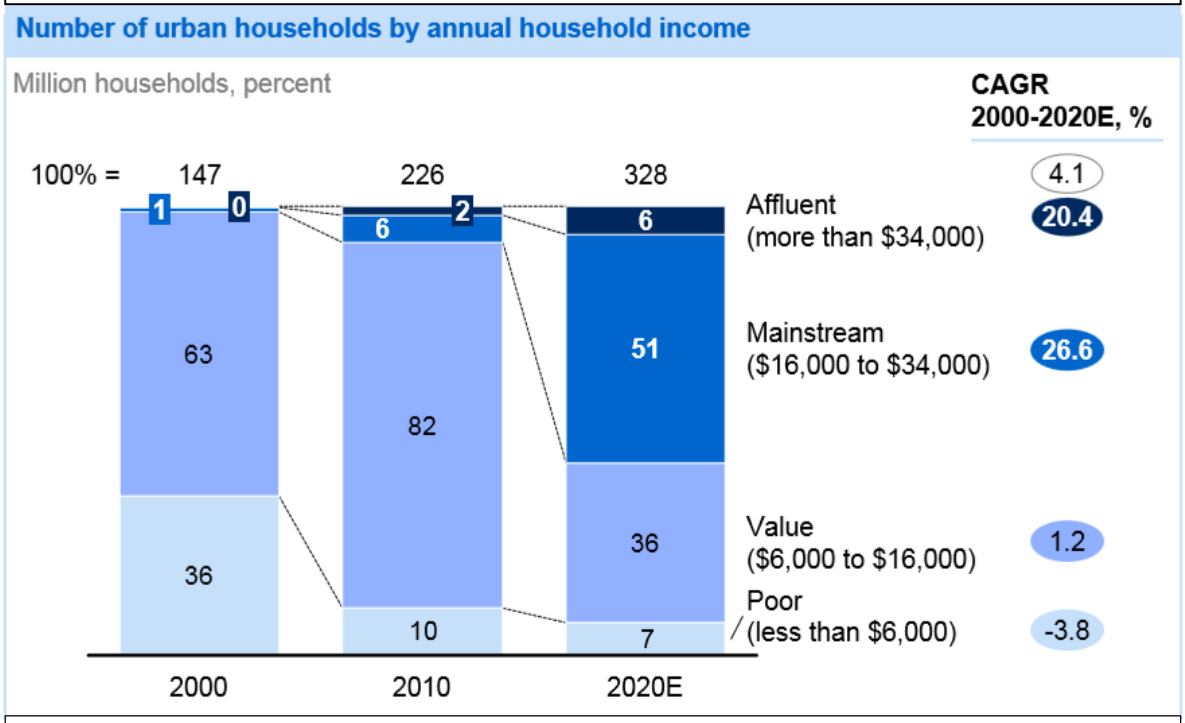
[2] THE WORLD BANK, http://data.worldbank.org/indicator/NE.CON.PRVT.CD/countries/CN-JP?display=default, 22-12-2014.

[3] *Ibid.*

[4] Y. ATSMON, M. MAGNI, L. LI, W. LIAO, *Meet the 2020 Chinese consumer*, "McKinsey Insights China", 2012, https://solutions.mckinsey.com/insightschina/_SiteNote/WWW/GetFile.aspx?uri=%2Finsightschina%2Fdefault%2Fen-us%2Fabout%2Four_publications%2FFiles%2Fwp2055036759%2FMcKinseyInsightsChina-MeetThe2020ChineseConsumer_fd6a761f-2b88-4e8f-a7cc-8afac03a88f1.pdf, 20-12-2014, p. 10.

mainstream ($16,000 to $ 34,000) to the upper-middle class and affluent ( more than $34,000) to the top-income category.

**Figure 2: Segmentation of consumers according to income**




**Source: Y. ATSMON, M. MAGNI, L. LI, W. LIAO, *Meet the 2020*…, op. cit., p.14.**

What is happening in China is that in a few years the majority of the consumers will belong to the upper middle class. This has been confirmed by a successive McKinsey's survey that actually stressed how this process is not only taking place, but taking place at a faster rate than predicted. [5] Given their new purchasing power and their positive upbringing in an economically growing country, the consumption attitudes of the new upper middle class will be comparably more aligned with that of consumers in industrialized countries, albeit some peculiar Chinese characteristics which will be maintained.

Factors that are driving the change in the profile of the Chinese consumers are clear signs of rapid industrialization and common to the development patterns of other nations: rising incomes, urban living, better education, postponed life stages, and greater mobility. However, China presents also some unique factors such as the one-child policy and the

[5] Y. ATSMON, M. MAGNI, L. LI, *2012 Annual Chinese Consumer Report. From Mass to Mainstream: keeping pace with China's rapidly changing consumers*, "McKinsey Consumer & Shopper Insights" 2012, https://solutions.mckinsey.com/insightschina/_SiteNote/WWW/GetFile.aspx?uri=%2Finsightschina%2Fdefault%2Fen-us%2Fabout%2Four_publications%2FFiles%2Fwp2055036759%2FMcKinsey%20Insights%20China%20-%20From%20mass%20to%20mainstream%20%E2%80%93%20Keeping%20pace%20with%20China%E2%80%99s%20rapidly%20changing%20consumers_fd6a761f-2b88-4e8f-a7cc-8afac03a88f1.pdf, 21-12-2014.

heterogeneous levels of development across the country. Undoubtedly, changes in the economic profiles have been and will continue to be the most important trend defining the consumer market. The Chinese urban consumers' per capita disposable income[6] will double between 2010 and 2020, from about $4,000 to about $8,000. [7]

Although the expected growth in the consumer market can be generalized to the entire country, it is important to remember that sharp differences exists across different provinces, city tiers and city clusters. The classification proposed in the first chapter should be employed by the companies to target the right niche of consumers whether they reside in the more developed coastal provinces or in the inland. In the next paragraph, differences in tastes and lifestyles by consumers living in different areas of the country will be pointed out.

### 3. Lifestyle and values of consumers

Since the start of the reform and opening-up period, Chinese consumers have shown characteristics that distinguish them from the typical middle class Western consumers. Chinese consumers purchasing behaviour derive from the influence of Confucianism, the traditional school of thought of the ruling class at the time of the Chinese empire, that through centuries has become embed in the culture, in the traditions and in the mind-set of the Chinese people. First of all, the Chinese society is not as individualistic as Western societies, feeling part of a group, the importance of family, the emphasis on the creation of a harmonious society stem all from the collective nature of Chinese society. In consumer pattern terms, this translates into more conservative approaches, a preference for asking for purchasing advice from family members and piers and more importantly, in the need for approval and show off. The reason behind many luxury brands purchases is, indeed, symbolic, and not utilitarian, it increases the social standing and the consideration among the peers. This is a very important idea in the Chinese society. Everyone has a "face", *mianzi* in Chinese, which can be translated as "prestige" , "respect" and "position in the society". [8] *Mianzi* can be lost or gained, a person cannot but gain *mianzi* from showing to peers that he can afford costly goods. *Mianzi* is a concept strictly connected with publicly consumed goods,

[6] Disposable income refers to the actual income at the disposable of members of the households which can be used for final consumption, other non-compulsory expenditure and savings. This equals to total income minus income tax, and personal contribution to social security (World Bank)

[7] Y. ATSMON, M. MAGNI, L. LI, W. LIAO, *Meet the 2020…*, op. cit., p. 13.

[8] Magda ABBIATI, (a cura di), *Propizio è intraprendere imprese. Aspetti economici e socioculturali del mercato cinese*, Venezia, Libreria Editrice Cafoscarina, 2006, p. 196.

in fact fashion goods, jewellery, cars, have experienced a good welcome by Chinese consumers because by showing off these products, they can express status and wealth. The furniture case is a singular one: furniture is privately consumed and Chinese do not have the habit of inviting people over for dinner as much as westerners do. This reflects in the choice of many Chinese of investing a small percentage of money on the furniture with respect to the total money spent on the purchase of the house. [9] The most important room in the house is the living room where the rare guests are entertained, the kitchen is usually very small and the bedroom, on the other hand, is part of the traditional private rooms (*neishi*), so it is the less visible room and the least important one. [10]

Another distinct trait of Chinese consumers is the propensity to save, more common among older people, it constitutes, among others, one of the reasons why the household consumption levels have been low in the first years after the start of the economic development. As shown in figure 3, the household saving ratio has always been relatively high compared to the rest of the world. Different explanations for this data have been proposed, the main two reasons being that household tend to save because of the uncertainty for future expenses, especially the healthcare and education expenses are big concerns for Chinese families. The government which up until 1990 was providing these services for free has yet to implement successful welfare policies for its citizens, therefore for the time being the situation will remain unchanged.[11] The other reason lies in the history and culture of China. Many people who experienced the harshness and difficulties of the Cultural Revolution have a more frugal, less consumeristic approach to spending. However, the Cultural Revolution came to an end in 1976 with the death of Mao Zedong, and two years later the new leader, Deng Xiaoping started China's opening up policy. This entails that consumers born after 1978 who are now in their twenties, thirties and forties have lived under very different circumstances and are more open to spend to satisfy their own individualistic needs. Shopping frenzy and shopping malls have become the epitome of this transformation of the Chinese society.

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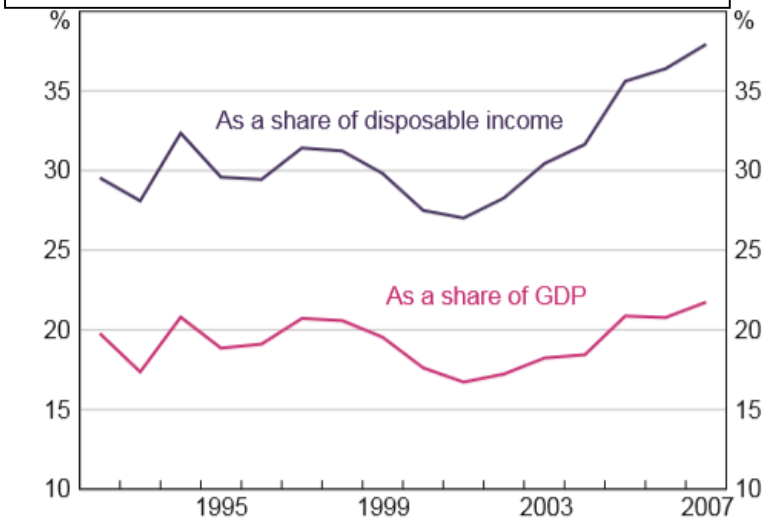
[9] See Appendix III

[10] MAGDA ABBIATI, (edited by), *Propizio è intraprendere imprese. Aspetti economici e socioculturali del mercato cinese*, Venezia, Libreria Editrice Cafoscarina, 2006, p. 73-74.

[11] M. BAKER, B. ORSMOND, *Household consumption trends in China,* "Reserve Bank of Australia Bulletin", 2010, http://www-ho.rba.gov.au/publications/bulletin/2010/mar/pdf/bu-0310-3.pdf, 25-11-2014. p. 15.

**Figure 3: China Household Saving Ratios, 1990-2007**




**Source:** M. BAKER, B. ORSMOND, *Household consumption trends in China*, "Reserve Bank of Australia Bulletin", 2010, http://www-ho.rba.gov.au/publications/bulletin/2010/mar/pdf/bu-0310-3.pdf, 25-11-2014, p.15.

All in all, we are witnessing that more consumers can afford to buy goods other than basic necessities and they are more willing to spend money than their parents and grandparents, it appears that they are becoming increasingly similar to Western consumers. However, the mistakes of thinking that what works in the European and U.S. markets works also in China should be avoided. One stark difference is the level of brand loyalty and brand awareness. Consumers love to buy branded product but they have a pool of favourite brands from which to choose and they do not stick to a single brand. As per the brand consciousness, The Chinese society has evolved so rapidly that consumers do not have a clear idea of all the brands available. They are not very much informed and this is even more true in the furniture market where, as confirmed also by interviews with dealers and importers of Italian brands, they are completely oblivious to the names of internationally renowned brands and they most of the times employ a designer to choose for them. [12]

## 4. Segmentation of consumers

As mentioned before, China's history has profoundly affected the way consumers purchase. In fact, the Chinese population can be segmented in different generations according to their birth year and these generation all show distinctive traits and purchasing attitudes.

[12] See Appendix III

The first generation corresponds to those now in their late seventies and eighties who were in their thirties and forties during the years 1949-69. They participated in the civil war and contributed to the building up of the new communist China. They endured many hardships and their life was profoundly affected by tragic events such as the Great Leap Forward (1958-61), when millions of people died of famine and the Cultural Revolution (1966-76), when institutions were paralysed, schools were closed, Red Guards were searching and prosecuting "capitalist elements", urban citizens and especially the youth were forcibly displaced under the "Down to the Countryside Movement" , historical relics and artefacts were destroyed, cultural and religious sites were ransacked. [13] Nowadays, the first generation does not play a big role in the consumers market as it its past retiring age; given the Mao's ideology under which it lived for many years, it does not have a consistent propensity to buying and its basic surviving needs are taken care by their children and to a certain extent by the state, even though that of the ageing population is a pressing issue on the Chinese government still to be effectively tackled. The second generation, also called the "Lost Generation", is composed of the people who came of age during the Cultural Revolution, many of them were Red Guards, and they started school but could not complete their education and were sent to the countryside to learn the role of manual agrarian labour in the Chinese society. They witnessed the struggle of their parents during this period of chaos and fear but also became comfortable with their government telling them where to live, where to eat, where to work and what to buy. Because of their upbringing in a harsh and bitter context, influenced by the ideas of the Cultural Revolution, they are not novelty seekers, they are very conservative, they view shopping as a burden, and they have a pessimistic attitude. [14] And, even though, later on in their life, they experienced the phenomenal years of the Chinese growth, they maintained a more frugal attitude to consumption and they remained more attached to Chinese traditions.

The third generation can be considered the link between old and new China. They were born at the end of the Cultural Revolution and grew up during the economic reform period. They are now in their forties and fifties and have been trying to find their position in

[13] PENG XIZHE, "Demographic Consequences of the Great Leap Forward in China's Provinces", *Population and Development Review*, Volume 13, Number 4, 1987, pp. 639-70.

[14] KINETA H. HUNG, FLORA FANG GU AND CHI KIN (BENNETT) YIM , "A Social Institutional Approach to Identifying Generation Cohorts in China with a Comparison with American Consumers", *Journal of International Business Studies*, Vol. 38,Number 5, 2007, pp.836-853.

the Chinese society. They are the sons of the "one child" policy, they experienced wealth and they pursue monetary wealth as a mean to value their achievements in life. They are hard workers like their parents but they have been influenced by advertising and marketing to become more materialists. Following the Deng Xiaoping's "Open-door" policy, they have become familiar with many famous international brands (KFC, for example, was one of the first to invest in China and currently owns more stores in China than in the USA) and they have developed tastes in fashion and products similar to those of their peers living in the western part of the world.[15] They have been experiencing more freedom than previous generations but also more pressure as competition for education and jobs is intense: society expects them to have a family, earn well, have a nice home and a car by the time they are thirty. They are, thus, novelty seekers, they have a preference for foreign brands and they increasingly use the internet and new technologies to sort out their life and make online purchases. With the shift to a market economy and increase government spending in the private sector, they have also become more entrepreneurial.

The fourth generation were born in the late '80s and '90s. They are now in their twenties and thirties, they represent the workforce of the present and they are the most important consumers. Right after them come the fifth generation, they are still in their teens but according to a McKinsey report, "Chinese teens represent a market of about $36 billion a year. Chinese parents, who tend to dote on their kids, spend $28.75 billion on this group's behalf, and $7.5 billion comes directly of the pockets of the young."[16] The one child policy, in fact, coupled with the increased income of Chinese families provided parents and grandparents with a huge amount of money to be spent on their only son/grandson. This phenomenon is generally referred to as the "Little Emperor Effect". It boosted household and kids' furniture expenses, it represents, thus, an important trend to be considered. As emerged from another McKinsey report, this kind of consumers are more inclined to regard expensive products as intrinsically better than less expensive ones, they are happy to try new things, such as personal digital gadgetry. They are also more likely than previous generations to check the Internet for other people's usage experiences or comments. These consumers seek

[15] YUM!, *Company Annual Report*, http://www.yum.com/investors/restcounts.asp, 15-05-2014.
[16] ROBERTS DEXTER, *China's Surprising Teen Consumers*, "Businessweek", 2006,http://www.businessweek.com/globalbiz/content/jul2006/gb20060731_829548.htm, 15-05- 2014.

emotional satisfaction through better taste or higher status, are loyal to the brands they trust, and prefer niche over mass brands.[17]

## 5. Attitude towards foreign brands: Country of Origin effect and Brand Image

The research on the concept of country of origin effect proposes to identify how consumers use their perception of a country when they buy products made in that country. Many studies have clarified how the image that a consumer associates with a particular country influences the purchase of "made in…" products. For researchers Roth and Romeo, the perceived image of a country is based on the dimensions of "innovation" (technological advancement), "design" (style, elegance, and balance), "prestige" (exclusivity), "workmanship" (reliability, duration, quality). Brand image is the idea perceived by the consumer of the attributes of a certain brand.[18] It derives from the perceptive interaction between the brand name and all the symbols associated with the brands. The brand image is at the basis of the formation of the brand personality that it is defined as the set of human characteristics typical of a brand (sincerity, excitement, competence, sophistication, ruggedness). The purchase choices of consumers are both influenced by the country of origin and the brand image which interact with each other, it is possible that a brand is associated with a certain country of origin only because the name is foreign sounding and conversely the brand can directly convey a specific country of origin perception (this is usually referred to as country of brand origin). These are important concept for Italian brands as Italy is frequently associated in China with prestige and good design.[19] However, Italy has a good reputation in the fashion sector, but for the furniture sector there are some differences to be pointed out. Chinese designers and consumers alike are very new to the concept of design furniture, in the rare cases that they appreciate the minimalistic design of furniture they are also aware that Italy is at the forefront in this industry. However, the majority of consumers have more lavish, show-off tastes that are not part of the Italian design furniture culture. Therefore, in most cases it is difficult for Chinese customers to associate Italy with design furniture production and vice-versa.

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[17] D. BARTON, Y. CHEN, A. JIN, *Mapping China's Middle Class*, "McKinsey Quarterly", 2013, http://www.mckinsey.com/insights/consumer_and_retail/mapping_chinas_middle_class, 21-12-2014.

[18] TIZIANO VESCOVI, (edited by), *Libellule sul drago. Modelli di business e strategie di marketing per le imprese italiane in Cina*, Padova, CEDAM, 2011, p. 34-35.

[19] TIZIANO VESCOVI, (edited by), *Libellule sul drago. Modelli di business e strategie di marketing per le imprese italiane in Cina*, Padova, CEDAM, 2011, p. 47.

