Master’s Degree program – Second Cycle (D.M. 270/2004) in International Management

Final Thesis

Phenomena of Distribution Counterfeit in China.

What is the value of distribution and how this value starts to be replicated.

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Index

INTRODUCTION...................................................................................................................5

CHAPTER 1. DISTRIBUTION AS A DISTINGUISH VALUE IN THE CREATION OF THE BRAND IMAGINE .....................................................................................................................9

1.1 NEW DRIVERS FOR MODERN MARKETS ........................................................................9
1.1.1 Experience as core factor .............................................................................................9
1.1.2 Emotional over rational shopping experience ..............................................................14

1.2 POINT OF SALE: MEANS TO COMMUNICATE VALUES ..............................................15
1.2.1 New context re-shapes retailer functionality ...............................................................15
1.2.2 Store design: structural planning and store atmosphere ............................................18
1.2.3 Did Internet influence retail business? ........................................................................25

1.3 DISTRIBUTION FORMATS TO FOSTER BRAND IMAGE ..............................................27
1.3.1 Difficulties and conflicts in distribution: importance of control .................................27
1.3.2 Flagship store.............................................................................................................28
1.3.3 Single-brand store .....................................................................................................31
1.3.4 Factory outlet center ..................................................................................................33
1.3.5 Corners and shop in shop ..........................................................................................34

CHAPTER 2. CHINA: AN ECONOMIC SCENARIO MADE BY DYNAMIC MARKETS, ETHEROGENIUS CONSUMERS AND EVOLVING DISTRIBUTION SYSTEMS ..........36

2.1 CHINA: 30 YEARS OF TRANSFORMATIONS ................................................................36
2.1.1 How China became the second economic power in the world ....................................36
2.1.2 China today: a pervasive dualism ..............................................................................41

2.2 MARKET AND DISTRIBUTION .....................................................................................45
2.2.1 Chinese consumer: geographical and generational heterogeneity ........................................ 45
2.2.2 Retail revolution to face consumer evolution ...................................................................... 51
2.2.3 Chinese distribution formats and how their image is perceived by consumers .................. 54

CHAPTER 3. RELEVANCE AND ANALYSIS OF COUNTERFEIT IN THE CHINESE MARKET .................................................................................................................. 64
3.1 COUNTERFEIT ORIGIN AND WEIGHT .................................................................................. 64
3.1.1 Distribution similarities between China and Western countries ........................................ 64
3.1.2 Why is China the leading country on counterfeit? ................................................................. 66
3.2 CHINESE LEGISLATION ON INTELLECTUAL PROPERTY RIGHTS .................................. 74
3.2.1 Intellectual property rights in China ................................................................................... 74
3.2.2 TRIPs as the main legislative source .................................................................................... 76
3.2.3 Enforcement: a slow path toward effectiveness. ................................................................. 79

CHAPTER 4. DISTRIBUTION COUNTERFEIT: AN ANALYSIS OF THE PHENOMENA AND OF ITS MANAGERIAL IMPLICATIONS .......................................................... 83
4.1 RESEARCH METHODOLOGY ............................................................................................... 83
4.1.1 Introduction ......................................................................................................................... 83
4.1.2 New and untouched field .................................................................................................... 84
4.2 REAL CASES ......................................................................................................................... 87
4.2.1 Fake shops which sell real goods ...................................................................................... 88
4.2.2 Fake shops which sell fake goods ...................................................................................... 91
4.2.3 Original shops of Chinese brand who copied the distribution strategy of a Western brand and try to fool oblivious consumers ......................................................... 94
4.2.4 Original shops of Chinese brands that do not even try to fool the consumer, but use similar distribution formats to present themselves as a local alternative to western brands ............................................................................................................................ 100
4.3 A MODEL TO CLASSIFY CHINESE DISTRIBUTION FORMATS ON THE BASE OF THEIR AUTHENTICITY ................................................................. 105

4.3.1 The process ........................................................................................................... 105

4.3.2 The matrix .............................................................................................................. 106

4.3.3 Limitations of the model ...................................................................................... 111

CONCLUSIONS ............................................................................................................. 114

THANKS .......................................................................................................................... 123

BIBLIOGRAPHY .............................................................................................................. 124
INTRODUCTION