**Figure 4: Consumer traits with relative importance of this trait on consumption patterns.**

| Consumer traits | Influence on consumption |
|---|---|
| • Price sensitiveness | • high |
| • Brand awareness | • low |
| • Country of origin | • low |
| • Product knowledge / education | • low |
| • Collectivism of society | • high |
| • Importance of *mianzi* | • high |
| • Preference for full-package | • high |
| • Generational gaps | • medium |

## 6. Results and discussion of the consumer survey

A consumer survey was carried out to evaluate the preferences of Chinese consumers with regard to the purchase of furniture.[20] The survey was carried out in the form of a written and/or oral questionnaire to consumers attending furniture fairs in China (2014 November 21-24, Antique Furniture China in Shanghai and 2014 December 5-7, Guangzhou Design Week). Nine questions have been posed to establish the consumer demographic and another ten questions have been asked relative to the consumer past purchases, brand preferences and motivations. The questions are written in the multiple-choice form and sometimes require to motivate an answer in an open form. The sample size was set at 100 consumers between the age of 20 and 90, 59 consumers agreed to fill in the questionnaire. This cannot be representative of the varied and numerous Chinese consumers but it serves as a good representation of the Shanghai municipality and Guangdong province furniture consumers,

[20] See Appendix V

given the fact that the majority of the respondents were either born or were living in these two cities and were attending furniture events, therefore were very interested in buying furniture. Below, it is possible to find an analysis of each question followed by a general discussion of the results.

DEMOGRAPHICS:

The majority of the respondents come from Guangdong province and Shanghai Municipality and they also reside in these two provinces. Fewer respondents come from and live in other provinces like Hong Kong, Fujian, Guangxi, Jiangsu, Jiangxi, Sichuan, Hunan, Hubei, Inner Mongolia, Shandong and Heilongjiang. It can be said that the respondents predominantly represent the attitudes of consumers living in the South and on the East Coast as there are not enough respondents from the North to extend the results to this group of consumers.

Respondents are almost equally split between male and female, in fact 51% are male and 49% are female. 29% of the survey's respondents are under 30 years old, 49% are in their thirties and forties, 10% are over fifty years old and 12% left this question unanswered. Most of the respondents are businessman and company managers at different levels; they represent all strata of the Chinese society, 24% belong to the poor, 24% to the lower middle class, 20% to the upper middle class and 24% to the affluent. [21] 64% are married and more than half have children.

FURNITURE CONSUMPTION:

The number of times the respondents purchased furniture is very high, the answer scale ranges from zero purchase to more than three purchases, and it results that 58% have purchased from two to three times or more. Only 5% never experienced the purchase of furniture, due to their young age, in fact they are all under 30 years old. The consumers who made more than three purchases, on the other hand, are mainly from 30 years old up to over 50 years old. The motivation behind the purchase are primarily related to the buying of a new house, and more rarely to the renovation of the old one. The large majority of the respondents made the purchase without the help of a designer, almost one fifth of the respondents claimed to have hired a designer because they do not have a good understanding

[21] Belonging to a certain social class is based on Y. ATSMON, M. MAGNI, L. LI, W. LIAO, *Meet the 2020…*, op. cit., p. 13, yearly income and relative classification.

of the furniture products and brands and/or because they do not have enough time to dedicate to this activity, some of them have also asked for the help of family and friends. They are mainly managers, male and over 30 years old. The buying drivers are various, the most important one is style, closely followed by the possibility of finding a good deal for price and quality, price and quality taken as individual drivers are also considered by a good number of respondents, some of the time in combination with the style response; country of origin, instead, does not represent a good enough reason to purchase a certain product, and this answer was in fact chosen by only 4 respondents. When asked about the furniture styles they like, the preferred one is "modern Chinese". "American" styles (modern and country), confirming what was stated during some interviews with Chinese dealers and importers, resulted to be preferred also by a good number of respondents. [22] The third preferred choices are "contemporary European design" (which, indeed, most of the respondent associated with Ikea products) and "classical Chinese". A breakdown of the demographics of the consumers per each style is proposed: respondents who chose the "modern Chinese" design are man and female in the same proportion, the majority of them belong to the affluent class, they are managers and businessman in their thirties and forties. Double more women than men enjoy the "American styles", they are part of the lower classes and they are businessman, managers and designers under 30 years old. "Classical Chinese" is appreciated by more man than female, across all strata of society by businessman and managers alike, in their thirties. Managers and designers belonging to all social classes like "contemporary European design", they are 1% more man and they are under 30 to 40 years old. The most preferred styles among Guangdong residents are "Modern Chinese" and "Contemporary European design", Shanghai residents enjoy more "Classical European" and "Classical Chinese" style.

Respondents are avid social network users, especially of Wechat and Sinaweibo. In comparison, fewer read specialized magazines like the Chinese version of AD Style and Rayli (a fashion magazine with a special home furnishing edition). 61% of respondents have purchased a foreign product at least one, and it is evident how the majority purchased Ikea brand, with only few mentioning other brands like Scavolini, Herman Miller, Poltrona Frau, Vitra, Kartell, Versace e Armani casa. People who purchased foreign products are businessman, managers and designers, from under 30 to 40 years old, a little fewer women than men, belonging for the main part to the lower and upper middle class. Respondents prefer imported brand slight more than local brands, however, the percentages are very close

[22] See Appendix III

and some of them also stated that they like them both. More female, managers and designers, under 30 and in their 30s, belonging to the lower classes prefer imported brands, more men, instead, over 30 years old, businessman and managers from all social classes like Chinese brands more. The reasons of this choice vary: among the respondents who like imported furniture better, the main reasons were style, followed by good quality and reliability; for people who prefer Chinese brands, the most important reason is good after sales services, followed closely by style and good price/quality deal. Generally, more people residing in Guangdong prefer imported brands than in Shanghai, Chinese brands are almost equally preferred by the same number of people both from Shanghai and Guangdong province.

CONCLUSIONS:

It appears that the survey confirms the following assumptions: relatively older people express their preference for the classical Chinese style and younger people, instead, like contemporary European design; Ikea is a well-known company in China, whereas Italian, American and European brands suffer from a lack of brand recognition; there is not a clear demarcation line between preference for local brands over imported brands, it cannot be inferred how much one is preferred over the other because the data are very close, however, they reasons why consumers choose local brands or imported brands are very different, style of the imported products attracts Chinese but they prefer the local brands for the good after sale services and the possibility of getting a good deal between quality and price; Imported brands are mainly preferred by the lower classes which, indeed, might not have the disposable income to be able to afford imported goods. The widespread popularity of the Wechat application (a mix of Whatsapp and Facebook) is very evident and witnesses how new social media are replacing old ones like specialized magazines which are less and less popular among Chinese. The assumption that most Chinese prefer to rely on designers was not confirmed but this might be due to the fact that a number of respondents were professional designers themselves. In conclusion, it can be inferred that even though consumers were residing in two of the main developed regions in China, consumers do not have a good education about imported brand (even though they think they are stylish), they have mainly purchased Ikea products but especially the younger generation express a favourable consideration towards imported brands, it is left to be understood when and how they will have the right income and the right perception to start purchasing high-end imported furniture products.

# CHAPTER FOUR

# ENTRY MODES AND THE CHINESE DISTRIBUTION SYSTEM

SUMMARY: 1.Introduction – 2. Export – 3. Contracts – 4. Foreign Direct Investment – 5. Representative office – 6. Distribution system

## 1. Introduction

The traditional entry modes for companies in a foreign country include export (direct and indirect), contract (licencing, franchising, etc.), and direct investment (joint venture, WOFE). Establishing a representative office is also an established entry mode in the Chinese market. The gradual internationalization model predicts that firms, based on the knowledge they acquire and on the cumulative experience of the market, gradually shift from a less risky choice (direct export) to the setting up of a foreign subsidiary. [1] This has proven true in the Chinese market too, in fact, more than one research conducted in China on Italian SMEs highlighted how most of the Italian companies, when they first approach the Chinese market, prefer the direct export mode and after learning and having a deeper experience of the market they choose more demanding and risky entry modes. [2] Financial resources and managerial capabilities are two key elements in the choice of the entry modes.

The direct export entry mode has its advantages: minimize the risks and allows the companies to first explore the market. On the other hand, however, it prevents them from having a tight control over the market. Foreign direct investment is the second largely used mode. Some firms decide to invest and risk more right from the beginning as they believe that this will allow them a stronger presence on the market and a better control over their foreign activities. Each entry mode will now be analysed more in detail.

[1] Jan JOHANSON, Jan-Erik VAHLNE, "The Internationalization Process of the Firm-A Model of Knowledge Development and Increasing Foreign Market Commitments", *Journal of International Business Studies*, Volume 8, Number 1, 1977, pp. 23-32.

[2] Donata VIANELLI, Patrizia DE LUCA, Giovanna PEGAN, *Modalità d'entrata e scelte distributive del made in Italy in Cina*, Milano, FrancoAngeli, 2012, p. 115; Tiziano VESCOVI, (a cura di), *Libellule sul drago. Modelli di business e strategie di marketing per le imprese italiane in Cina*, Padova, CEDAM, 2011, p. 95.

## 2. Export

As said before, export is the main entry mode chosen by Italian companies, especially SMEs. The risks are minimum and it is a good market exploration tool, should the market not be profitable, the exit would not cause many losses. Export can be divided in indirect export and direct export. Indirect export involves employing an intermediary based on the Italian market (trading companies, buyers, brokers and export consortia are all examples of intermediaries) that will resell the goods to Chinese importers, dealers or directly to the end consumers. Not being a real form of internationalization, it could be an interesting market exploration choice but it prevents from fully exploiting the market. It does not allow the companies the control on the market and the implementation of the necessary marketing strategies. Direct export, on the other hand, requires the firm to create an *ad hoc* export department dedicated to liaise with the Chinese counterpart. The firm could directly sell to the end consumer, employ agents or rely on local intermediaries such as distributors, importers and dealers.

The distributors are companies that buy the Italian firm's products and resell them in a certain geographic area. Most often companies employs more than one distributors in China each with its own exclusivity rights in its area of competence. The distributor manages the storehouse and the logistics, it chooses its customers and set the price, it also engages in promotional activities. Given its degree of independence it is important to monitor the distributor and to coordinate the different distributors on the same territory.

The importers can be wholesalers and retailers, they are very similar to the distributors but they do not always have exclusivity rights in a certain area and they can represent more than one company in the same industry. It is more difficult to manage the relation with the importers especially when they sell a firm's competitors' products.

The dealers are essentially distributors but they are not only involved in wholesaling but also retailing. They very often sell to the final consumers and manage the stores. It is common that firms open mono-brand stores managed by the dealers.

## 3. Contracts

The contracts mode includes non-equity deals (franchising, contract manufacturing, etc.). They can be useful in culturally and geographically distant markets such as China, because they allow the establishment of a long term relation with a partner but without the risks of the direct investment. It is mainly used for offshore outsourcing of production and less employed in the commercial sector. In fact, very few Italian companies choose this type of entry mode in the Chinese market. [3] The firms analysed in this research are not involved in this type of activity.

## 4. Foreign Direct Investment

This entry mode is the most risky but also the most rewarding. It is the best mode to understand and grow in the market. According to the laws of the People's Republic of China (PRC), foreign firms can choose among the following typologies: joint ventures (equity joint ventures and cooperative joint ventures) and wholly foreign owned enterprises (WFOE). Joint ventures are foreign invested companies established in cooperation with a local business partner (the capital detained by the foreign entity should be at least 25% ).[4] WFOE are 100% controlled by the mother company and have recently become the preferred choice of direct investment. They allow the foreign company to be independent and directly control the market. A new company can be created (greenfield investment) or an existing one acquired (brownfield investment). According to the value chain activity involved, WFOE are divided in commercial enterprises or production and commercial enterprises. The former being introduced in China only in 2004. The introduction of the *Administrative Regulations for the Foreign Investment in the Commercial Sector* has been a breakthrough in the field. It annulled the previously very restrictive rules and allowed foreign companies to freely access the wholesaling and retailing business.

[3] VIANELLI ET AL., *Modalità d'entrata…,* cit., p. 137.
[4] Renzo CAVALIERI, *Letture di diritto cinese*, Venezia, Libreria Editrice Cafoscarina, 2012, p. 94.

## 5. Representative Office

Another entry mode in the Chinese market is the setting up of a Representative Office. It does not belong to any of the aforementioned categories but it is an interesting mode when first entering the Chinese market. The representative office is not a separate legal entity and as such it cannot be involved in any "direct activity" on the market. "Direct activities" include selling, reselling and producing, signing contracts and directly investing for profit gain. Having a representative office established in China allows the firm to explore the market, liaise with important actors in the industry and develop a future market exploitation strategy.

In the fifth and sixth chapter, the choices made by each firm analysed will be presented and discussed based on the research carried out. For the purpose of this chapter, it is important to stress the importance of "building a second home in China". To be competitive a firm has to dedicate to the Chinese market as much or better more energy and resources than to the home market and to bear in mind the variety and complexity of the market and the need to choose different strategies according to the different areas of interest.[5]

## 6. Distribution system

The distribution system is still developing and traditional distribution channels coexist with modern ones. Disparities among provinces and jurisdictions affect the choice. Many Italian companies choose different distribution systems in different regions.

The choice of the distribution system is strictly linked to the entry mode. The main distribution channels are distributors, importers and dealers, followed by local agents. As it has been noted, they all belong to the direct export category which is the most employed by Italian firms. It is important to stress that the distribution systems available change considerably according to the industry. The main characteristics of the furniture distribution system are highlighted below.

The growing demand of furniture and the development of shopping malls, allowed for the development of specialized furniture stores, which in 2011 registered an 11% increase. [6] The distribution system is very fragmented: many small operators work at a local level in tier four and five cities. This is confirmed by the 2011 Euromonitor data presented in Figure 1. The first eight retailers in total account for only a 3% market share and, among them, Ikea is the market leader with

[5] J. GALVIN, , J. HEXTER, M. HIRT, *Building a second home in China*, "McKinsey Quarterly", 2010, http://www.mckinsey.com/insights/globalization/building_a_second_home_in_china, 15-12-2014.
[6] VIANELLI ET AL., *Modalità d'entrata…,* op. cit., p. 263.

a market share of around 1%. [7] Retail categories include specialized stores, non-specialized stores, supermarkets, and others; the highest number of sales are registered in the specialized stores. Imported goods are mainly sold in specialized stores and showrooms in China's first-tier cities.

**Figure 1: market shares of retailers of furniture (2010-2011)**

| Company | Brand | Market Share 2010 | Market Share 2011 |
|---|---|---|---|
| Ikea AB | Ikea | 0,7 | 0,7 |
| Shanghai Luohai Home Textile | Luolai | 0,5 | 0,6 |
| Shanghai Shuixing Home Textile | Mercury | 0,5 | 0,5 |
| Shanghai Fuanna Bedding & Furnishing | Fuanna | 0,4 | 0,4 |
| Hunan Mendale Home Textile | Mendale | 0,4 | 0,4 |
| Markor International Furniture | Markor | 0,2 | 0,2 |
| Ningbo Beyond Home Textile | Beyond | 0,1 | 0,1 |
| Orient Home | Home Plaza | 0,1 | 0,1 |
| Dashang Group | Dashang | 0,1 | 0,1 |
| Others | | 97,0 | 96,9 |
| Total | | 100,0 | 100,0 |

**Source:** VIANELLI ET AL., *Modalità d'entrata…*, op. cit., p. 263.

Among specialized stores, specialized department stores are worth mentioning. This distribution model is unique to China. According to the interviews to a number of industry professionals, the main players in this field are Red Star, EasyHome, JSWB, Yuexing, with Red Star Macalline being the first company to start this kind of business when the reform period started. [8]

The organizational model varies from company to company, however, the bottom line is offering the Chinese clientele the possibility of completely furnishing their house by visiting only one shopping mall.

Red star Macalline, for example, manages three different types of furniture malls: international, local and outlet; but it only acts as a real estate property manager, whereas a company like Tianmanti acts as the dealer for the imported furniture companies.

[7] VIANELLI ET AL., *Modalità d'entrata…*, op. cit., p. 265.
[8] For more information refer to Appendix III.

# CHAPTER FIVE

# ITALIAN FIRMS IN THE CHINESE MARKET

SUMMARY: 1. Magis – 2. Arper – 3. Scavolini

## 1. Magis

Magis was founded in 1976 at the heart of the Italian furniture district of Alto Livenza, North-East of Italy. The company aims at creating designer furnishing accessories with a high technological profile. Magis, since the beginning, decided not to focus its business on production in order to have the possibility of exploring different directions. In 1984, The Company's first commercial success was a folding stepladder designed by Dutch-Japanese couple Andries and Hiroko Van Onck that was made from injection-moulded ABS (a thermoplastic) with a steel frame. But the breakthrough in the design world came in 1994 with Jasper Morrison's Bottle Rack and two years later with the international commercial success of Bombo, a stool created by Stefano Giovannoni. The success of Bombo became the turning point of the company's business. It allowed Magis to start entering foreign markets. Since then the company kept breaking into new markets, increasing international sales, and developing new products that are technically advanced and made by new materials. [1]

### 1.1 Global Value Chain Analysis

*Design*

Design is one of the core activities Magis focuses its business on. The design activity is performed under cooperation between the in-house design department and the famous international designers with whom Magis has built strong relationships over the years: usually the designer develops a draft project and then refine it side by side with the internal design team until the final design is set. This, normally, takes quite a long time, in some cases even a few years. The governance of the relationship between the company and the designers is, therefore, relational.

[1] For references on data and information contained in this chapter please refer to the methodology paragraph of chapter one and to Appendix IV.

*Inputs and Production*

Magis gets the raw materials from a total of 80 local suppliers located in the Alto Livenza district in Italy. It collaborates with six major production partners, each specializing in different producing techniques. The relationship between the company and its suppliers/production partners is quite close, and the type of governance is relational.

*Assembly*

The assembly is also located within the Alto Livenza district and is performed by both the suppliers and the company. Due to the long existing cooperative relationship between them, the type of governance is relational.

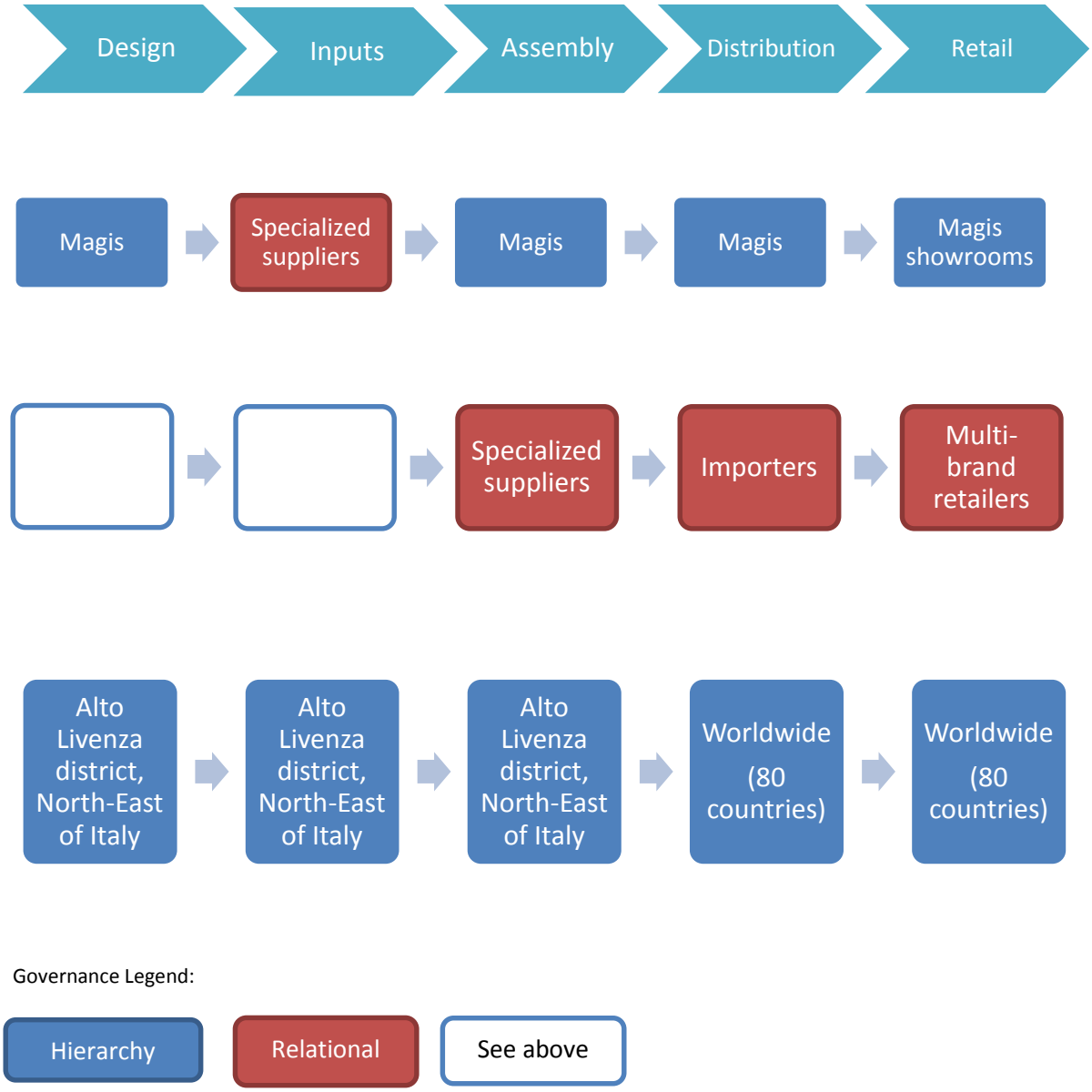
*Distribution and retail*

Magis sells its product worldwide, and the distribution system differs by country. Magis takes full control of distribution in most European countries with hierarchy governance except for the following: Sweden, Norway, Finland, Denmark, Belgium, Luxemburg and Holland. In these countries, plus USA and Canada, Magis works with four different sole distributors. In the rest of the world Magis sells "ex works" its products through other intermediaries. The governance between Magis and its intermediaries, agents and sole distributors is relational. Magis sells mainly through multi-brand stores, since it only owns two showrooms one in Milan and in Tokyo. Compared to other activities in its global value chain, Magis does not have a strong control over retail, and the governance is relational.

*Upgrading Strategies*

From the beginning Magis was an export-oriented company: during the '80s, 50% of the sales turnover was already generated by exports. Since its foundation in 1976, the company has been emphasizing design and distribution, and consistently investing in these activities. In the last ten years, it is estimated that Magis has increased investment on design by 132% and on the distribution system by 65%. Right now, the company has 42 employees in Italy and 6 in Japan. In 2013, the percentage of export reached 88.4% of the total turnover.

**Figure 1 : Magis, Global Value Chain**



## 1.2 Magis in the Chinese Market

Magis entered the Chinese market in the mid '90s and the company has since been involved in both the contract projects market and the retail market. The target customers are high-end consumers willing to pay a premium price for a design product. Magis showcases its products in six multi-brand stores located in the capital city Beijing and in the three major cities on the East coast, Shanghai, Suzhou and Hangzhou. To devise and implement its country specific sales and communication strategy, the marketing department in Italy relies on a consulting agent based in Hong Kong with a local office in Shanghai and on a Chinese communication agency. Together they manage the marketing and promotion activities of Magis in China. Iconic products of Magis have been featured on the most important specialized magazines, in their local Chinese edition (Elle Decoration China, AD China, etc.). The company also participates in all the major fairs in the country and organizes events and exhibitions as the "Made in Magis. The materials and technology behind the products", held in 2012 at the Shanghai, Design Republic store. From 2006 to 2013 the importance of China on total turnover quadruplicated, however, sales in this country only account for 4% of total turnover. Sales have been steadily increasing, except two minor drawbacks in 2009 and 2012. The year 2013 can be considered the best year so far since it registered a 613% increase over 2006's sales. The children collection represents the best sold category of products in the year span 2012-2014. Sales are managed in the export department in Italy and goods are usually sold upon receipt of an order by the Chinese buyers through ex-works contracts. The main buyers being the companies in charge of the multi-brand stores in Beijing and Shanghai, it can be inferred that Magis is not involved in any B2C activity in the Chinese market, everything is managed through B2B channels. As for the after-sales services, they are managed directly by Magis when they pertain to the quality of goods, the company claims to receive very few complaints on quality from Chinese customers.

## 1.2 *SWOT Analysis*

*Strengths*

The main strengths of the company are its high design skills and product quality. The company's design has been internationally acclaimed and some of its products have been shown in world famous museums such as the Museum of Modern Art in New York, the

Centre Pompidou in Paris and the Victoria and Albert Museum in London. The company has also received many Italian and foreign design awards, just to mention a few: "Il Compasso D'Oro" (the most important Italian recognition in the design sector), the "Designpreis der Bundesrepublik Deutschland" (official design award for Germany presented by the German Ministry for Economics and Technology), and the "ICFF Editors Awards" (awarded during the New York International Contemporary Furniture Fair).

Strictly linked to its design skills are its innovation capabilities: it has been constantly experimenting with new languages, new materials and new technologies. Although it does not own any factories, the experimentation is possible thanks to its local production partners.

The internationalization strategy pursued by the company can be considered another strength. It allowed Magis to overcome the contraction of demand of the domestic market and continue to grow and expand.

*Weaknesses*

The company's main weakness is the lack of control over the retail function. This reflects poorly on the firm's performance especially in the Chinese market where it is of primary importance to monitor and directly control the market. It also affects the brand awareness of the company, this is, in fact, another weak aspect of the company's strategy not only in the Chinese market but also in the domestic one. Chinese designers and consumers alike have difficulty in identifying the company's acclaimed products with Magis brand.

*Opportunities*

Opportunities exist for both the further expansion of the international business and the strengthening of the current business. In China, particularly, the company can raise brand awareness through better marketing strategies like attending more furniture events, building connections and collaborating with reliable local partners. At the same time, taking better control of the downstream activities by setting up subsidiaries in China, opening specialized stores could be the future opportunities to enhance the company's competitiveness. Also, to expand beyond China's first-tier cities in order to reach the rising upper middle class in China's inner and southern provinces.

*Threats*

The choice of a short term internationalization strategy such as that of direct export could hinder any future development of the company in the competitive Chinese arena. A possible threat of competition could come both from Chinese company that are increasingly investing in advanced technology and branding to upgrade their businesses and from other Italian and European companies that came first in the market and already established a good reputation among Chinese consumers. [2]

**Figure 2 : Magis- SWOT Analysis**

| STRENGHTS | OPPORTUNITIES |
|---|---|
| Export orientation | Strengthening of position in the domestic market |
| Innovation capabilities | Building brand awareness in the domestic and Chinese market |
| Environmental sustainability | Enlargement of customer base in the Chinese market |
| | Establishing a subsidiary in China |
| | Increasing marketing activities |
| | |
| | Establishing good relationships with Chinese designers and architects |

| WEAKNESSES | THREATS |
|---|---|
| Lack of brand awareness | Competition from Italian pioneers in the Chinese market |
| Lack of control on the retail function | Competition from North-European firms |
| Lack of fixed investment in China | Competition from local producers |
| | |

[2] Donata VIANELLI, Patrizia DE LUCA, Giovanna PEGAN, *Modalità d'entrata e scelte distributive del made in Italy in Cina*, Milano, FrancoAngeli, 2012, p.92.

## 2. Arper

Arper tells a different story of the Italian excellence in design. Founded in 1989 in the North-East of Italy, near Treviso, a family-run company that produced leather chairs for the local market, it underwent a profound transformation in the early 2000s, when it shifted its production to high-end design products and divested its energy to the developing of a market that seemed neglected by other Italian companies: the contract projects market. The company since the beginning has pursued an international strategy and, even more so after the reorganization in 2001, in fact, as of 2013 its export accounts for 96% of total turnover. Despite being somewhat of a newcomer in the lines of Italian high-end furniture companies, it managed to acquire international recognition and has been awarded with many design prizes, among which also the prestigious Compasso D'oro, won in 2011 with "Nuur" table designed by Simon Pengelly.

### 2.1 Global Value Chain Analysis

*Design*

Arper headquarter near Treviso works in cooperation with Italian and international design studios to develop its collections and improve existing ones. Given the required frequent collaboration between the company and the designers the nature of the governance is relational.

*Inputs and Production*

Arper produces upholstery in-house and outsources production to a number of specialized suppliers located in the industrial district. As for the design function, the coordination of all production partners requires the existence of an intense and frequent cooperation, the governance is therefore relational.

*Distribution and Retail*

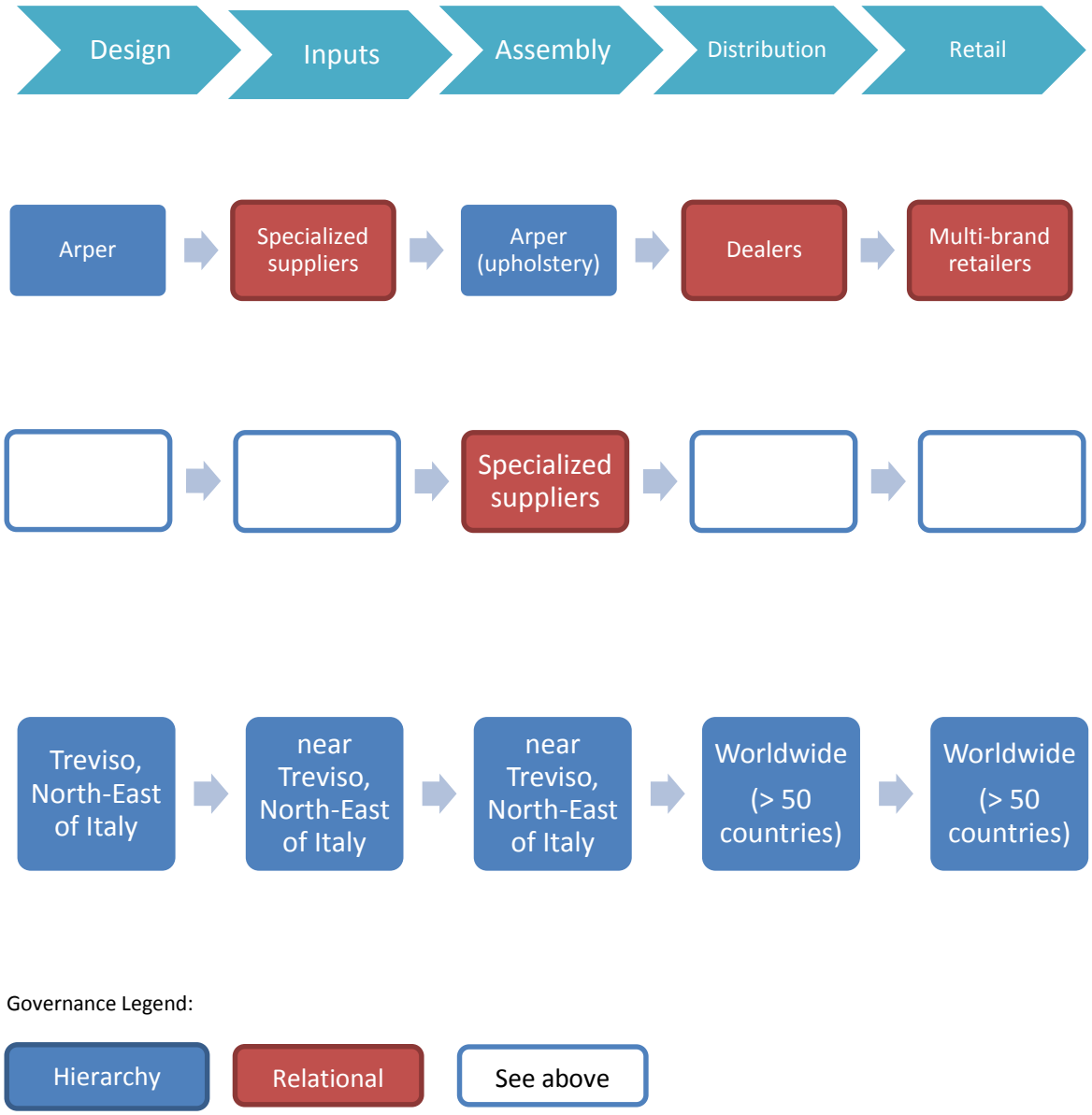
Distribution to numerous countries worldwide is managed by the internal sales team through a network of agents both in Italy and in some export markets. Retail is not directly controlled by the company and it is performed by agents and dealers in the respective markets,

the governance is therefore relational. In China, the company relies on one distributor and a number of importers.

*Upgrading Strategies*

Since the strategic management shift implemented in 2001, the company upgraded its core business from production to design and dedicated its resources to this intangible value chain function by heavily investing in R&D and branding.

**Figure 3 : Arper, Global Value Chain**



## 2.2 Arper in the Chinese market

Since 2010, Arper has been selling in the Chinese market, and it first entered the market because it received orders by local customers. The target customer are hotels and offices since Arper is operating only in the contract projects sector. The communication and brand strategy in China is devoted to reach business specialists like architects and designers. The company does not take part in any fair and it does not employ any social network tool. It showcases its products in two multi-brand stores located in Beijing and Shanghai. The market is controlled through one distributor and a number of importers and is managed by the firm's branch office in Singapore. Sales have been growing since 2010 and 2013 is the best performing year also for this company, seeing an increase of 637% over the previous year. As a future prospect, the company plans to increase its local investment both by offshore outsourcing some production lines to improve the time-to-market and by enlarging its local sales team.

## 2.3 SWOT Analysis

*Strengths*

Arper's strength lies in the choice of a very successful market segment in the Chinese furniture industry, the contract market. As already discussed in chapter two, this market thrives on the fast and seemingly unstoppable development of the Chinese real estate market. Another strength is its ability to maintain good relationships (*guanxi*) not only with the local distributor and dealers but also with the interested parties, namely architects and designers. Another important strength is its internationalization strategy, pursued right from the beginning. This strategy allows the company to rely less on poor performing markets like the domestic ones by generating turnover in emerging markets like the Middle East and China.

*Weaknesses*

In the Chinese market, Arper's weaknesses come mainly from the lack of direct control over the market, which, given the complexity and the fast-paced change of the market is highly advised. Another weakness is relative to the cost-sensitivity of the Chinese contract market. Customers choose based on the lower price available and Arper, inevitably, has to bear more costs than local competitors.

*Opportunities*

An opportunity, as identified by the company itself, would be that of investing in production plants in China to overcome the cost issue. Another opportunity could be that of increasing investment in branding and marketing strategy in order to reach a wider range of customers, not just the contract sector but also end consumers.

*Threats*

Arper's main threat derives from its main weaknesses, the lack of fixed investment in the country could harness the company's path to a future sustainable growth. Moreover, threats could come from local producers that are shifting to higher quality products made at lower costs.

**Figure 4: Arper- SWOT Analysis**

| STRENGHTS | OPPORTUNITIES |
|---|---|
| Specialization in the contract market | Expansion in the end consumer market |
| Brand awareness in the contract market | Production Off-shoring to china to reduce costs |
| Good relationship (guanxi) with interested parties in China | |
| Export orientation | |
| | |

| WEAKNESSES | THREATS |
|---|---|
| Lack of fixed investment in China | Difficulty in controlling Chinese partner |
| Higher costs compared to Chinese producers | Competition from local producers |
| | |

## 3. Scavolini

To an Italian audience, Scavolini does not need any introduction, it is one of the leading company in the production and retail of kitchen cabinets. And, in the last few years, it also, started exploring the bathroom and living market. It was founded in 1961 in another important Italian furniture district, in the Marche region, near the town of Pesaro. Born as an artisan business, in more than 50 years it grew to become a solid industrial firm. In 1984, it became famous nationwide with the promotional campaign "Scavolini, la più amata da tutti gli Italiani". [3] In Italy, it caters to the needs of the middle class consumers, ranging from the lower middle class to the upper middle class through a vast offer of collections and a high degree of customization.

Scavolini exports to all the major markets in the world, however, its main market remains Italy that still generates 80% of its annual turnover.

### 3.1 Global Value Chain Analysis

*Design*

Scavolini has an internal R&D department (Vuesse) that designs and signs some of the collections, and it also works in cooperation with famous designer for the development and creation of other collections. The governance is therefore hierarchy in the first instance and relational in the second one.

*Production*

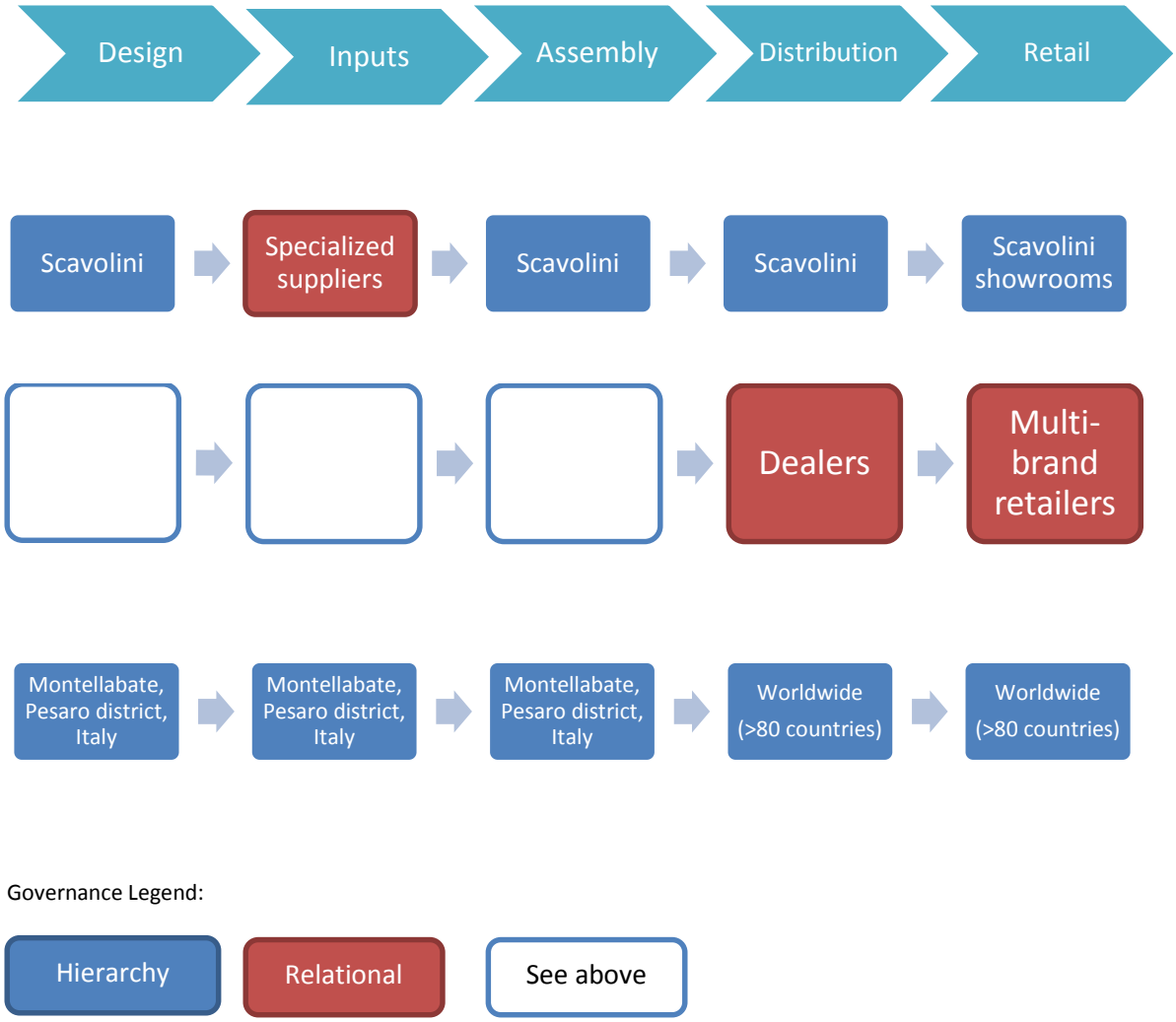
The company manages the production in-house, it owns a production plant located at the headquarters near Pesaro. The governance is of the hierarchy type.