While I was in China for may Overseas university program, I was visiting the city of Chengdu, in the south-west of the country. I was resting in IFS square, when on one side of the plaza I noticed a beautiful three-floor store by Emporio Armani, with luxurious marbles, modern architecture and bodyguards at the entrance. What caught my attention was not just this building itself, who is a common figure in many central marketplaces of most important cities in the world, but the fact that on the opposite side of the square, there was another luxurious apparel shop, with bodyguards and sophisticated interior design, called Anmani. For me, an Italian guy who was born in the country of fashion and knows Giorgio Armani as one of the most successful stylists in history, it was pretty obvious which of the two points of sale was the real one and which was just a copy; but what for a Chinese consumer, who grew 8,000 km far from Europe and has hardly left his country before: would he still easily recognize the trick?

Moving from this basic question, we developed this thesis trying to investigate the most recent evolution of the counterfeit phenomena, in the way it overtook the simple replication of objects and labels, to move toward the imitation of the full selling environment, with the purpose to offer not only goods, but the entire range of emotions and values that a distribution system is able to transmit.

Many authors wrote about the role of retail formats in the creation of a solid and unique brand image. In the first chapter of this work, we recalled their contribution to explain how in recent year distributors revolutionized their function, shifting from simple logistic bases where supply could meet demand, to the redefinition of their role as a primary marketing tool. Through the elaboration of precise commercial strategies, based on the combination of physical and emotional elements, today retailers are able to stage shopping experiences that engage the consumer, and attract him through a fantastic world made of feeling, entertainment and deep values. Experiences, spectacularization and polysensoriality are new central concepts for modern selling techniques, concepts that define how important it is for global companies to have stores capable to communicate with visitors and to be a means of diffusion for those values that identify the company as unique and trustworthy. These firms play today the role of forerunners in the eternal race to innovation, locating their points of sales around the world to meet the requests of differentiated consumers and build up a strong international reputation.

China represents a critical market for the majority of these companies, a container for endless opportunities, as well as eternal challenges: a country that has been living dramatic changes in the past 30 years, that led it to become the second most powerful economy in the world, but at the same
time created a pervasive heterogeneity in its society, complicating even further the analysis and comprehension of its dynamics.

In the second chapter, we analysed which was the historical path that conduced China to become the country we all know and how these events affected today’s population. Modern China is one of the most variegated society in the world, with a consumer class that has been growing, becoming more progressed and more sophisticated, influenced by the American way of life and attracted to western lifestyle, looking for emotional satisfaction and assertiveness, willing to spend money on goods that improve living conditions. Differently from their parents and grandparents, who lived under the Marxist philosophy “from each according to his ability, to each according to his needs”, new generations are more likely to accept changings and evolutions on goods and trends, to undertake fashions coming from foreign countries, to express their own individuality.

This transformation required an evolution of the retail system: before the ’80, retail was limited to a logistic function because the central government decided what to distribute, where and in which quantity. Today the situation is completely different: the scenario moved toward a market economy, with distributors that, following the growing economic capabilities of consumers, have been evolving in new and modern forms, moving toward a more ideological sphere that embeds symbols and messages. As long as consumers changed, point of sales changed with them, and as long as western culture influenced Chinese population, it influenced also their distribution systems, that now more than ever are converging toward international standards.

But we do not have to forget that together with the openness to foreign investments, there has been another important driver for Chinese economy that it is worth to consider: counterfeit. In Chapter 3 we analysed what is the state of the art of this economic driver and how the national law deals with it. In the first period of capitalism, China had a big disadvantage respect to the western countries and nothing to lose, copying meant to skip some phases of the development process to fill the gap with the international community. The manufacturing of fake products has been one of the most important sources of Chinese rebirth and it is today deep rooted in population’s customs. Copies invaded the market and contributed in modelling consumers’ perceptions and preferences. But as long as everything else evolved in this never-stopping scenario, where goods influence consumers, which then influence distribution and vice versa, also counterfeit shaped its role in the chain, and adapted itself to changing trends. If once it was enough to reproduce a good to sell it as the real one, today more sophisticated and acknowledged consumers are easily capable of distinguish real from fake ones, then also this black industry needed to find a way out; a way out that turned out to be the
logical evolution of the former stage, the replication not only of the product itself, but of the entire system that confers value to the good: the distribution system.