*Distribution and Retail*

In the Italian and the export markets, the distribution is managed by independent dealers followed by a network of agencies, the governance of this link is relational. Moreover, Scavolini directly runs and controls showrooms in the major markets.

[3] "Scavolini, Italy's favourite kitchen", http://www.scavolini.us/Company/More_than_50_years_of_history, accessed April 2015.

**Figure 5: Scavolini, Global Value Chain**




### 3.3 Scavolini in the Chinese market

Being an already well-established company in the domestic market, Scavolini entered the Chinese market in 1997 already. Through the years it created a network of local partnerships with distributors which led to the opening of showrooms and the reselling of Scavolini products in multi-brand stores all over China. It currently showcases its products

through two showrooms and one multi-brand store, in Shanghai, Qingdao (North of Shanghai, on the East coast) and Zhongshan in the South. However, starting from 2014, the company decided to revise its strategy and established a representative office in Shanghai, in charge of redefining and implementing the new distribution and marketing strategy for the Chinese market. Differently from the domestic market, Scavolini's target in China is represented by the wealthy and the upper middle class more inclined to purchase costly imported design products. Scavolini joins in all the major fairs and employs marketing tools such as campaigns on specialized magazines and local social media like WeChat.

### 3.3 SWOT Analysis

*Strenghts*

Scavolini's primary strength is its strong brand recognition in the domestic market and its long experience in producing good quality items vastly appreciated by the consumers in Italy. As for what regards the Chinese market, the main strength is characterized by its new strategic choice. Being based in China with a representative office represents a good first step in taking control of the market and deploying the necessary resources to increase sales.

*Weaknesses*

The company relies too strongly on the domestic market performance, having to bear many risks should the Italian market undergo a swift transformation. In China, specifically, the company lacks the brand awareness and has experienced difficulties in finding a reliable distribution partner.

*Opportunities*

This firm's many growth opportunities include build a higher brand awareness, expand in second and third tier cities, enlarge the customer base to the lower middle class, establish good relationship with Chinese architects and designer as well as increase its foreign direct investment by setting up a wholly-foreign owned company in charge of managing this big and complex market.

*Threats*

As for the other companies, the main threat for Scavolini is the Chinese competition that is upgrading the quality of the products offered, but also the German and Italian competition. German companies were the first to enter the market and this reflects in the consumers' belief that German products are reliable and cater a higher quality. Other Italian firms specialized in the production of kitchen cabinets pose a threat because they offer a similar product, with the same country of origin effect on consumers. Moreover, some of them decided to relocate production to China, which makes them even more competitive on the cost side.

**Figure 6: Scavolini- SWOT Analysis**

| STRENGHTS | OPPORTUNITIES |
|---|---|
| Strong brand awareness in the domestic market | Increasing turnover from export markets |
| Good quality | Building brand awareness in the Chinese market |
| Representative office in China | Enlargement of target customers in China to include also lower middle class |
| | Expanding in second-tier cities in China |
| | Increasing marketing activities in China |
| | Establishing good relationships with Chinese designers and architects |

| WEAKNESSES | THREATS |
|---|---|
| Lack of brand awareness in China | Competition from other Italian firms |
| High reliance on domestic market | Competition from German pioneers |
| Difficulty in finding reliable partner | Competition from local producers |

# CHAPTER SIX

# A COMPARATIVE STUDY

SUMMARY: 1.Introduction – 2. Guanxi – 3. Structured local investment – 4. Investment in retail – 5. Expansion in emerging local markets – 6. Advertising on old and new media – 7. Focus on key customer services – 8. Branding and country of origin effect – 9.Targeting young upper middle class consumers – 10. Investment in the education of consumers and designers – 11. Conclusions

## 1. Introduction

The previous chapters serve as the basis on which the following analysis was built. A comprehensive analysis of the Chinese market and of the characteristics of its demand have been delineated in chapter two and chapter three; chapter four focused on the technical and juridical requirements for firms willing to invest in the Chinese market; chapter five introduces the case studies of the three Italian firms. The purpose of this chapter is to understand how well the three companies have performed so far, to compare and contrast their approach to the Chinese market in order to delineate a successful strategy, which could be reproduced by Italian SMEs operating in the furniture industry interested in entering and maintaining a strong position in this market.

Through the analysis carried out in the previous chapters, a number of key strategic factors of success have been identified. Each factor will be analysed and the performance of the three firms with regard to each factor will be described. In the next chapter, conclusions will be drawn and the proposed strategy will be presented.

**Figure 1: Key strategic factors**

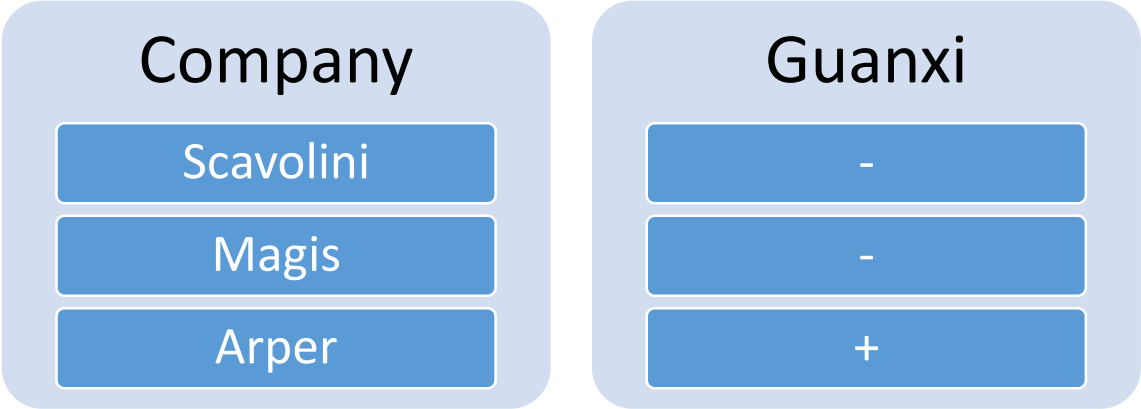
| |
|---|
| 1. GUANXI |
| 2. STRUCTURED LOCAL INVESTMENT |
| 3. INVESTMENT IN RETAIL |
| 4. EXPANSION IN EMERGING REGIONAL MARKETS |
| **5. ADVERTISING ON OLD AND NEW MEDIA** |
| 6. FOCUS ON QUALITY AND KEY CUSTOMER SERVICES |
| 7. BRANDING AND COUNTRY OF ORIGIN EFFECT |
| 8. TARGETING YOUNG UPPER MIDDLE-CLASS CONSUMERS |
| I9. NVESTMENT IN THE EDUCATION OF CONSUMERS AND DESIGNERS |

## 2. Guanxi

Establishing good *guanxi*, the Chinese word for "relationship", is a fundamental factor when dealing with business in China; it is a cultural characteristic of the Chinese society that cannot be ignored and, therefore, it is of high importance across all business sectors. The concept of having good *guanxi* with all parties involved in the international business transaction and/or in the local investment is strictly linked to the concept of *mianzi* (face), introduced in chapter three. In order to build and maintain good relationships with the Chinese business partners you should know how to give and show respect to them and make sure they do not "lose their face" because of something you have said or done. It is a delicate matter that requires employing good interpreters and export managers with a long working experience in the country. It is an aspect that should be well taken care for and certainly cannot be improvised.

The firms analysed in this research have all a long experience of doing business in the Italian market and in many other export markets; however, when it comes to dealing with their Chinese counterparts they have all experienced some difficulties. Scavolini, especially, suffered from a bad choice of distributors, which resulted in low sales and the impossibility to control the market, which, in turn, is the reason why, in the last two years, they decided to restructure the management of this market and have now opened a representative office in the city of Shanghai. Magis experienced similar problems with their local public relation agency. Since Magis started a new marketing campaign to improve its brand awareness in Italy and abroad, they have collaborated with a Chinese PR agency to have Magis products advertised on local magazines, however, this collaboration ended, after two years, because of difficulties of working with this agency and communicating how to get the right message across to the final consumer. Compared to the others, Arper appears to be the firm that has performed well with respect to this issue. They claim to have overcome the initial difficulties and established good relationship with business partner, designers and real estate developers alike. This has brought good business opportunities and increase in sales.

**Figure 2: Performance of each company with respect to the *Guanxi* factor marked by "+" positive evaluation, "-" negative evaluation.**



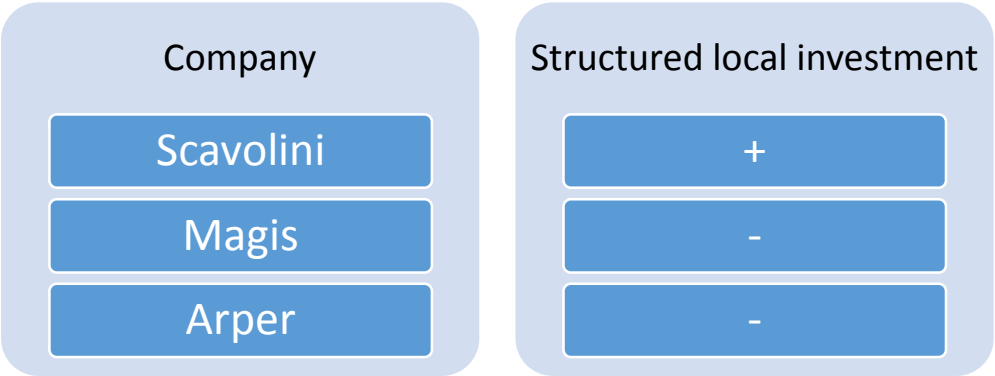

## 3. Structured local investment

As presented in chapter 4, different entry modes are available when approaching the Chinese market. The initial choice usually being the direct export to test the market, firms then usually decide to invest in a joint venture or wholly foreign owned enterprise to have more control on the final market. Foreign direct investment is considered the best tool to develop and grow in a new market; however, it is not the preferred choice of entry mode for Italian small and medium enterprises including firms operating in the furniture sector. According to a 2012 survey by Orbis-Bureau Van Dijk, there are 1342 Italian companies involved in a joint venture with Chinese companies and even fewer WFOEs, only 799 mainly operating in the machinery and mechanical industry. [1] Direct investments are still very limited in industries such as food & beverage, fashion and furniture where, instead, the control on the final market should be tighter to fully exploit the potentialities of the so-called "Made in Italy". The cases examined in this research are not an exception: Magis, Scavolini, and Arper all rely on agents and distributors to resell their products in China, however their approach and their vision for the future differs. Magis has its only foreign branch in Japan, and for now it only plans to create a warehouse in China to better manage the logistics but a direct investment is still a long way to come. Arper has a clear strategy for the future: setting up production facilities in China in order to reduce the time to market

[1] Donata VIANELLI, Patrizia DE LUCA, Giovanna PEGAN, *Modalità d'entrata e scelte distributive del made in Italy in Cina*, Milano, FrancoAngeli, 2012, p.154.

and the costs of transportation and import. Scavolini, on the other hand, has revised its strategy and although it is still employing the direct export mode, decided to establish an office in China to coordinate the activities. Considering that, after two years of operation, a representative office can also start to be involved in commercial activities, it seems on the right path to take advantage of a more direct control on the final market.

**Figure 3: Performance of each company with respect to the structured local investment factor marked by "+" positive evaluation, "-" negative evaluation.**



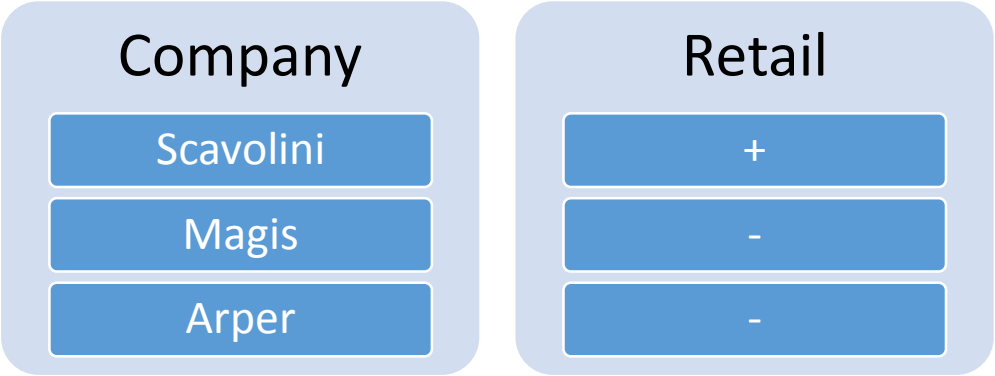

## 4. Investment in retail

Linked to the establishment of a local branch of the company is the necessity of increasing the investment in retail. Firms can be more successful when they own and directly manage, without intermediaries, retail stores. Retail stores should primarily be mono-brand and/or showrooms. This is fundamental to attract the attention of Chinese customers and to be immediately recognisable; this in turn affects also the brand image and the building of a good brand awareness. Though risky, these investments are essential when dealing with the Chinese market. The performance of the three companies relative to this factor is quite low. In fact, Magis is only present in multi-brand stores, the same is true for Arper; Scavolini has, instead, some showrooms around China and with its new strategy seems to be following the right way to be more successful from this point of view. Another good expansion opportunity for Italian companies is the online retail platform: Chinese are very familiar with this new buying tool; they are very confident internet users and like buying online from computer and smartphones alike. [2] This new trend is considered a proper boom that can reshape the way consumers approach products. For this reason, even though contradictory opinions have been gathered

[2] FORBES, *Making the Most of China's E-commerce boom*, 2015, http://www.forbes.com/sites/baininsights/2015/01/21/making-the-most-of-chinas-e-commerce-boom/2/, 6-5-2015.

during the interviews to importers and dealers, it cannot be questioned that e-commerce will play an important role in the future development of the furniture market.[3] Many local Chinese brands have, in fact, started reselling online.

**Figure 4: Performance of each company with respect to the structured local investment factor marked by "+" positive evaluation, "-" negative evaluation.**




## 5. Expansion in emerging regional markets

China, as explained in chapter two, given its surface area and its non-homogeneous territory and variable taste and habits, should be considered more as a continent rather than a single country. Different methods to group provinces and cities have been proposed; a successful strategy requires the furniture companies to start exploring also new markets in the inner regions. These markets have not yet reached the level of maturity of the coastal and southern cities and have witnessed an increase in the welfare of its citizens, as mentioned in chapter three, the numbers of upper middle class consumers will increase and the most visible growth will be in these new and upcoming regions. These new markets present some challenges: customers might be less familiar with foreign furniture brands (with the exception of Ikea) and they are very price sensitive, however the first firm to reach these markets will benefit from the pioneers success which up-till-now has been a prerogative of French and German firms.

The companies analysed are still at the beginning of the development of the Chinese market and therefore are still very much concentrated on the first tier cities like Beijing and Shanghai,

[3] See Appendix III

however, in the near future these new roads full of growth opportunities should not be left unchartered.

**Figure 5: Performance of each company with respect to the expansion in emerging local markets factor marked by "+" positive evaluation, "-" negative evaluation.**

| Company | Expansion in emerging local markets |
|---|---|
| Scavolini | - |
| Magis | - |
| Arper | - |

## 6. Advertising on old and new media

China's frenzy for new technologies and smartphones usage is well represented by the daily images of millions of underground transportation passengers busy playing games, reading and watching videos on their tablets, phones and various smart devices. Content and message sharing app like Wechat, the Sina Weibo blog, Chinese versions of the more famous western Whatsapp, Facebook and the likes, are a hit among young people and older ones too. Wechat, in particular, allows the users a complete experience of instant messaging application combined with the possibility of content sharing with friends. It is a good tool for business companies too, because it provides the "official account" function: commercial firms can promote their activities and interested customers can follow all the news and updates. Among the three companies, only Scavolini recently opened its Wechat account, managed by the representative office and entirely written in Chinese. Old media, however, still play an important role. As confirmed by one of the furniture imported interviewed in Shanghai, television more than printed magazines is the widest reaching tool for marketers. It instantly catches the public attention and it is watched by millions of people; costs, though are comparably higher.[4] Because of the high costs, the three firms have only been involved in advertising on printed magazines and, as mentioned before, only Scavolini ventured in the social network arena. Arper, given the focus on the contract market relies less on this marketing tools and more on

[4] See Appendix III

the development of good *guanxi*. However, investment in old and new media is definitely an important success factor that goes hand in hand with the creation of brand awareness and as such, it should not be underestimated and more attention should be given to these marketing tools in the future.

**Figure 6: Performance of each company with respect to the advertising on old and new media factor marked by "+" positive evaluation, "-" negative evaluation.**

| Company | Advertising on old and new media |
|---|---|
| Scavolini | + |
| Magis | - |
| Arper | - |

## 7. Focus on quality and key customer services

As emerged also from the customer survey, Chinese consumers are very sensitive to finding a good price/quality deal. In order to do so, some of them prefer to buy products outside China to save on import duties and other costs that make the price of imported goods rise sensibly. This has proven true also for furniture products that are relatively more difficult to purchase abroad than fashion products.[5] It is a very recent news that the Chinese government announced to cut import duties on a range of foreign products to boost internal demand. [6] If and how this will affect the consumption of imported furniture will be seen after July 2015 when the law becomes effective. In the meantime, firms should understand that Chinese customers, other than being very sensitive to price, are very demanding when it comes to buy quality products especially foreign ones. They are, in fact, willing to pay a premium price only if the product making and the exterior quality is perfect and appealing. They have a different concept of product defects, in fact even the minimum imperfection, and even if located under the visible surface, can negatively influence the willingness to purchase of the consumers.[7] Strictly linked

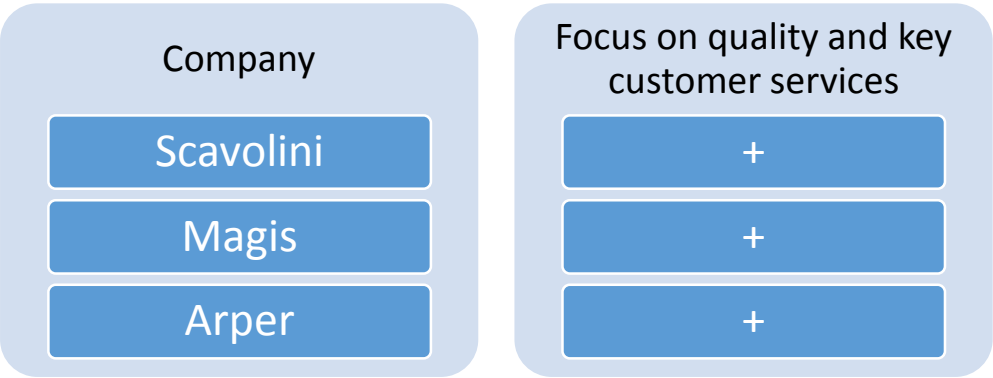
[5]See Appendix III

[6] R. FATIGUSO, *La Cina taglia i dazi sul lusso,* "Il Sole 24 ore", 2015, http://www.ilsole24ore.com/art/impresa-e-territori/2015-04-30/la-cina-taglia-dazi-lusso-063823.shtml?uuid=ABwbAJYD, 3-5-2015.

[7] See Appendix III

to the quality requirements is the importance placed on quick delivery and good after sale services. Chinese customers enjoy to be taken care of and this is evident when looking at the strategy employed by Ikea in China. In Europe and in the U.S., Ikea thrives on the idea of an easy do-it-yourself furniture purchase and installation process; in China, no Chinese would ever dream of taking home and installing an Ikea bookshelf all on his/her own. Therefore, as mentioned before, they adapted their strategy by offering home delivery and installation services. The Italian companies analysed offer good quality, however they suffer from the lack of direct managing the market and from the transportation timing, which can badly influence the customers perception of the services offered. Setting up a warehouse and local subsidiary can take care of this aspect.

**Figure 7: Performance of each company with respect to the focus on quality and key customer services factor marked by "+" positive evaluation, "-" negative evaluation.**



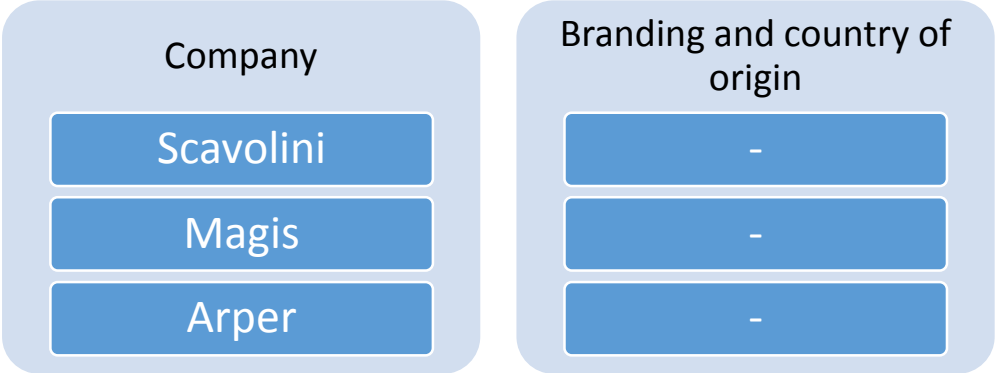

## 8. Branding and country of origin effect

As already mentioned in chapter three, the country of origin does not exert an important role on the consumption attitudes of Chinese consumers. Even though consumers associate Italian products with good quality and good design, this does not automatically extends to the furniture sector. Moreover, as emerged in the survey, most consumers have never purchased an imported product with the exception of Ikea's furniture. What is lacking is a clear connection between the famous "Made in Italy" and the Italian furniture design brands; firm should be following the good example of the fashion sector and try to reproduce what has worked so well for all the luxury fashion brands. Therefore, a revision of the branding strategies seems necessary in order to well tackle the difficulties of this market. In addition, institutions and

associations of furniture producers should be more active in the promotion of the business opportunities of this market. It has not been until recently that the most important furniture association (Federlegno) opened a desk office in Shanghai to start promoting and assisting Italian companies willing to enter the Chinese market.[8] They have a created a so-called "Made in Italy club", membership to this club should help firms with a variety of services offered. The organization of an edition of the "Salone Del Mobile" fair in China has been happily welcomed by all the interested parties. It is planned for late 2016, early 2017 and hopefully will be a good development opportunity for all firms and if planned in the right way, it can be a good opportunity to convey to the end consumer the idea that Italy has a strong reputation also in the furniture industry. Concerning the three firms of the study, it can be said that Scavolini, even though has managed to create a good brand image in its home country, has still a long way to go to reproduce the same successes in China. Results will be seen if the company is going to be able to convey the right message to its customers with the right marketing tools. Arper, has found and tackled the niche market of contracts, in which its image and reputation are quite good. However, it could expand into and explore the final consumer market through the developing of a more comprehensive brand image strategy. Magis has a low brand recognition in Italy and in China as well, considering the quality and the technological advancement of its products this company has to invest enormously in improving its brand image and in becoming world famous not only among industry professionals.

[8] R. FATIGUSO, *Per il mobile italiano nuovi partner e una fiera in Cina*, "Il Sole 24 ore", 2014, http://www.ilsole24ore.com/art/impresa-e-territori/2014-09-12/per-mobile-italiano-nuovi-partner-e-fiera-cina-063759.shtml?uuid=ABTzt0sB, 12-11-2014.

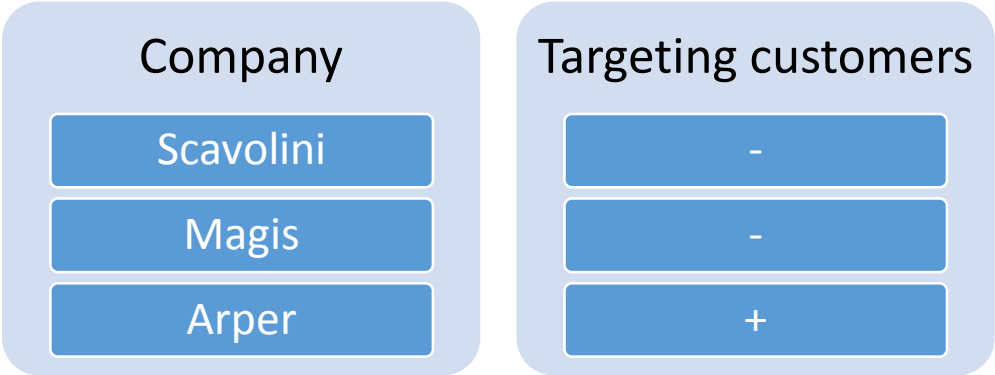
**Figure 8: Performance of each company with respect to branding and the country of origin effect factor marked by "+" positive evaluation, "-" negative evaluation.**




## 9. Targeting young upper middle class consumers

As resulted from the consumer segmentation, survey and interviews to dealers, young consumers are more prone to like European design and less lavish products for the home. They are also very much influenced by the American pop culture which has reached China through movies and TV series. The generation born after 1990 and the millennials alike, can be the ideal future target customers as they are reaching a stage of their life when they have to settle down, get married and buy a house (in the Chinese society, young people enter this stage at around 24-25 years old). This aspect coupled with the prediction that the Chinese upper middle class would sensibly grow by 2020, leaves good opportunities to the Italian firms willing to invest. The right strategy would be to create promotional campaigns on social media directing to these niche market of consumers. Up until now, only Arper has clearly identified its target customers, Magis and Scavolini target to a broader range of consumers, if they want to grow, though, they should, implement a more focused, and goal oriented strategy.

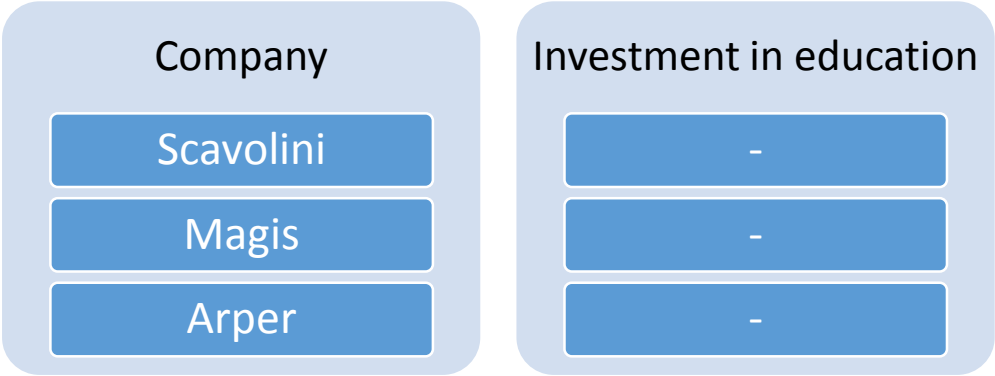
**Figure 9: Performance of each company with respect to branding and the target consumers factor marked by "+" positive evaluation, "-" negative evaluation.**




**10. Investment in the education of consumers and designers**

As noted in chapter three, consumers, given their different cultural background and a very swift change from a collectivist economy to a market economy, do not have acquired the right level of education to understand Italian high-end furniture products. The firm should take charge and start to promote activities and educational campaigns directed at reaching the heart of the Chinese customers; the same should be said for the education of professional designers. Many universities now offer graduation courses in design (one of the most famous being the Tongji University in Shanghai), however, creating partnerships, collaborating with students and organizing events would definitely bring about good opportunities for the Italian firms. Thinking of creating a specific collection designed for the Chinese market born through the collaboration with a Chinese designer is an idea worth exploring. The firms analysed are still at the beginning of this process, they have organized events and exhibition but they are still lacking a comprehensive marketing approach that would make their brand stand out and be instantly recognisable by millions of Chinese consumers.

**Figure 10: Performance of each company with respect to investment in education factor marked by "+" positive evaluation, "-" negative evaluation.**




## 11. Conclusions

More general conclusions will be drawn in the next chapter, for now it can be noted how, with respect to the factors pointed out, Italian high-end furniture brand have still a long way to grow, develop and better adapt their strategies to the complexities of the Chinese market. They should be able to localize and employ the correct resources; learn how to deal with Chinese culture and Chinese business partner. They should invest heavily on the direct control of the final market, because it is the source of more value added compared to other functions of the global value chain; divest more resources to the marketing activities on social media and old media as well. They should work together and collaborate with the relative institutions and associations in order to create a unique and direct image of the Italian design furniture brands in order to efficiently attract Chinese customers. All three companies have to be careful about these aspects, but Magis in particular considering that it scored only one "plus" out of nine factors analysed. The summary of the performances of the three companies are shown in figure eleven.

**Figure 11: Overall Performance of each company marked by "+" positive evaluation, "-" negative evaluation.**

| Company | Guanxi | Structured local investment | Investment in retail | Expansion in emerging regional markets | Advertising on old and new media | Focus on quality and key customer services | Branding and county of origin effect | Target young upper middle class consumers | Investment in education | OVERALL |
|---|---|---|---|---|---|---|---|---|---|---|
| Scavolini | - | + | + | - | + | + | - | - | - | + |
| Magis | - | - | - | - | - | + | - | - | - | - |
| Arper | + | - | - | - | - | + | - | + | - | + |

# CHAPTER SEVEN

# CONCLUSIONS

The five chapters that constitutes the body of this work have each analysed the Chinese furniture market from a different perspective. After the introduction, the second chapter presented the Chinese industry and the increasing importance that the Chinese market is playing for the Italian export, the third chapter delineates the most common traits of the Chinese consumers of furniture products, the fifth and the sixth show the results of the research conducted in China. After having presented the three case studies and having compared their performance in the Chinese market, it is now important to identify a strategy that could be employed in the future by other Italian companies working in the design furniture industry and willing to expand in the Chinese market.

We have seen how there are enormous potentialities for Italian companies, notwithstanding the economic crisis and the real estate slowdown, the Chinese market is growing and consumption will be higher than ever in the next few years. The government is, in fact, pushing to boost internal demand and many Chinese will move to the upper middle class, provided they have an adequate disposable income to spend on products different from basic necessities. The shift from the lower classes to the upper middle class will be perceived more sensibly in the less developed inner provinces of China. However, it is not all a bed of roses for foreign companies interested in this booming market. The Chinese market presents many challenges: from the different cultural norms to the enormous surface area; from the different business customs to the relatively young consumer society (up until 30 years ago it was the government that provided citizens with food, clothes and other basic items for survival); from the different importance given to the private house to the different taste in furniture styles (especially with regards to the design furniture). Moreover, it must not be forgotten that the furniture industry is thriving in China, they are the world supplier of furniture and from making low-end products, they are acquiring knowledge and competencies and they are shifting to produce quality furniture, which is well appreciated by local consumers. Therefore, the alternative between domestic and imported products plays an important role. Of course, Chinese consumers, in general, have a strong faith in foreign products because of the long history and tradition compared to the relatively younger Chinese industry, but when it comes to make a final choice, they will always look at the best compromise for quality and price and, indeed, local companies have an advantage on this side. During the time spent in China for the

purpose of the research, it did not appear that local design furniture producers exist, therefore, it seems that Italian companies do not have a direct competition other than that of other European design furniture firms, however, I believe that the competition from local firms producing high quality products at a comparably lower cost with a more Chinese style are indeed winning the heart of the Chinese customers.

Consequently, tackling these difficulties for Italian companies which are almost all small and medium enterprises is indeed a big challenge. Considering the companies analysed in this research, they appear to have been very cautious and the challenge for the future lies in the willingness to invest more resources in this market. Stemming from the research and the information acquired on this market, the strategy for Italian design furniture companies is presented in the following pages.

Firstly, the choice of investment is to be taken into consideration. Export, as mentioned in the previous chapters, can be a good tool to explore the market at the beginning but it does not allow any growth development. Opening a representative office, even though, it means bearing more initial costs it would certainly be rewarded in the long run. Thus, as a way to explore the market, a representative office can be set up and the reselling of goods can be managed through export. The representative office should be the first local presence in charge of researching the market and the consumers, establishing good relationships with all actors of the business such as designers, architects and real estate companies as well as Chinese institutions. Participating in local fairs and organizing events to start building brand recognition and awareness can be another task the representative office can be charged with.

Secondly, the right target consumer should be identified. This, naturally, depends on the business scope of the company, so it may differ from company to company and it may also differ from province to province, city to city. However, it appears that in Shanghai and in the Guangdong province, young consumers in their late ‘20s and in their ‘30s are more interested in modern design furniture, it is important to understand, then, their relative purchasing power in order to see if they are willing to buy a premium price for “made in Italy” furniture products.

Thirdly, the distribution and retail should be well managed and directly controlled. At first, cooperating and relying with local importers and distributors can be helpful to explore and research the market, provided that good *guanxi* are established with the local business partners. Therefore reselling in multi-brand stores can also be considered, but more importantly having a showroom in the main cities also in the exploration phase can indeed help improve

brand awareness and recognition. In the second phase of development, the firm could consider shifting from export to a more structured investment. As previously seen, there are different choices available. WFOE and Joint Ventures both respond to different needs of the company, so they should be analysed case by case. Anyways, through this local presence, the company should be able to open and control as many flagships and mono-brand stores as possible. The in-store experience is very important for Chinese consumers. Having a direct control over this function of the value chain allows the company to better convey information and brand identity to the local customers. Moreover, it allows the company to establish a direct relation with customers; it could simplify market analysis and provide data that are more reliable and ultimately allow the firm to provide better after sale services.

Lastly, investment in marketing activities should be considered. Generally, Italian companies invest very little in big and powerful marketing campaigns, it is a matter of financial resources, of course, however, it is a fundamental tool to thrive in the Chinese market. The Chinese consumers are still very much influenced by TV advertisements but they are also very well acquainted with the internet world. Hence, the campaign should be nationwide, possibly employ some local TV or film star and social networks should not be neglected. Facebook, Twitter and the likes are not accessible from China, but Chinese have made up for it with other websites like Sina Weibo (which is like a blog but it also has some Facebook features) and most importantly, Wechat (a half way between Whatsapp and Facebook) which allows private firms to share content with their followers. This is the most important phase in the entire internationalization process, in order to reach the target consumers the firm should be able to create brand awareness on the Chinese market and they only way to do so is through a marketing campaign. Cooperation with other firms, operating in other sectors, like the car or fashion business, where Italian companies are more renowned can be also another good marketing tool. The marketing activities should include also the education of designers and consumers to the brand identity and the Italian furniture design tradition in general. All of this can be better achieved if good *guanxi* and relationships with the business influencers and actors are established and maintained. The product portfolio and product management is another key issue, in fact, creating *ad hoc* collections for the market could contribute to better brand recognition and a warmer welcome from Chinese consumers. In addition, adapting the catalogue to the requirements of the Chinese clientele is of high importance, as revealed during

an interview with a Chinese furniture importer, Chinese customers prefer to buy a complete set of products for each room, in fact, they should all belong to the same style and collections.[1]

In conclusion, control and direct management of key value chain functions like distribution and retail, together with the deploying of a good marketing campaign appear as the points of focus and investment for Italian companies of furniture design that want to take advantage of the growth opportunities offered by the globalization of markets.