Legal protection of intellectual property rights is a complicated subject in a country that for ages did not consider the defence of someone’s ideas as a subject of public interest: Confucius philosophy gave great emphasis on personal development more than on profits, and considered each individual only on the base of its contribute to the society and not for its personal success. Protection of intellectual property rights has been considered in the Chinese legislation only since the opening of the market to western countries. The modernization of these legal aspects was mainly an effect of the normative adjustment of Chinese legislation to all the international commitments that the country was facing during first years of this century. A fundamental turning point was achieved in 2001 with the entrance of China in the World Trade Organization and the consequent rectification of TRIPs (the Agreement on Trade Related Aspects of Intellectual Property Rights). This agreement allowed the adjustment of Chinese legislation around uniform precise precepts and standards and gave a great impulse to the normative protection of intellectual property rights.

We analysed how the international community shaped the new regulations on patents and copyrights and which are the possible enforcement alternative that citizens and firms can use to guarantee their exclusive exploitation. Unfortunately, even though the legislation has been improved on every level and every topic, the procedural justice still suffers of a widespread low awareness in the public opinion and of a limited transparency of its institutions, that make foreign firms still too sceptics about the possibility of not been copied when entering the Chinese market.

In Chapter 4 we finally investigated some real cases we met during our staying in China, with the goal of creating a model that could categorize the different typologies of counterfeited shops of this market. The fact that the counterfeit of distribution formats is developing in China, a country with a legislative organization far from European ones, that allows a soft or even inexistent bureaucratic control, and the fact that even when documents exist, they are in Chinese, a language hardly translatable even with modern technologies, made unachievable the collection of written quantitative information to support our analysis. For this reason we had to rely on the direct witnesses and materials that me and my assistants were able to collect on the field, considering several point of view in a way to ensure that our final interpretation could be as much plausible as possible.
The analysis drove us to present four different categories, each one supported by the presentation of a real case that could give a more tangible evidence of how Chinese entrepreneurs behave to confuse local consumer and convince them of the reliability of their labels.

As conclusion, we were able to create a model to classify the different shop typologies on the base of their level of authenticity, defined as the combination of the level of originality in the commercial techniques utilized and in the products sold by the same store. The model, being created on the Chinese environment, might represent a useful tool for those companies that face this market and want to have a better idea of what is the state of the art of unfair competition. At the same time, we believe that the matrix could be adapted to different markets, to function as a reliable methods to analyse local competitors in those countries where the protection of intellectual property rights is still a blurred topic.
CHAPTER 1. DISTRIBUTION AS A DISTINGUISH VALUE IN THE CREATION OF THE BRAND IMAGE

1.1 NEW DRIVERS FOR MODERN MARKETS

1.1.1 Experience as the core factor

Starting from the ’80, the literature who analyzed the interaction between consumers and environment gave a great impulse to the proliferation of theories that recognize the role of atmosphere and store design in influencing the shopping experience and determining the consumer’s choices⁹.

Pine and Gilmore (1999) described experiences as “the most evolved way to create value through the staging of economic activities able to emotionally involve customers”. In their approach, the authors consider experiences on their commercial dimension, as a specific service and source of value. They underline the importance to offer personal and unforgettable experiences to incentive clients to frequent the store. From this particular point of view it is hard to understand what is involved in the concept of “experience”, Pine and Gilmore proposed then the model of “progression of economic value” to better explain it, as shown in the Figure 1.1.

Figure 1.1 The progression of economic value


The first step in the evolution of value is represented by commodities, that constitute the main economic object during the entire period of agricultural economy. On that time the presence of raw materials determined the selling price of basic and simple goods. Industrial Revolution shifted the focus from raw material to their transformation: manufactures had indeed a central role in this era and act as driver for the whole economy. During the ‘50 services allowed consumer needs and expectations to enter in the production process, driving product innovation. Then the rapid growth of the level of services fostered phenomena such as automation, massification and loss of intermediate role, which lead today to the crisis of the tertiary sector in favor of the stage of experiences. Following the model, it is clear how the heart of economy shifted from commodities to shopping experience. Prices are no longer determined only by raw materials, but today rely on soft components, tied to differentiation polices based on customers and their needs.