[1] See Appendix III

# APPENDIX I

## IMPORT/EXPORT MARKET DATA - FURNITURE
## DATI DI MERCATO DI IMPORT/EXPORT
## SETTORE ARREDAMENTO(mln USD)
## Dal 2003 al 2013

**Shanghai ITA elaboration, 23 September 2014**
**Elaborazione ICE Shanghai, 23 Settembre 2014.**

***China Exports Total***
***Furniture and Bedding (HS code 94)***

| | | | | | % Share | | | % Change |
|---|---|---|---|---|---|---|---|---|
| Rank | Country | **2003** | **2004** | **2005** | **2003** | **2004** | **2005** | **- 05/04 -** |
| 0 | -- World -- | 12898.94 | 17319.19 | 22367.48 | 100.0 | 100.0 | 100.0 | 29.2 |
| 1 | United States | 5832.88 | 7636.50 | 9485.93 | 45.2 | 44.1 | 42.4 | 24.2 |
| 2 | Japan | 1243.18 | 1610.13 | 1937.93 | 9.6 | 9.3 | 8.7 | 20.4 |
| 3 | Hong Kong | 1221.20 | 1449.80 | 1613.62 | 9.5 | 8.4 | 7.2 | 11.3 |
| 4 | United Kingdom | 619.46 | 898.50 | 1096.87 | 4.8 | 5.2 | 4.9 | 22.1 |
| 5 | Germany | 495.83 | 668.55 | 910.73 | 3.8 | 3.9 | 4.1 | 36.2 |
| 6 | Canada | 318.36 | 482.41 | 660.77 | 2.5 | 2.8 | 3.0 | 37.0 |
| 7 | Australia | 272.10 | 409.83 | 540.21 | 2.1 | 2.4 | 2.4 | 31.8 |
| 8 | Netherlands | 258.72 | 359.92 | 461.45 | 2.0 | 2.1 | 2.1 | 28.2 |
| 9 | France | 183.29 | 280.91 | 407.48 | 1.4 | 1.6 | 1.8 | 45.1 |
| 10 | Spain | 168.84 | 254.12 | 390.81 | 1.3 | 1.5 | 1.8 | 53.8 |
| 11 | **Italy** | **180.39** | **262.04** | **360.87** | **1.4** | **1.5** | **1.6** | **37.7** |
| 12 | Korea, South | 153.72 | 224.40 | 360.15 | 1.2 | 1.3 | 1.6 | 60.5 |
| 13 | Belgium | 140.01 | 216.24 | 286.83 | 1.1 | 1.3 | 1.3 | 32.6 |
| 14 | United Arab Emirates | 161.18 | 210.60 | 275.36 | 1.3 | 1.2 | 1.2 | 30.8 |
| 15 | Kazakhstan | 40.09 | 50.21 | 255.24 | 0.3 | 0.3 | 1.1 | 408.4 |
| 16 | Sweden | 98.77 | 139.23 | 208.18 | 0.8 | 0.8 | 0.9 | 49.5 |
| 17 | Saudi Arabia | 105.57 | 142.58 | 192.46 | 0.8 | 0.8 | 0.9 | 35.0 |
| 18 | Denmark | 84.92 | 131.55 | 185.96 | 0.7 | 0.8 | 0.8 | 41.4 |
| 19 | Russia | 72.18 | 111.63 | 183.24 | 0.6 | 0.7 | 0.8 | 64.2 |
| 20 | Taiwan | 101.84 | 132.97 | 168.26 | 0.8 | 0.8 | 0.8 | 26.5 |

| Rank | Country | 2006 | 2007 | 2008 | % Share 2006 | % Share 2007 | % Share 2008 | % Change - 08/07 - |
|---|---|---|---|---|---|---|---|---|
| 0 | -- World -- | 27956.16 | 35956.93 | 42785.73 | 100.0 | 100.0 | 100.0 | 19.0 |
| 1 | United States | 11557.83 | 13701.37 | 14412.06 | 41.3 | 38.1 | 33.7 | 5.2 |
| 2 | Japan | 2061.11 | 2338.34 | 2887.34 | 7.4 | 6.5 | 6.8 | 23.5 |
| 3 | United Kingdom | 1472.38 | 2173.23 | 2316.49 | 5.3 | 6.0 | 5.4 | 6.6 |
| 4 | Germany | 1043.64 | 1528.37 | 1890.30 | 3.7 | 4.3 | 4.4 | 23.7 |
| 5 | Russia | 313.32 | 487.60 | 1600.08 | 1.1 | 1.4 | 3.7 | 228.2 |
| 6 | Canada | 913.92 | 1240.89 | 1594.11 | 3.3 | 3.5 | 3.7 | 28.5 |
| 7 | Australia | 724.28 | 994.53 | 1358.24 | 2.6 | 2.8 | 3.2 | 36.6 |
| 8 | Netherlands | 539.41 | 806.08 | 1074.49 | 1.9 | 2.2 | 2.5 | 33.3 |
| 9 | Hong Kong | 1693.96 | 1642.18 | 1056.53 | 6.1 | 4.6 | 2.5 | -35.7 |
| 10 | France | 498.02 | 778.12 | 995.36 | 1.8 | 2.2 | 2.3 | 27.9 |
| 11 | United Arab Emirates | 373.65 | 554.45 | 899.14 | 1.3 | 1.5 | 2.1 | 62.2 |
| 12 | Korea, South | 605.64 | 792.20 | 874.66 | 2.2 | 2.2 | 2.0 | 10.4 |
| 13 | Spain | 542.18 | 739.95 | 856.30 | 1.9 | 2.1 | 2.0 | 15.7 |
| 14 | **Italy** | **434.45** | **630.27** | **781.36** | **1.6** | **1.8** | **1.8** | **24.0** |
| 15 | Belgium | 338.21 | 502.08 | 648.75 | 1.2 | 1.4 | 1.5 | 29.2 |
| 16 | Saudi Arabia | 279.09 | 344.60 | 508.52 | 1.0 | 1.0 | 1.2 | 47.6 |
| 17 | Sweden | 275.05 | 401.70 | 447.02 | 1.0 | 1.1 | 1.1 | 11.3 |
| 18 | Malaysia | 143.69 | 215.36 | 433.81 | 0.5 | 0.6 | 1.0 | 101.4 |
| 19 | Singapore | 110.17 | 214.21 | 383.67 | 0.4 | 0.6 | 0.9 | 79.1 |
| 20 | Poland | 154.17 | 269.00 | 378.83 | 0.6 | 0.8 | 0.9 | 40.8 |

| | | | | | % Share | | | % Change |
|---|---|---|---|---|---|---|---|---|
| Rank | Country | **2009** | **2010** | **2011** | **2009** | **2010** | **2011** | **- 11/10 -** |
| 0 | -- World -- | 38957.34 | 50609.63 | 59372.56 | 100.0 | 100.0 | 100.0 | 17.3 |
| 1 | United States | 12554.67 | 15919.37 | 17518.45 | 32.2 | 31.5 | 29.5 | 10.0 |
| 2 | Japan | 2764.83 | 3291.84 | 4306.17 | 7.1 | 6.5 | 7.3 | 30.8 |
| 3 | Germany | 1903.05 | 2504.50 | 3108.54 | 4.9 | 5.0 | 5.2 | 24.1 |
| 4 | United Kingdom | 2131.53 | 2595.93 | 2795.82 | 5.5 | 5.1 | 4.7 | 7.7 |
| 5 | Australia | 1340.73 | 1599.67 | 2179.76 | 3.4 | 3.2 | 3.7 | 36.3 |
| 6 | Canada | 1369.87 | 1807.08 | 1959.85 | 3.5 | 3.6 | 3.3 | 8.5 |
| 7 | France | 1032.89 | 1554.70 | 1725.11 | 2.7 | 3.1 | 2.9 | 11.0 |
| 8 | Netherlands | 1070.39 | 1398.13 | 1619.05 | 2.8 | 2.8 | 2.7 | 15.8 |
| 9 | Hong Kong | 931.99 | 1098.66 | 1267.17 | 2.4 | 2.2 | 2.1 | 15.3 |
| 10 | Singapore | 991.56 | 847.07 | 1131.46 | 2.6 | 1.7 | 1.9 | 33.6 |
| 11 | United Arab Emirates | 789.02 | 758.41 | 1027.83 | 2.0 | 1.5 | 1.7 | 35.5 |
| 12 | Malaysia | 911.11 | 768.12 | 1007.38 | 2.3 | 1.5 | 1.7 | 31.2 |
| 13 | Spain | 716.74 | 874.08 | 985.86 | 1.8 | 1.7 | 1.7 | 12.8 |
| 14 | Korea, South | 613.00 | 887.20 | 985.24 | 1.6 | 1.8 | 1.7 | 11.1 |
| 15 | **Italy** | **680.84** | **910.07** | **972.44** | **1.8** | **1.8** | **1.6** | **6.9** |
| 16 | Saudi Arabia | 589.68 | 636.59 | 931.43 | 1.5 | 1.3 | 1.6 | 46.3 |
| 17 | Russia | 457.79 | 574.14 | 825.10 | 1.2 | 1.1 | 1.4 | 43.7 |
| 18 | Belgium | 598.94 | 753.18 | 810.53 | 1.5 | 1.5 | 1.4 | 7.6 |
| 19 | India | 264.30 | 607.11 | 607.27 | 0.7 | 1.2 | 1.0 | 0.0 |
| 20 | Panama | 98.72 | 236.44 | 600.70 | 0.3 | 0.5 | 1.0 | 154.1 |

| | | | | | % Share | | | % Change |
|---|---|---|---|---|---|---|---|---|
| Rank | Country | **2011** | **2012** | **2013** | **2011** | **2012** | **2013** | **- 13/12 -** |
| 0 | -- World -- | 59372.56 | 77908.12 | 86437.71 | 100.0 | 100.0 | 100.0 | 11.0 |
| 1 | United States | 17518.45 | 21031.50 | 23039.60 | 29.5 | 27.0 | 26.7 | 9.6 |
| 2 | Japan | 4306.17 | 5071.64 | 5005.58 | 7.3 | 6.5 | 5.8 | -1.3 |
| 3 | Germany | 3108.54 | 3688.06 | 3868.23 | 5.2 | 4.7 | 4.5 | 4.9 |
| 4 | United Kingdom | 2795.82 | 3647.58 | 3690.87 | 4.7 | 4.7 | 4.3 | 1.2 |
| 5 | Malaysia | 1007.38 | 2253.38 | 3375.16 | 1.7 | 2.9 | 3.9 | 49.8 |
| 6 | Australia | 2179.76 | 2938.33 | 2893.66 | 3.7 | 3.8 | 3.4 | -1.5 |
| 7 | Canada | 1959.85 | 2622.11 | 2700.35 | 3.3 | 3.4 | 3.1 | 3.0 |
| 8 | Hong Kong | 1267.17 | 1525.08 | 2695.25 | 2.1 | 2.0 | 3.1 | 76.7 |
| 9 | Singapore | 1131.46 | 1617.72 | 2416.21 | 1.9 | 2.1 | 2.8 | 49.4 |
| 10 | United Arab Emirates | 1027.83 | 1706.94 | 2277.90 | 1.7 | 2.2 | 2.6 | 33.5 |
| 11 | Netherlands | 161 9.05 | 2022.37 | 2088.66 | 2.7 | 2.6 | 2.4 | 3.3 |
| 12 | France | 1725.11 | 1954.62 | 1916.39 | 2.9 | 2.5 | 2.2 | -2.0 |
| 13 | Saudi Arabia | 931.43 | 1643.57 | 1715.79 | 1.6 | 2.1 | 2.0 | 4.4 |
| 14 | Korea, South | 985.24 | 1183.91 | 1592.39 | 1.7 | 1.5 | 1.8 | 34.5 |
| 15 | Indonesia | 512.91 | 852.24 | 1288.44 | 0.9 | 1.1 | 1.5 | 51.2 |
| 16 | India | 607.27 | 892.02 | 1258.47 | 1.0 | 1.2 | 1.5 | 41.1 |
| 17 | Russia | 825.10 | 962.91 | 1207.62 | 1.4 | 1.2 | 1.4 | 25.4 |
| 18 | South Africa | 544.30 | 1077.13 | 1166.21 | 0.9 | 1.4 | 1.4 | 8.3 |
| 19 | Spain | 985.86 | 1060.74 | 1143.16 | 1.7 | 1.4 | 1.3 | 7.8 |
| 20 | **Italy** | **972.44** | **949.19** | **1094.39** | **1.6** | **1.2** | **1.3** | **15.3** |

***China Imports Total***
***Furniture and Bedding (HS code 94)***

| | | | | | % Share | | | % Change |
|---|---|---|---|---|---|---|---|---|
| Rank | Country | **2003** | **2004** | **2005** | **2003** | **2004** | **2005** | **- 05/04 -** |
| 0 | -- World -- | 660.17 | 839.28 | 821.13 | 100.0 | 100.0 | 100.0 | -2.2 |
| 1 | Japan | 102.61 | 164.89 | 198.07 | 15.5 | 19.7 | 24.1 | 20.1 |
| 2 | Germany | 224.59 | 258.10 | 161.14 | 34.0 | 30.8 | 19.6 | -37.6 |
| 3 | Korea, South | 50.43 | 69.40 | 84.56 | 7.6 | 8.3 | 10.3 | 21.9 |
| 4 | United States | 51.37 | 72.21 | 80.88 | 7.8 | 8.6 | 9.9 | 12.0 |
| 5 | Taiwan | 61.34 | 64.86 | 62.27 | 9.3 | 7.7 | 7.6 | -4.0 |
| 6 | **Italy** | **34.97** | **37.54** | **40.16** | **5.3** | **4.5** | **4.9** | **7.0** |
| 7 | China | 15.40 | 20.10 | 26.42 | 2.3 | 2.4 | 3.2 | 31.4 |
| 8 | France | 21.15 | 25.14 | 24.72 | 3.2 | 3.0 | 3.0 | -1.7 |
| 9 | United Kingdom | 9.18 | 9.49 | 17.93 | 1.4 | 1.1 | 2.2 | 89.0 |
| 10 | Poland | 11.22 | 13.25 | 13.58 | 1.7 | 1.6 | 1.7 | 2.4 |
| 11 | Malaysia | 4.36 | 9.27 | 11.28 | 0.7 | 1.1 | 1.4 | 21.8 |
| 12 | Czech Republic | 1.68 | 1.34 | 8.17 | 0.3 | 0.2 | 1.0 | 510.6 |
| 13 | Denmark | 6.14 | 5.90 | 7.65 | 0.9 | 0.7 | 0.9 | 29.6 |
| 14 | Sweden | 5.62 | 5.10 | 6.79 | 0.9 | 0.6 | 0.8 | 33.0 |
| 15 | Vietnam | 5.54 | 4.80 | 6.46 | 0.8 | 0.6 | 0.8 | 34.7 |
| 16 | Spain | 7.24 | 12.63 | 6.24 | 1.1 | 1.5 | 0.8 | -50.6 |
| 17 | Hong Kong | 8.15 | 5.74 | 6.02 | 1.2 | 0.7 | 0.7 | 4.9 |
| 18 | Indonesia | 1.55 | 3.77 | 5.34 | 0.2 | 0.5 | 0.7 | 41.7 |
| 19 | Singapore | 4.42 | 5.02 | 4.93 | 0.7 | 0.6 | 0.6 | -1.7 |
| 20 | Canada | 3.36 | 6.68 | 4.33 | 0.5 | 0.8 | 0.5 | -35.3 |

| | | | | | % Share | | | % Change |
|---|---|---|---|---|---|---|---|---|
| Rank | Country | **2006** | **2007** | **2008** | **2006** | **2007** | **2008** | **- 08/07 -** |
| 0 | -- World -- | 944.44 | 1298.40 | 1533.06 | 100.0 | 100.0 | 100.0 | 18.1 |
| 1 | Germany | 211.06 | 292.60 | 309.18 | 22.4 | 22.5 | 20.2 | 5.7 |
| 2 | Japan | 205.74 | 195.11 | 236.27 | 21.8 | 15.0 | 15.4 | 21.1 |
| 3 | United States | 81.23 | 119.71 | 134.90 | 8.6 | 9.2 | 8.8 | 12.7 |
| 4 | Korea, South | 98.88 | 86.19 | 113.71 | 10.5 | 6.6 | 7.4 | 31.9 |
| 5 | **Italy** | **44.18** | **94.96** | **102.73** | **4.7** | **7.3** | **6.7** | **8.2** |
| 6 | Taiwan | 53.51 | 70.34 | 95.67 | 5.7 | 5.4 | 6.2 | 36.0 |
| 7 | China | 45.88 | 68.50 | 82.65 | 4.9 | 5.3 | 5.4 | 20.7 |
| 8 | Poland | 17.10 | 33.34 | 69.87 | 1.8 | 2.6 | 4.6 | 109.6 |
| 9 | United Kingdom | 19.49 | 46.15 | 66.50 | 2.1 | 3.6 | 4.3 | 44.1 |
| 10 | Vietnam | 10.49 | 30.27 | 40.60 | 1.1 | 2.3 | 2.7 | 34.1 |
| 11 | France | 17.85 | 50.44 | 40.15 | 1.9 | 3.9 | 2.6 | -20.4 |
| 12 | Sweden | 11.12 | 26.75 | 29.24 | 1.2 | 2.1 | 1.9 | 9.3 |
| 13 | Denmark | 6.89 | 13.25 | 17.64 | 0.7 | 1.0 | 1.2 | 33.1 |
| 14 | Canada | 5.58 | 11.35 | 13.48 | 0.6 | 0.9 | 0.9 | 18.8 |
| 15 | Slovakia | 2.97 | 10.43 | 13.09 | 0.3 | 0.8 | 0.9 | 25.5 |
| 16 | Austria | 7.52 | 10.51 | 12.83 | 0.8 | 0.8 | 0.8 | 22.0 |
| 17 | Malaysia | 14.17 | 14.76 | 11.71 | 1.5 | 1.1 | 0.8 | -20.7 |
| 18 | Spain | 7.80 | 8.44 | 10.22 | 0.8 | 0.7 | 0.7 | 21.2 |
| 19 | Hong Kong | 6.02 | 6.41 | 9.55 | 0.6 | 0.5 | 0.6 | 48.9 |
| 20 | Czech Republic | 10.43 | 8.53 | 9.27 | 1.1 | 0.7 | 0.6 | 8.6 |

| | | | | | % Share | | | % Change |
|---|---|---|---|---|---|---|---|---|
| Rank | Country | **2009** | **2010** | **2011** | **2009** | **2010** | **2011** | **- 11/10 -** |
| 0 | -- World -- | 1848.06 | 3118.05 | 2784.16 | 100.0 | 100.0 | 100.0 | -10.7 |
| 1 | Japan | 308.34 | 459.18 | 481.88 | 16.7 | 14.7 | 17.3 | 4.9 |
| 2 | Germany | 332.08 | 396.63 | 466.82 | 18.0 | 12.7 | 16.8 | 17.7 |
| 3 | United States | 111.69 | 169.34 | 245.25 | 6.0 | 5.4 | 8.8 | 44.8 |
| 4 | **Italy** | **109.32** | **151.40** | **221.10** | **5.9** | **4.9** | **7.9** | **46.0** |
| 5 | Korea, South | 319.55 | 701.78 | 201.81 | 17.3 | 22.5 | 7.3 | -71.2 |
| 6 | China | 77.56 | 183.39 | 193.69 | 4.2 | 5.9 | 7.0 | 5.6 |
| 7 | Taiwan | 136.97 | 408.66 | 135.11 | 7.4 | 13.1 | 4.9 | -66.9 |
| 8 | France | 34.59 | 45.74 | 93.61 | 1.9 | 1.5 | 3.4 | 104.7 |
| 9 | Poland | 48.37 | 56.94 | 88.62 | 2.6 | 1.8 | 3.2 | 55.6 |
| 10 | Vietnam | 57.94 | 65.89 | 81.37 | 3.1 | 2.1 | 2.9 | 23.5 |
| 11 | United Kingdom | 34.27 | 25.86 | 60.73 | 1.9 | 0.8 | 2.2 | 134.8 |
| 12 | Czech Republic | 19.40 | 29.25 | 56.93 | 1.1 | 0.9 | 2.1 | 94.6 |
| 13 | Indonesia | 15.03 | 22.81 | 46.75 | 0.8 | 0.7 | 1.7 | 105.0 |
| 14 | Sweden | 26.42 | 137.47 | 36.61 | 1.4 | 4.4 | 1.3 | -73.4 |
| 15 | Malaysia | 10.29 | 23.27 | 32.92 | 0.6 | 0.8 | 1.2 | 41.5 |
| 16 | Thailand | 11.69 | 17.61 | 28.94 | 0.6 | 0.6 | 1.0 | 64.4 |
| 17 | Hungary | 8.26 | 13.14 | 26.30 | 0.5 | 0.4 | 1.0 | 100.2 |
| 18 | Spain | 9.56 | 16.22 | 24.19 | 0.5 | 0.5 | 0.9 | 49.1 |
| 19 | Austria | 24.36 | 16.96 | 23.06 | 1.3 | 0.5 | 0.8 | 36.0 |
| 20 | Mexico | 6.93 | 12.76 | 20.42 | 0.4 | 0.4 | 0.7 | 60.1 |

| | | | | | % Share | | | % Change |
|---|---|---|---|---|---|---|---|---|
| Rank | Country | **2011** | **2012** | **2013** | **2011** | **2012** | **2013** | **- 13/12 -** |
| 0 | -- World -- | 2784.16 | 2883.14 | 3062.66 | 100.0 | 100.0 | 100.0 | 6.2 |
| 1 | Germany | 466.82 | 514.91 | 591.78 | 16.8 | 17.9 | 19.3 | 14.9 |
| 2 | Japan | 481.88 | 374.40 | 299.64 | 17.3 | 13.0 | 9.8 | -20.0 |
| 3 | United States | 245.25 | 278.58 | 294.82 | 8.8 | 9.7 | 9.6 | 5.8 |
| 4 | Korea, South | 201.81 | 203.34 | 276.30 | 7.3 | 7.1 | 9.0 | 35.9 |
| 5 | **Italy** | **221.10** | **217.42** | **257.21** | **7.9** | **7.5** | **8.4** | **18.3** |
| 6 | Vietnam | 81.37 | 96.30 | 169.91 | 2.9 | 3.3 | 5.6 | 76.4 |
| 7 | China | 193.69 | 179.29 | 164.25 | 7.0 | 6.2 | 5.4 | -8.4 |
| 8 | Taiwan | 135.11 | 145.72 | 131.15 | 4.9 | 5.1 | 4.3 | -10.0 |
| 9 | France | 93.61 | 137.96 | 112.00 | 3.4 | 4.8 | 3.7 | -18.8 |
| 10 | Poland | 88.62 | 94.23 | 110.83 | 3.2 | 3.3 | 3.6 | 17.6 |
| 11 | United Kingdom | 60.73 | 68.13 | 78.86 | 2.2 | 2.4 | 2.6 | 15.8 |
| 12 | Indonesia | 46.75 | 79.30 | 57.12 | 1.7 | 2.8 | 1.9 | -28.0 |
| 13 | Czech Republic | 56.93 | 50.99 | 52.47 | 2.1 | 1.8 | 1.7 | 2.9 |
| 14 | Malaysia | 32.92 | 29.10 | 40.34 | 1.2 | 1.0 | 1.3 | 38.6 |
| 15 | Sweden | 36.61 | 38.46 | 39.65 | 1.3 | 1.3 | 1.3 | 3.1 |
| 16 | Thailand | 28.94 | 35.73 | 37.44 | 1.0 | 1.2 | 1.2 | 4.8 |
| 17 | Canada | 16.98 | 28.68 | 27.82 | 0.6 | 1.0 | 0.9 | -3.0 |
| 18 | Hungary | 26.30 | 26.45 | 26.59 | 1.0 | 0.9 | 0.9 | 0.5 |
| 19 | Austria | 23.06 | 29.46 | 26.49 | 0.8 | 1.0 | 0.9 | -10.1 |
| 20 | Slovakia | 11.44 | 19.68 | 24.32 | 0.4 | 0.7 | 0.8 | 23.6 |

# APPENDIX II

## COUNTRY MARKET SHARES ON TOTAL EXPORT/FURNITURE

Istat-Ice | Commercio estero e attività internazionali delle imprese
Edizione 2014

**Tavola B.15.1.5 - Quote di mercato dell'Italia e dei principali concorrenti sulle esportazioni mondiali** (a) **- Mobili -**

**Anni 2004-2013**

(valori in milioni di dollari; variazioni, pesi e quote in percentuale)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | DIMENSIONE E DINAMICA DEL MERCATO (b) (c) | | | | | |
| Esportazioni mondiali | 83.347 | 89.809 | 97.746 | 114.821 | 123.969 | 94.256 | 117.370 | 131.514 | 131.054 | 149.003 |
| Variazioni | - | 7,75 | 8,84 | 17,47 | 7,97 | -23,97 | 24,52 | 12,05 | -0,35 | 13,7 |
| Pesi sulle esportazioni di tutte le merci | 0,95 | 0,9 | 0,86 | 0,88 | 0,83 | 0,88 | 0,83 | 0,79 | 0,86 | 0,88 |
| | | | | | QUOTE DI MERCATO | | | | | |
| **Unione europea** | 55,11 | 52,77 | 51,53 | 52,57 | 52,14 | 49,57 | 44,76 | 45,35 | 39,64 | 40,09 |
| Germania | 8,66 | 8,49 | 8,36 | 8,98 | 9,29 | 9,34 | 8,40 | 8,87 | 7,70 | 7,49 |
| Italia | 13,01 | 11,72 | 11,17 | 11,14 | 10,91 | 9,75 | 8,78 | 8,55 | 7,51 | 7,47 |
| Polonia | 5,78 | 6,07 | 6,35 | 6,49 | 6,81 | 6,67 | 6,26 | 6,73 | 5,86 | 6,21 |
| Repubblica ceca | 1,82 | 2,08 | 1,97 | 1,93 | 2,03 | 1,85 | 1,86 | 1,94 | 1,67 | 1,84 |
| Francia | 3,11 | 2,90 | 2,89 | 2,88 | 2,94 | 2,74 | 2,06 | 1,95 | 1,64 | 1,64 |
| Svezia | 1,98 | 1,90 | 1,98 | 2,09 | 2,06 | 1,98 | 1,80 | 1,85 | 1,60 | 1,51 |
| Danimarca | 3,26 | 2,95 | 2,74 | 2,61 | 2,20 | 2,02 | 1,69 | 1,61 | 1,48 | 1,47 |
| Romania | 1,23 | 1,23 | 1,24 | 1,32 | 1,29 | 1,30 | 1,18 | 1,34 | 1,23 | 1,40 |
| Spagna | 2,10 | 1,98 | 1,71 | 1,81 | 1,72 | 1,69 | 1,42 | 1,32 | 1,20 | 1,33 |
| Paesi Bassi | 1,37 | 1,41 | 1,29 | 1,38 | 1,38 | 1,37 | 1,30 | 1,20 | 1,12 | 1,12 |
| Belgio | 2,46 | 2,28 | 2,13 | 2,10 | 2,03 | 1,94 | 1,63 | 1,44 | 1,16 | 1,10 |
| Austria | 2,44 | 2,12 | 1,95 | 2,03 | 1,99 | 1,92 | 1,62 | 1,57 | 1,19 | 1,08 |
| Portogallo | 1,14 | 0,99 | 0,93 | 1,01 | 0,99 | 0,98 | 1,04 | 1,06 | 0,95 | 1,04 |
| Regno Unito | 1,68 | 1,58 | 1,61 | 1,57 | 1,33 | 1,14 | 1,12 | 1,19 | 1,02 | 1,00 |
| Lituania | 0,55 | 0,59 | 0,65 | 0,73 | 0,74 | 0,79 | 0,79 | 0,90 | 0,93 | 0,99 |
| Slovacchia | 0,68 | 0,72 | 0,74 | 0,87 | 0,90 | 0,98 | 0,88 | 0,86 | 0,75 | 0,83 |
| Ungheria | 1,00 | 0,96 | 0,96 | 0,90 | 0,93 | 0,84 | 0,81 | 0,87 | 0,83 | 0,82 |
| Slovenia | 1,29 | 1,37 | 1,37 | 1,27 | 1,24 | 1,07 | 0,99 | 0,94 | 0,77 | 0,74 |
| Estonia | 0,29 | 0,26 | 0,26 | 0,27 | 0,28 | 0,27 | 0,27 | 0,29 | 0,25 | 0,25 |
| Bulgaria | 0,21 | 0,21 | 0,20 | 0,21 | 0,21 | 0,19 | 0,20 | 0,22 | 0,21 | 0,21 |
| Croazia | 0,29 | 0,28 | 0,31 | 0,32 | 0,25 | 0,29 | 0,25 | 0,24 | 0,21 | 0,18 |
| **Paesi europei non Ue** | 2,42 | 2,47 | 2,21 | 2,31 | 2,72 | 2,87 | 2,69 | 2,77 | 2,61 | 2,74 |
| Turchia | 0,59 | 0,65 | 0,38 | 0,47 | 0,94 | 1,04 | 1,04 | 1,09 | 1,21 | 1,34 |
| Svizzera | 0,75 | 0,74 | 0,72 | 0,73 | 0,73 | 0,66 | 0,57 | 0,58 | 0,46 | 0,46 |
| Bosnia-Erzegovina | 0,16 | 0,20 | 0,22 | 0,22 | 0,21 | 0,34 | 0,33 | 0,35 | 0,32 | 0,34 |
| Norvegia | 0,51 | 0,47 | 0,51 | 0,49 | 0,47 | 0,41 | 0,39 | 0,35 | 0,30 | 0,27 |
| **Africa settentrionale** | 0,20 | 0,20 | 0,18 | 0,18 | 0,14 | 0,14 | 0,13 | 0,13 | 0,12 | 0,13 |
| **America settentrionale** | 11,69 | 11,39 | 10,98 | 9,37 | 8,24 | 7,08 | 7,60 | 7,34 | 7,43 | 7,30 |
| Stati Uniti | 5,36 | 5,26 | 5,31 | 4,87 | 4,64 | 4,37 | 4,69 | 4,55 | 4,77 | 4,77 |
| Canada | 6,33 | 6,13 | 5,67 | 4,50 | 3,60 | 2,71 | 2,91 | 2,78 | 2,66 | 2,53 |
| **America centro-meridionale** | 6,65 | 6,52 | 6,13 | 5,14 | 4,17 | 3,99 | 4,58 | 4,43 | 4,74 | 4,94 |
| Messico | 4,89 | 4,87 | 4,64 | 3,81 | 2,97 | 2,99 | 3,59 | 3,54 | 4,01 | 4,21 |
| Brasile | 1,13 | 1,10 | 0,97 | 0,85 | 0,77 | 0,67 | 0,64 | 0,55 | 0,50 | 0,45 |
| **Medio Oriente** | 0,22 | 0,20 | 0,19 | 0,18 | 0,14 | 0,15 | 0,12 | 0,11 | 0,11 | 0,12 |
| **Asia centrale** | 0,40 | 0,40 | 0,42 | 0,42 | 0,34 | 0,40 | 0,42 | 0,43 | 0,45 | 0,46 |
| India | 0,38 | 0,38 | 0,39 | 0,40 | 0,32 | 0,38 | 0,40 | 0,41 | 0,43 | 0,45 |
| **Asia orientale** | 22,33 | 25,22 | 27,67 | 29,21 | 31,58 | 35,24 | 39,10 | 38,97 | 44,55 | 43,92 |
| Cina | 11,96 | 14,49 | 16,95 | 18,98 | 21,90 | 24,63 | 28,32 | 29,14 | 34,85 | 34,53 |
| Vietnam | 1,55 | 1,95 | 2,20 | 2,48 | 2,47 | 3,17 | 3,09 | 2,87 | 3,03 | 3,27 |
| Malaysia | 2,27 | 2,24 | 2,29 | 2,20 | 2,15 | 2,17 | 2,15 | 1,95 | 1,88 | 1,60 |
| Indonesia | 1,99 | 2,05 | 1,89 | 1,67 | 1,53 | 1,58 | 1,65 | 1,31 | 1,22 | 1,15 |
| Taiwan | 1,44 | 1,34 | 1,23 | 1,10 | 1,00 | 0,96 | 1,04 | 1,01 | 0,97 | 0,94 |
| Corea del Sud | 0,33 | 0,47 | 0,60 | 0,54 | 0,47 | 0,51 | 0,58 | 0,67 | 0,73 | 0,75 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Thailandia | 1,52 | 1,39 | 1,20 | 1,06 | 0,82 | 0,98 | 0,90 | 0,79 | 0,72 | 0,72 |
| Giappone | 0,74 | 0,79 | 0,78 | 0,78 | 0,91 | 0,95 | 1,11 | 0,97 | 0,89 | 0,67 |
| Filippine | 0,35 | 0,34 | 0,28 | 0,21 | 0,18 | 0,14 | 0,13 | 0,12 | 0,11 | 0,15 |
| **Oceania** | 0,19 | 0,17 | 0,17 | 0,14 | 0,12 | 0,14 | 0,13 | 0,12 | 0,10 | 0,09 |
| **Altri paesi africani** | 0,79 | 0,65 | 0,52 | 0,48 | 0,41 | 0,41 | 0,47 | 0,35 | 0,25 | 0,20 |
| Sud Africa | 0,76 | 0,61 | 0,50 | 0,46 | 0,40 | 0,40 | 0,46 | 0,34 | 0,24 | 0,19 |
| Unione economica e monetaria | 37,13 | 34,74 | 33,32 | 34,23 | 34,14 | 32,38 | 28,68 | 28,32 | 24,46 | 24,33 |

Fonte: elaborazioni ICE su dati Eurostat e Istituti nazionali di statistica

(a) Le esportazioni mondiali sono approssimate, in mancanza di dati ufficiali aggiornati, sommando alle esportazioni di 49 paesi (quelli dell'Ue a 27 più Argentina, Australia, Brasile, Canada, Cile, Cina, Colombia, Corea del sud, Filippine, Giappone, Hong Kong, Indonesia, Malaysia, Messico, Norvegia, Nuova Zelanda, Perù, Stati Uniti, Sud Africa, Svizzera, Taiwan e Turchia) le loro importazioni dal resto del mondo.

(b) I paesi elencati risultano i primi 40 esportatori del settore considerato nell'ultimo anno della serie; le esportazioni, e quindi le quote, dei paesi che non fanno parte dei dichiaranti sono approssimate in base al criterio di cui alla nota (a).

(c) Le esportazioni del Belgio, dei Paesi Bassi, di Singapore e soprattutto di Hong Kong possono essere sovrastimate, poiché comprendono una quota elevata di riesportazioni; nel caso di Hong Kong, dalle sue riesportazioni sono state comunque sottratte quelle di origine cinese, che sono state attribuite alla Cina; dalle esportazioni di quest'ultima sono state in compenso sottratte, per evitare duplicazioni, quelle destinate ad Hong Kong.

# APPENDIX III

## INTERVIEWS

### RED STAR MACALLINE GROUP – 红星美凯龙家具集团

**Face to face Interview**

Ms. Amy Song, Assistant to General Manager, General Manager of B2B International Brand Centre

Date: 21st October 2014

Location: Starbucks, Wanda Plaza, Wujiaochang, Yangpu district, Shanghai.

Language: English

1. **What is the business scope of your company?**

   We own several furniture malls all over China and we rent store space to furniture dealers. We deal with companies that sell furniture and home decoration material such as flooring, bathroom and kitchen fixtures. Houses in China are sold in raw condition, so the idea is to offer customers the possibility of furnishing and decorating the house all from one furniture mall.

   We were the first company in the '80s to create this unique business model for furnishing malls, which is to provide a selling platform for all diversity brands. Our aim is to provide the consumers A to Z proposals (one stop shopping) unique to the Chinese market. We have three different level of malls: international malls (for international brands and Chinese high-end brands), local malls (for Chinese famous local brands) and outlet/factory malls. We own 150 malls located over 100 cities, 6 in Shanghai averagely 100,000 square metres each. They are usually located near residential areas.

2. **Who are the main players in this business?**

   The national players are Red Star, EasyHome, JSWB who collaborates with us, Yuexing. They have malls all around China. Then, there are also competitors that have malls only in specific areas of China. It is a very attractive business because the entry barriers are relatively low and the industry is uprising.

Nowadays, tire one and tire two cities are already mature markets, so, recently, companies started targeting tire three, four and five cities.

3. **How would you describe the Chinese customers who buy high-end furniture?**

   They belong to the top income category, they might already have a house and they are buying a new one or refurbishing the one they bought in the 2000s. Most of them rely on designers to decorate their house from raw condition. In the past, they liked a more classical design, now more and more customers prefer modern and contemporary design concept i.e. solid wood furniture. Solid wood is a traditional material, it conveys an idea of warmth and purity and it is part of the Chinese culture. American style is very popular in China since they are very much influenced by the furniture they see in the American TV shows and movies. Moreover, people who were born before the '80s have a more traditional taste, whereas people who were born after 1985 and especially in the '90s have a less traditional culture. They, also, like to buy a complete set of furniture and they do not prefer to mix pieces from different brands and styles. Another important aspect is the price; they like to find the best deal, which does not mean they look for the cheapest price but for a good price-quality deal. Some of them will check the price overseas and if they find it more convenient they do not hesitate to travel to get the best deal. However, this kind of deal can also be very complicated to carry out and the buyer should have some background in the import business. As long as the quotation in China is fair, they would rather choose to buy in China considering the after-service issue. Lastly, the after-sales services are very important for a Chinese customer to judge the work of a company; the delivery timing and the installation are key moments for the company to establish their reputation.

4. **What are the Italian companies you work with?**

   The most important brands are Natuzzi, Chateau d'Ax, Poltrona Frau, Molteni, Poliform, B&B, Fendi Casa, Turri. There is also a long list of Italian companies in the bathroom and bedding sector.

5. **According to your experience, what kind of problems they have to face in the Chinese market?**

   The customers lack brand consciousness and need to be educated on the design brands. It is difficult to promote the value added of design furniture because of the different

culture. Moreover, Italian companies do not control the final market because they use dealers, in fact the dealers get the most value added in the entire value chain, but they also have very high operation costs in China, like marketing that is incredibly expensive compared to other countries.

6. **What role does the e-commerce play in your business?**

   We do not provide e-commerce services and I believe the e-commerce is a threat only for low-end furniture stores.

7. **Do you provide marketing services and after sales services?**

   We provide marketing and after sales services, we promote Redstar together with the furniture brands and we guarantee the after-sale services to our customer. We make sure to offer comprehensive services to our customers and we try to create a platform where dealers, designers and companies can meet and work together. The dealers and the company design their own marketing strategy. They generally advertise on specialized magazines and they organize events; in the Chinese market, the opening of a new store is also a very important marketing event.

8. **What is your opinion about counterfeit products? A number of Italian companies claim that this is a big negative issue for the Chinese market, how do you think it affects the sales of Italian high-end furniture?**

   I do not think so, I think in Italy it happens as well, we found a number of similar style brands as well.

   If the brands are interested in developing the Chinese market, this issue should not be the key one. Meanwhile, Redstar has been funding original design local brands for many years.

9. **Do you think it is necessary for an Italian high-end company to translate the name in Chinese characters?**

   I think that translating the name can help in enhancing brand awareness and brand loyalty, making sure that the customer remembers the name and knows how to pronounce it.

10. **What is the current real estate market situation and how does this affect sales in the furniture industry?**

    Even though there has been a slowdown, the real demand did not decrease, the prices went down and this could actually mean that customer have more money to spend on furniture.

11. **According to your experience, what will the future trends of the Chinese furniture market be?**

    China is very big, different styles will still be marketable. However, I believe that the design and contemporary style will play a bigger role.

## YUEXING GROUP-月星家居集团

**Face to face Interview**

Mr. Wang, Deputy GM

Date: 22nd November 2014

Location: Yuexing Group office, 158 Aomen Road, Putuo district, Shanghai, China

Language: Chinese - English

1. **What is the business scope of your company?**

   We own forty-nine furniture malls all around China and we rent store space to furniture companies.

2. **Who are the main players in this business?**

   We are among the top three players, with the other two being RedStar Macalline and Easyhome.

3. **How would you describe the Chinese customers who buy high end furniture?**

   Their taste in furniture varies according to their age. Young people prefer more modern furniture style, very simple and cheap so they prefer to buy in stores like IKEA. People around 40-50 years old like the simple and fashionable American style

and they look for a middle price. People older than 50 prefer high price/high quality Chinese brands and they have a traditional mind-set.

In general, Chinese consumers like mixing American and traditional Chinese style, they are not brand conscious, they know little about furniture brands and they usually rely on a designer to help in their choice. Differently from Western people, they also change house or renovate house twice or even three times in their lifetime, and when they renovate they change every single detail of the house.