One of the most important contributes this approach gave is the witness of how the shift from the offer of services to the offer of experiences was linked to the fact that firms recognized the customers’ role in defining what is really valuable in today’s economy. Furthermore it mirrored the evolution in taste and behaviors of individuals, more and more eager to live and get value from holistic experiences.

Another great impulse to the literature on new marketing tools has been given by Schmitt (1999), who proposed the innovative approach of experiential marketing, based on four core concepts: focus on customer experience, analysis of consumption context, spot of rational and un-rational drivers to consumption and use of eclectic management methods. These aspects are then integrated on SEMs (Strategic Experiential Modules) model, with the goal to offer a conceptual context that helps firms to plan end realize effective experiential marketing strategies.

The model is characterized by two fundamental elements: SMEs and EXPROs (Experience Providers). Schmitt believes that the starting point in the design of an effective strategy is the choice on how to create and give an experience to consumers. He offers five SMEs on which is possible to leverage:

1) **Sense**: the individual gets involved on his senses. The more the company is able to stimulate view, taste, touch, smell and hearing, the more deep and complex will be individual involvement;

2) **Feel**: this type of experience leverage on emotions. The firm create an emotional path that engage clients on their feelings;
3) **Think:** it is possible also to leverage on customers’ rationality. Here the benefit lies on how the company is capable to position its offer into the cognitive system of individuals, who are involved on creative, new and challenging mental processes;

4) **Act:** consumers get involved also on doing things. Leveraging on individuals behaviors and lifestyle is an optimal choice for those firms who present their products to dynamic persons, people who love physical experiences;

5) **Relate:** these experiences embraces all the previous. Here the focus is not only to create an experience for the individual, but on liking him to the rest of the community, so that a social experience amplifies the individuals one, creating a strong a long term relationship between a group of people and the firm.

Experience Providers are then those means that act on the five levers to evoke experiences. They can be combined in different solutions, depending on what is the firm goal, and they can be synthetized in:

- **Communication policies:** advertising, public relations, all the internal and external communication means;

- **Visual and verbal identity:** name, logo, colors and all the elements that contributes to the creation of brand identity;

- **Product presence:** product design, packaging, display, shelve materials, everything that is used to present the product;

- **Co-branding activities:** events, product placement, and those activities that link two or more brands together, so that they can empower each other;

- **Physical contexts:** not just points of sale, but building, headquarters, public spaces and every environment that can communicate some value;

- **Web and media:** these are maybe the most frequent tools to stimulate emotions and to create consumer communities, and counts social networks, company sites, video platform etc..

- **People:** people of the firm are the main actor of its success and the ability to select personnel able to engage any kind of experience in customers is vital for the firm itself.

Few years later Schmitt (2003) further his research on experiential marketing offering the Costumer Experience Management: a strategic process that in five stages allows companies to fully manage the customer experiences when approaching the brand:

1. **Analyze the experiential world of costumers:** understand the socio-cultural context that surrounds a purchase, what happen before and after that moment, who are the influential actors;
2. **Build the experiential platform:** understand what type of experience customer is willing to live and how the firm can position itself on it;

3. **Design the brand experience:** a constant process that defines what is the product experience, what is the brand identity and what is the communication of the experience;

4. **Structure the customer interface:** information exchange between company and client is vital, both face-to-face and virtual interaction must to be taken into consideration.

5. **Continuous Innovation:** this is the only way to renew the consumer experiences, and consequently his involvement in companies activities and offers.

Schmitt opened a new conception on what really matters and creates value in the economic exchange between an organization and its clients: the brand experience. Indeed, many important literary contribution to brand management starts from it. Duffy and Hooper (2003) describe the relationship between the two economic actors using the concept of passion. They define as Passion Economy a new phase of modern economy, characterized by seven fundamental aspects shown in this table:

<table>
<thead>
<tr>
<th></th>
<th>Traditional Economy</th>
<th>Passion Economy</th>
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<tbody>
<tr>
<td><strong>Offers</strong></td>
<td>Products</td>
<td>Experiences</td>
</tr>
<tr>
<td><strong>Power of</strong></td>
<td>Companies</td>
<td>Consumers</td>
</tr>
<tr>
<td><strong>Firms’ goal</strong></td>
<td>Share of wallet</td>
<td>Share of person</td>
</tr>
<tr>
<td><strong>Time orientation</strong></td>
<td>Short-term</td>
<td>Long-term</td>
</tr>
<tr>
<td><strong>Consumers’ attitude</strong></td>
<td>Receptivity</td>
<td>Skepticism</td>
</tr>
<tr>
<td><strong>Consumers’ behavior</strong></td>
<td>Trust on firms</td>
<td>Distrust on top management</td>
</tr>
<tr>
<td><strong>Philosophy</strong></td>
<td>Materialism</td>
<td>Base values</td>
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The authors describe a new economic era where consumers consider more and more important products’ soft components and where firms strives to conquer hearts and minds of the public. Aggressive marketing polices of traditional economy educated consumers to critically observe brands and their strategies, it is then fundamental for firms to follow loyal and transparent behaviors to be able to create a sustainable relationship with people. Public cares about social implications of companies’ polices and claim seriousness and responsibility. All these aspects determine an innovative marketing strategy called Passion Branding, an approach based on the company-
consumer relationship and on their passion to be able to generate value for all the subjects that participate in it.

These are just few examples of the managerial literature that emphasizes the importance of the creation of an emotional link between the brand and its customers as element of differentiation and competitive advantage. From here retailers payed more and more attention on the possibility of giving the public unforgettable experiences, capable of physical and psychological involvement. The conclusion point shared from all these approaches is the overcoming of a store intended as an anonymous place that serve just as a holder of goods, to end up as a location full of meanings. The site where people actually buy things becomes from a strategic and communicational point of view a fertile ground for most innovative and forward looking companies.

Following this idea, the contraposition between the words “space”, used to identify a well-defined area, and “place”, used instead to visualize a living and dynamic location, is more and more sharp. In place of sale it is possible to present a valuable brand atmosphere credible and concrete, where an informed costumer can live a unique experience. The individual is able to satisfy its desires, to build its identity and to participate to a performance in which he is free to decide whether to be or not the protagonist or the spectator and when to shift from a role to the other. Thanks to this new conception, the shop migrates to the idea of a theatre where goods transform themselves in a “permanent show, where also the most trivial product becomes desirable” (CODELUPPI, 2000).

This “objects staging” concept and the idea of show in store was born during the 18th century with the introduction of showcases, to come up in the 21st century with the phenomena of international exposition like EXPO 2015 in Milan, where products are part of dynamic pavilions matched with arts, culture, performances, meetings, etc... The sociologist Ritzer (2005) underlined the proliferation of “cathedral of consumption” to respond to the needs of hyper-consumerism typical of post-modern society. Places such as commercial centers or hyper-markets where the common line is fascination, spectacularization and simulation, to capture the consumer while blurring its consciousness of reality. The sociologist was one of the firsts who, at the end of 90, used the concept of retailment (retail and entertainment) to refer to the strategic planning – through activities such as the in-store management and the sensory marketing – of all the elements in the store that become fundamental to interact with the consumer, transforming the action of buying in a recreational activity, unique and unforgettable. Enter in these location means “being irresistibly overwhelmed by a warm and spectacular atmosphere... incantation is the most common feeling when people enter the door, suddenly they are invested by a polysensorial stimulation, an atmosphere of joy and happiness” (FABRIS, 2003).
1.1.2 Emotional over rational shopping experience

The postmodern era is characterized by a clear shift in the way of thinking consumption and consumers: experiences, spectacularization and polysensoriality become new base concepts to develop a commercial strategy.

Classical approaches has always considered the consumer as a complete rational decision-maker oriented toward the maximization of efficiency and minimization of costs in the choice of best alternatives. Today, these assumptions are no longer sufficient: new customers are more and more competent and conscious, persuaded and stimulated by fashion and trends and at the same time mindful on what the specific good represents and on the lifestyle it undertakes. It is now more challenging to convince them, because emotionally involved in the shopping experience, looking for sensations, values, memories.

Starting from here, firms’ competitiveness must be based on the creation of a unique context, a place where to enhance the brand and where to present the shopping process as an unforgettable and meaningful experience. The entrepreneur not only offer the right product at the right price, but he also behave as a social actor who is able to interact with the cultural environment to understand customer needs, lifestyle and experiential background. He has to identify what are the individual expectations and use them to create a world where products take life.