4. **What are the Italian companies you work with?**

   Currently, we work with few Italian companies (e.g. Natuzzi), but we have a plan to increase the number. Our project involves opening an entire floor dedicated only to high-end Italian brands.

5. **According to your experience, what kind of problems do they have to face in the Chinese market and what do you think they could do to better penetrate the market?**

   The major problems are concerning the price. The price is very high and the brands are not so famous to justify such a high price. They should work on their brand awareness and try to find a way to specifically aim at the Chinese market; like, for example, Chinese people are not as tall as Western people are but most Italian companies just produce the same product according to Western size. Moreover, a mixture of products will be good, such as mixing Italian quality with Chinese elements; I think this will attract more Chinese customers.

6. **How do you think imported brands are doing compared with domestic brands? In addition, what are the main competitors to Italian brands?**

   There are two main competitors for Italian brands: Chinese and German companies. The latter came to China earlier than Italian companies and customers like German products because they associate them with good quality; Chinese products are cheaper so the lower income customers will choose them.

7. **What role does the e-commerce play in your business?**

   It does not play an important role up until now. However, it will be an important future trend so we are preparing a strategy to enter also this market.

8. **Do you think it is necessary for an Italian high-end company to translate the name in Chinese characters? Why?**

   The perception of furniture brands for Chinese people is not high, even for Chinese brands. Right now people just buy furniture two or three times at most in their lifetime, furniture consumers are not fast moving consumers so brand awareness is very important and I believe it is necessary for Italian brands to translate the name in Chinese.

9. **What is the current real estate market situation and how does this affect sales in the furniture industry?**

   The real estate market is experiencing a slowdown, this means that there are less people buying new houses so the majority of the customers buy furniture to replace old furniture and this is not enough for the further development of the furniture industry.

10. **According to your experience, what will the future trends of the Chinese furniture market be?**

    The e-commerce will be an important trend and also, young people will become the main consumers of furniture, their taste is very different from the older generation, they are more influenced by Western culture and prefer a modern style rather than a classical style.

# TIANMANTI-SHANGHAI HOME EXPO

**Face to face interview**

Ms. Zoe Zhang, Purchasing Manager

Date: 13th December 2014

Location: Fudan Management School, 670 Guoshun Road, Yangpu district, Shanghai, China

Language: English-Chinese

1. **What is the business scope of your company?**

   We are dealers of Italian high-end furniture brands only. We do not work with any other furniture companies. We buy and resell furniture in our malls. Each mall is made up of independent showrooms. Each brand occupies an area of approximately 2000 square metres. Examples of brands we deal with are Asnaghi, Turri, Visionnaire, Luxury Living Group (Fendi Casa, Bentley Home, Trussardi, Kenzo), Cappellini.

2. **What do you think are the problems Italian furniture brands face on the Chinese market?**

   Unfortunately, both designers and consumers do not have much information on the Italian brands. There is a general understanding that Italian brands are good because of the design but Chinese consumers only know furniture brands like Versace and Fendi because the luxury fashion market is much more developed than the furniture one.

   We as dealers find it very difficult to sell Italian brands because of the lack of information. It is very complicated to sell the story of each brand to the customers, who are not very much interested in the awards or the famous designers who develop the products.

3. **What do you do to promote Italian brands?**

   We advertise on specialized magazines and we organize events and seminar. For example, we organized a seminar with AD China to educate Chinese designers. Education in the design subjects (product design, interior design, etc.) has been around only for ten years. The local interior designer have some basic concept of how

to put furniture together but they find it difficult to understand the background concept of each product. They base their decision on personal taste.

4. **How would you describe the Chinese customers who buy Italian brands?**

   As I said, they are not very well informed on the brands and products available. Their main concern is the budget. They usually come to us with a very general idea of what they want such as "I want to live like a king" and they get inspiration from magazines and famous American movie and TV stars' lifestyle. In general, Chinese customers belong to the upper middle class, they spend on average 10 million Renminbi (US$ 1.6 million) [1] for the apartment but they are willing to spend only 100,000 Renminbi (US$ 16,000) for the furniture. This is roughly the initial budget they present, in the end they end up spending no more than 500,000 Renminbi (US$ 80,000). As you can see, they do not value the furniture purchase as much as shopping and travel purchases. They have no problem in spending 10,000 Renminbi (US$ 1,600) for a designer purse but they are more reluctant to buy a mattress for 20,000 Renminbi (US$ 3,200).

5. **What mistakes do you think Italian brands make when they approach the Chinese market**?

   They do not understand the market and they think they are famous because they are successful elsewhere. They do not want to adapt the sales kit (catalogue) to the Chinese market. Chinese customers prefer to buy sets (living room set, bedroom set, etc.) and each set should belong to the same collection. They may only later require specific customization for a specific item of the set (they usually ask for customization for fabrics and finishing). Generally, they do not like to mix and match different styles and products belonging to different collections.

   Italian brands like to advertise on magazines, but this is not the main media in China. TV advertising is a much more powerful tool, sponsoring TV series and events, working with famous Chinese people are all very effective marketing techniques.

6. **Do you have an e-commerce platform? What do you think about e-commerce in the furniture market?**

[1] Currency change 1CNY=0,1605 USD (23rd Jan 2015)

We do not provide e-commerce services. We believe that a number of customers like to touch and feel the product quality and this important decision making step would be missing in the e-commerce buying experience.

7. **Do you think it is important to translate the brand name in Chinese characters?**
   The translation is compulsory for regulatory reasons and we always add the Chinese translation to the price tag when we show a product in our shops so that customers can understand how to pronounce it.

8. **What is your opinion on the fake furniture problem?**
   I think that the fake market cannot be stopped. However, I do not think it affects the sales of Italian high-end brand because our customers belong to the upper middle class, they are very rich and do not want to buy a cheap product.

9. **What about after-sales services? What kind of complaints do you receive?**
   The main problems are with shipping timing and product quality. Some suppliers do not ship on time and we have a penalty fee to pay to the customers per each day past the estimated time of delivery. It happens that sometimes even if it is a very famous brand, the quality is not that high and this is a very big problem as Chinese customers when paying a premium price expect the product to be perfect. In addition, it happens that the product defect is not visible but they still complain, as for example if there is a problem on the lower surface of a marble top they ask for a new one. The company in Italy are not always willing to understand this kind of request coming from the customer. They usually do no provide a new top if the defect is not visible. This problem, clearly, arises from the different cultural norms.

10. **How does the current real estate market situation influence the furniture sales?**
    It is true that the real estate market has been slowing down in the past few years. However, this trend is not reflecting on the furniture market as many people buy furniture to refurbish their home or because they change home and rent out the original house.

**11. What will be the future market trends?**

I think that consumers will think less about the brand and more about the style. As we are already witnessing in the fashion market, consumers will be looking to create their personal style and not just buy product to show off the luxury brand logo. I think this will help Italian brands to increase the sales.

# APPENDIX IV

## QUESTIONNAIRE FOR CASE STUDIES

**SCAVOLINI**

**COMPANY PROFILE**

1. **Business Scope**
   PRODUZIONE DI MOBILI PER L'ARREDO
   Production of furniture

2. **Number of employees**
   546 (ANNO 2013) Year 2013

3. **Yearly turnover**
   168.211.961 EUR (ANNO 2013) Year 2013

4. **Where do you sell in the world? Which markets are the most important? When did you start to export?**
   IN TUTTO IL MONDO EUROPA, AMERICHE, ASIA
   ANNO 1977
   All over the world: Europe, American Continent, Asia

5. **Percentage of export on total turnover**
   20%

6. **Production process: in-house/production partners? Location and number of factories/production partners**
   PRODUZIONE IN PROPRIO
   In-house Production
   STABILIMENTO PRODUTTIVO SITO IN MONTELABBATE (PU) – ITALIA
   Production Plant based in Montelabbate (PU) – Italy

7. **Design: do you have an internal design office? Do you collaborate with famous designers?**

   SI Yes

   SI Yes

8. **How do you manage distribution and retail in Italy? And in the export markets?**

   DISTRIBUZIONE A CLIENTI RIVENDITORI AUTONOMI SEGUITI DA UNA RETE DI AGENZIA

   IDEM + PUNTI VENDITA DIRETTI E PROPRI NEI MERCATI PIU' IMPORTANTI

   Distribution to independent dealers followed by a network of agencies + directly run and directly followed showrooms in major markets

9. **How do you manage marketing? Do you use traditional media or also social media?**

   CAMPAGNE PUBBLICITARIE A LIVELLO NAZIONALE ED INTERNAZIONALE

   UTILIZZO DI TUTTE LE FORME PIU' IMPORTANTI DI MEDIA, ANCHE SOCIAL

   Promotional campaigns in Italy and around the world through the most important media tools, even social

10. **Over the past ten years, where did you invest more resources: design, production, distribution, retail, and marketing?**

    PRODUZIONE, MARKETING E DISTRIBUZIONE

    Production, Marketing, Distribution

**CHINESE MARKET**

1. **When did you first enter the market? Why and how did you enter?**

   ANNO 1997

   Year 1997

   MERCATO AVENTE GRANDI POTENZIALITA' DI SVILUPPO, CLIENTI RIVENDITORI

   Market with great development potential, through clients dealers

2. **Who is your target consumer?**

   MEDIO/ALTO

   Medium/high

3. **Who are your main competitors?**

   CONCORRENTI PRODUTTORI/DISTRIBUTORI DI MOBILI PER L'ARREDO CON PREZZI CONCORRENZIALI DERIVANTI DA BASSI STANDARD QUALITATIVI

   Competitors, producers/furniture distributors with competitive prices owing to low quality standards

4. **China sales data and growth trends for the last five or so available years, how do you perform compared to your competitors?**

   MANTENIMENTO DI VOLUMI DI VENDITA IN LINEA CON QUELLI DEGLI ULTIMI ANNI

   We kept the same sales volumes as in the last years

5. **What kind of product do you sell more?**

   CUCINE COMPONIBILI

   Kitchen cabinets

6. **How do you manage the distribution and retail? Do you also work in the contracts market?**

   DISTRIBUZIONE A CLIENTI RIVENDITORI AUTONOMI

   Distribution to independent clients dealers

   SI

   Yes

7. **What is your marketing strategy? Did you take part in any fair, event? Do you use Chinese social media?**

   CAMPAGNE PUBBLICITARIE AD ALTA VISIBILITA'

   PARTECIPAZIONE ALLE FIERE PIU' IMPORTANTI

   Promotional campaigns with high visibility

Presence in major Furniture Fairs

SI

Yes

8. **What do you think is your brand awareness? How do you plan to improve it?**

   MARCHIO RICONOSCIUTO

   Renowned brand

   ASSOCIAZIONE DEL MARCHIO AD UN PRODOTTO DI QUALITA' E AD UN'ASSISTENZA EFFICIENTE

   Association of the brand to a high quality product together with and efficient after-sale service

9. **What are the main problems you face in this market?**

   DIVERSA NATURA CULTURALE, DIFFERENTE NORMATIVA

   Different culture and different norms

10. **How do you plan to grow your business in the future? What will be the main trends of the market?**

    FARE LEVA SULLA QUALITA' E SU PREZZI COMPETITIVI

    LEGARE ANCORA PIU' INDISSOLUBILMENTE IL NOSTRO MARCHIO ALLE CARATTERISTICHE POSITIVE DEL PRODOTTO VENDUTO

    We will work on quality and competitive prices

    We will link our brand even more strongly to the positive characteristics of the product sold

# ARPER

**COMPANY PROFILE**

1. **Business Scope**:
   Furniture manufacturer

2. **Number of employees**
   90

3. **Yearly turnover**
   51.796.619 EUR (2013)

4. **Where do you sell in the world?**
   All over the world

5. **Which markets are the most important?**
   Germany and North Europe

6. **When did you start to export?**
   Since the beginning, 2001

7. **Percentage of export on total turnover?**
   96%

8. **Production process: in-house/production partners?**
   Location and number of factories/production partners. Only Upholstery In-House. All the production partners are located nearby our HQ in Treviso.

9. **Design: do you have an internal design office? Do you collaborate with famous designers?** Designers: please check here http://www.arper.com/it/prodotti/designers

10. **How do you manage distribution and retail in Italy? And in the export markets?**

Italy: internal sales team and Agents. Export: internal sales team and Agents where possible.

11. **How do you manage marketing? Do you use traditional media or also social media?**
    Both
12. **Over the past ten years, where did you invest more resources: design, production, distribution, retail, marketing?**
    R&D and branding.

**CHINESE MARKET**

11. **When did you first enter the market? Why and how did you enter?**
    Entered in China around 2010 because local customers sent orders.

12. **Who is your target consumer?**
    Offices, Hotels mainly.

13. **Who are your main competitors?**
    Foreign companies in Contract sector, offering Loose Furniture.

14. **China sales data and growth trends for the last 5 or so available years, how do you perform compared to your competitors?**
    Data are confidential. There are no available analysis or market studies about Design Furniture in China and relative turnover

15. **What kind of product do you sell more?**
    Chairs

16. **How do you manage the distribution and retail? Do you also work in the contracts market?** Mainly contract sector, managed via dealership network.

17. **What is your marketing strategy? Did you take part in any fair, event? Do you use Chinese social media?**

    We don't use any Chinese Social, and we didn't take part at any fair in China.

18. **What do you think is your brand awareness? How do you plan to improve it?**

The brand is quite known among foreign specialists (Architects and Interior Designers).

19. **What are the main problems you face in this market ?**

We should reduce the time-to-market for Asian countries via setting up local production plants.

20. **How do you plan to grow your business in the future? What will be the main trends of the market?**

Chinese market is shifting to quality products. We need local presence and plan local production to take active part to the growth.

21. **Why is the contract sector your main target ?**

Arper has chosen to focus on this sector since the beginning. We believe it has good potential.

22. **Is it so only in China or all over the world?**

All over the world.

23. **What about the final consumer? Do you find it more difficult to sell directly to the final consumer in China?**

We mainly sell B2B and in China the most of the end-customers are Multinational Companies.

**24. How did you build your brand awareness in China?**

By visiting Architect and Design Studios.

25. **What kind of investment are you planning to do in China: WFOE, Joint Venture, etc., and why?**

At the moment we are working with a local agent and a number of importers. The local agent represents the only local investment of the company for now. Upon reached an important sales turnover in China, we will have enough resources to invest in this market

in terms of increase of the local sales team and/or localization of some production lines to improve the time-to-market.

# APPENDIX V

## SAMPLE OF THE CONSUMER SURVEY

FURNITURE CONSUMER QUESTIONNAIRE 家具消费者调查

ABOUT YOURSELF 关于自己

1. Province of origin 出生地 ……
2. Province of residence 住在地……
3. Gender 性别
   - Female 女
   - Male 男
4. Year of birth 出生年: 19__Year 年
5. Job 职业
   - Teacher 老师
   - Businessman 商人
   - Professor 教授
   - Secretary 秘书
   - Manager 经理
   - Other 其他: ……..(please state your job position 请您写下来)
6. Education 教育
   - High school 高中
   - Undergraduate 大学毕业
   - Master 硕士毕业
   - PHD 博士毕业
7. Yearly Salary 年工资
   - 2.5 万到 6 万元
   - 6 万到 10.6 万元
   - 10.6 万到 22.9 万元
   - 22.9 万元 以上
8. Are you married? 您结婚了吗？
   - Yes 有
   - No 没有
9. Do you have kids? 您有孩子吗？
   - Yes 有
   - No 没有

ABOUT FURNITURE PURCHASE 关于家具购买

1. How many times did you purchase furniture in your life?
   您多次买了家具？
   - None 没有
   - 1 一次

- 2 两次
- 2-3 两到三次
- >3 三次以上

2. Was the purchase of furniture related to the:
   您购买家具是因为:
   - Purchase of a new house 买了新的房子
   - Renovation of the old house 整修了旧的房子

3. Did you buy it on your own or did you employ a professional designer? And why?
   您是自己买的家具还是您是委托一位设计师？为什么？
   - On my own 自己买的
   - Employed a designer 委托一位设计师
     - I am not an expert 我不是内行
     - I do not have time 我没有时间
     - Other:…… (please explain) 其他 ……..(请说明)

4. What makes you decide on a certain product?
   您为什么购买某家具产品？
   - Price
     价格
   - Quality
     质量
   - Good price/quality deal
     价格质量合适
   - Style
     风格/设计
   - Country of origin
     产品制造地
   - I have seen it in a friend's house and I like it
     我在我朋友的家看了，就爱上了它
   - Other: …….(please explain)
     其他 (请说明)……

5. What furniture style do you prefer?
   你喜欢哪种家具风格？
   - Classical Chinese 古典中式
   - Modern Chinese 新中式
   - Classical European 古典欧式
   - Neoclassical 新古典
   - Modern American 现代美式
   - Country American 美式乡村风格
   - Contemporary European Design 现代欧式设计

- Other:…… (please explain) 其他 ……..(请说明)

6. Did you use social network (wechat, sinaweibo, etc..) and magazines to get information on the brands before the purchase?
   购买以前， 为了采取品牌信息，您采用社会网络(微信，新浪，等)、杂志了吗？
   - Yes 有
   - If yes, what social network/magazine did you use?
     您用哪一种？
     - Wechat 微信
     - Sinaweibo 新浪
     - AD style 安邸
     - Rayli 瑞丽
     - Other: …… (please state) 其他 (请说明)
   - No 没有

7. Have you ever purchased imported brands' products?
   您购买过进口家具产品吗？
   - Yes, which brand? (go to question 8)
     有， 哪种品牌？(请看第 8 题)

| | | | |
|---|---|---|---|
| PoltronaFrau | Arper | Artek | Ikea 宜家 |
| Magis | Scavolini | Vitra | Other 其他: |
| Kartell | Foscarini | Herman Miller | |

   - No 没有(skip to question 9) (请看第 9 题)

8. What piece of imported furniture did you purchase and how much did you pay for it?
   您买了那种家具及您付多少钱了？
   - Living room chair 客厅 椅子
   - Living room table 客厅桌子
   - Sofa/armchair 沙发/扶手椅
   - Kitchen set 厨房家具
   - Kitchen table and chairs 厨房桌子及椅子
   - Children furniture 儿童家具
   - Bookcase 书柜
   - Bed and wardrobe 床及衣橱
   - Price 价格: …….(please state 请说明)

9. Do you prefer Chinese brands or imported brands ?And why?
   您喜欢中国品牌还是进口品牌？为什么？
   - Chinese brands 中国品牌
   - Imported brands 进口品牌
   - Why?为什么？
     - They are reliable 信任可靠
     - They have good after sale services 有很好的售后服务
     - They speak  the same language 我们说同样语言
     - The quality is good 质量好
     - They offer a good deal 物美价廉
     - The style matches my taste 风格和我的品味符合
     - Other: …… (Please explain)其他 (请说明)

10. Do you have any suggestion for service improvements to the brands you purchased?
    您对您购买的品牌有进步服务建议吗？

    ……
    ……
    ……

## LIST OF FIGURES

## 2. THE CHINESE FURNITURE MARKET: AN OVERVIEW



## 3. THE CHINESE DEMAND FOR DESIGN FURNITURE



## 4. ENTRY MODES AND THE CHINESE DISTRIBUTION SYSTEM



## 5. ITALIAN FIRMS IN THE CHINESE MARKET

## 6. A COMPARATIVE STUDY

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**COMPANY WEBSITES**

WWW. MAGISDESIGN.COM

WWW. ARPER.COM

WWW.SCAVOLINI.COM