Once the firm has identified the value system of its target, will find a proper way to represent those values in every elements of its marketing campaign, from of packaging to logo, from advertising to store layout, to pursue a communication strategy that represent as best as possible the brand identity. Shopping in this era is no more merely functional to the appropriation of a good, it is now a recreational activity, a way to spend the free time. People do not go on a shopping center just to buy specific good, they go to enjoy the atmosphere, to spend some time, to socialize, the need of a sensorial experience replace the need of owing something rationally.

However if at the beginning of this modern era firms focused only on their ability to amuse consumers, today this is not enough: people want some more, they want an emotional involvement. It is not just about entertain consumers, it is about their involvement in a complete and complex world where they can take an active role on the surrounding environment.

When buying something, individuals not only take possession of its functional and tangible attributes, but invest time, energies and money in the fruition of a series of experiences and events that collocate the individual itself into the brand world: an immaterial reality which however represents each customer’ tangible universe and which should be taken into strict analysis in the
process of building a long-term relationship with clients. As Schmitt tries to explain “brands not only identify goods. First of all they are experiences suppliers” (SCHMITT, FERRARESI, 2006).

From this prospective companies must plan properly their strategies to exploit all the possible aspects of both products and brand. They face multiple possibilities; evergreen is the relaunch of products that recall consumer’s memories: references to the past have always been very affective on the emotional involvement, like the relaunch of the Fiat 500. Companies can also realize precise communication campaign, promotional activities and direct marketing policies, or can even developed their own newspapers to be able to give a precise idea of their inner world. But above all, firms today face the necessity to have a physical place where they can interact with the consumer and build with him a long-term relationship. These places are point of sale: Disney Store, Apple Store, Nike Town are all places where is not just about visual entertainment, but a specific music or perfume evoke memories, stimulate sensations, create an unforgettable experience.

These marketing tools are replacing traditional advertising methods and are more and more adopted from global companies, which are able to obtain significant results based on irrelevant advertising investments, think about Starbucks or Sephora.

In this way concepts as “experiential marketing” and the “shopping experience” have renewed the assumptions of traditional marketing, taking a predominant role in the modern economy: brand experience is now the central point.

Label and product represent today two complete different entities: the brand is able to live separated from the product, which instead is often strictly linked to the context of its label and would not make any sense elsewhere.

Saturation of markets, overcrowded of messages and commercial proposals, has led to the proliferation of goods that turn out to be emotionally insignificant for the consumer, who is inevitably becoming more and more demanding. It is no longer sufficient to communicate the existence of a product and its specific features, there is a need to clearly convey its identity, through a brand that is not limited to a name and a logo, but embed values, lifestyles and visions.

1.2 POINT OF SALE: MEANS TO COMMUNICATE VALUES

1.2.1 New context re-shapes retailer functionality

In the last decades the distribution activity has dramatically changed its features. External factors such as stagnation of some businesses and transformation of others, modified the consistency of market segments, leading to the increase of some and to the death of others. To give an example, the middle price range of some goods disappears in favor of a clear spread between the high end,
branded, selective distributed segment and, on the opposite side, the mass distributed, no branded and low prices ones. Competition and competitors are more and more global, and consumers keep growing in developing countries, upgrading the level of difficulty both on production and commercial side.

At the same time technology allows the elimination of routine activities and of their costs in terms of time and energies; it favors personnel training and permits to collect and analyze data to monitor performances and results. Firms can now to adopt geo and micro marketing tools to obtain precise information on segments’ need, focusing on specific territories, socio-cultural contexts, psychology and expectations.

The combination of these external and internal forces requires distributors to evolve toward a higher expertise and integration in the value chain, to be able to face products and services more and more complicated. Retailers are no longer just logistic basis, but acquired a central role in the demand creation: leveraging on assortment, merchandising, commercial brand and innovative points of sale they promote their own marketing strategies aside from the industrial ones, limiting their contractual power and generating a direct long-term relationship with customers. Distribution is today efficient and autonomous in the creation of a marketing value that engages competition with industrial sectors.

Aubrey and Judge (2012) underlined the necessity of a new definition of retail and in particular of the role and importance of the point of sale. E-commerce, mobile web, social media, crisis, social responsibility, all these factors influenced the economic context, transforming brands, retailers but most of all consumers. Authors, through the concept of “new normal”, describe a commercial environment where mindful and multi-channel customers desire not only products but also values, in the search of amazement from the brand, which at the same time strive to survive under the pressure of increasing costs of supply chain and sustainable development.

Authors identify two main changing factors that leads to the repositioning of retailers role. The first is generally defined as “context pressures”: raising production and distribution costs are growing the weight of prices, meanwhile technologies facilitates consumers information process, giving them the possibility to become more and more acknowledged and demanding on high quality at low prices and transparency, mindful of what is their power in the modern market. Clients today are smart, interconnected and highly receptive in the use of internet and mobiles, factors that enable them to by what they want, where they want. Modern concept of value results then more complicated than ever, embedding not only the cost-quality rate, but also all the aspects linked to the concept of sustainability: it is easy for the public to get a wide set of information on social
performances of companies, on their environmental behaviors and on their well-fare polices; because of this entrepreneurs are now dedicating more and more resources to the development of community based programs, to be able to pursue value creation in all its components.

The second factor concerns “technologies as driver in the innovation process”: e-commerce, social networks, mobile technologies, are just the most recent expressions of the phenomena who is changing consumers’ attitudes and behaviors. The ease to get information on brands, products, prices and performances constitutes the key factor of consumer empowerment, changing the rules of the game. The possibility to use digital channels in the purchasing process, enabling consumers to buy products at the lowest price possible, and the need of company to face growing pressures on cost saving while increasing customer value, caused a visible modification of retailing structure.

Aubrey and Judge identified three main aspects that characterize the re-shaped offline retail:

- **Store as showroom**: today firms are worried about of their points of sale considered as mere locations where to search and try products that will be purchased online at the lowest price. International shopping is close then ever and researches witness the growth of those who uses smartphone to look for information while visiting the store. In particular, those firms who operates in sectors that tackle a strong competition on prices due to the presence of pure e-commerce players, already witnessed how consumer relays on the online for those typologies of goods where brand and price constitute the main drivers in the purchase process. Shops then face the challenge of not becoming mere showrooms or dressing rooms.

- **Adaptation needs**: it is vital for physical stores to adapt to this new environment. The online shopping experience in terms of services, convenience, range of products and prices increased customers’ expectations on brick-and-mortar retailers. Companies need to innovate their points of sale to be able to drive consumer preferences and loyalty and to tackle the online competition based only on price.

- **Brand value**: the physical presence of a firm on the marketplace has to add value to its brand, foster its growth and attract and loyal its customers. If a shop offers a poor experience in terms of services, involvement and products, this will damage its reputation also on the other commercial channels. It is critical for company to give a proper definition of how its points of sale can contribute to the competitive advantage, so to integrate them with the other channels to create a system where every actor provides value to the others.

Innovation become the new key concept to face a changed environment and catch its opportunities. The same two authors identify three main levers that companies can use to exploit physical retailers in the creation of value for their clients. The first challenge is the definition of the real store as part
of the “omnichannel”: companies has the possibility to create an online distribution strategy to support and foster the offline channel. The physical presence of a brand can represent the path through which individuals reach the virtual profile of the company and vice versa. Single distribution channels are intended as rings of a unique chain where stores represent a tangible point of contact with customers, elements of a concrete experience that enable them to get in touch with products and high level services and to strength brand value.

The second challenge refers to the possibility to utilize the store network to offer a logistic support strongly oriented toward customers: independently to what is the firm’s distribution strategy, the store network can absolve a central role on the supply system, making products available to consumers in the fastest way possible. Consistency in the logistic activity, intended as the display of the right product, at the right time, in the right place, is considered today a vital condition. The focus must be on “providing goods to clients”, their visibility on all the company different channels is the core concept.

The third opportunity relays on the vision of distribution as a differentiation tool able to drive consumer preferences. Point of sale becomes the space where to perform a unique store experience, that allows companies to tell their story and to transmit their main values. Services are enriched, environment is designed to involve visitors, the goal is to give a reason to come and spend some time in the store, to convince people that it is worth to purchase in it because they can get something special and exclusive compared to the rest of competitors.

The store becomes today the theatre where brands can stage their souls, offering sensations, suggestions and feelings. Companies adopt unique and exclusive physical stores to generate an intangible heritage that foster brand identity and profitability.

### 1.2.2. Store design: structural planning and store atmosphere

Saturation of markets and the growing difficulties of individuals in choosing between a huge proliferation of products similar one to each other, are convincing firms and distributors to invest resources and capitals on immaterial aspects to stimulate the differentiation of their products. Locations are designed not just to entertain the visitor but to involve him, ensure that he consumes atmospheres and emotions more than products. The designing process of these locations must include the collaboration of architects, designers, marketers, experts in communication, people who work to provoke sensations. Indeed, if twenty years ago the point of sales was designed exclusively by an architect specialized in the construction of a certain typology of shop, today the basic require for the creation of a successful store is the combination of different knowledge and capabilities,
which lacked in the past, due also to the absence of a common language. The homogeneity and similarity of shops, which differed only on shelves’ style and material, left room to differentiation and specificity. The retailer designer and other subjects involved in the creation of modern stores collaborate with firms to pursue a common mission: the creation of a world of values, a tale where the consumer is willing to take an active role, creating a relationship of trust between company and customers where the sale itself in nothing more that the final step.

The first step in the design of the shop’s physicality is the definition of the central concept, which consists in the setting of the core elements of the project, fundamental both for the retailer and the consumer. One of the most frequent alternatives is the “store thematization”, that consists in designing the point of sales around a precise theme, which is represented in every possible aspects. At the beginning of the 20th century Codeluppi defined these stores as concept store “...places where all the components gravitate around a single theme and where before products the firm sells a satisfying experience that customers can live into the store, which is meant to express a firm’s philosophy in a spectacular manner through a specific interior design” (CODELUPPI, 2000).

Theme possibilities are endless, clear enough that the choice should be in line with the firm’s positioning and brand image strategy; usually themes that concern common life experiences (home, school, hobbies...) have a great impact. It is important to specify that concept stores are not necessarily mono-brand, but can also be multi-brand: wide surfaces where products of different firms are combined in a unique and distinctive context that represents the starting point to develop a long term relationship with the costumer. A great example is 10 Corso Como stores in Milan, Seoul, Shanghai, Beijing, where the central theme is the creation of a “living magazine”, as it’s explained on their website under the voice concept: “Former fashion editor and publisher Carla Sozzani conceived 10 Corso Como as a virtual narrative. Using the gallery and book shop as its core, Sozzani has structured a living magazine where editorial choices in food and fashion, music and art and lifestyle and design are constantly made by the visitor and customer as they engage across so many arenas of interest. People both in and beyond the art and fashion scene began to see in this concept something quite new and radical for retail and even more for presenting art in the same breath as style. The Italian sociologist Francesco Morace in 1991 coined for 10 Corso Como the term that would later become a standard marketing idea "concept shop". A way to join culture and commerce, 10 Corso Como multifunctional philosophy allows to present a unique blend of art, music, design, cuisine and culture from around the world to the world”.

http://www.10corsocomo.com/visit/?pageID=concept&lang=eng

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19
The theme is just the idea surrounding the store, but what makes a real difference is the store design itself: it gives effectiveness in the communication of the identity of the brand, differentiates the store from the competitors and becomes one of the most interesting and tangible feature of the shop. Moreover it functions as a bridge between physical entities and the store atmosphere, giving beauty and sense to products and services, facilitating the shop dynamics and flows, creating an environment that allows social interactions between all the subjects in the store.

The store design consist of architectural elements; first of all we need to consider the geographical position, which needs to be consistent with the brand and the target. Indeed, the location is a strategical choice that needs to take into consideration not just the difference between a city and the other, but moreover the difference between areas within the same city, like: historical roads dedicated to boutiques and flagship stores whose goal focus more on visibility that on high profits; city centers characterized by wider selling surfaces and by more basic selections of goods for the tourism and mass-shopping in general; the less renowned side roads where small shops offer a sophisticated range of products; the suburban areas with their huge shopping malls. This explain why several firms decide to open differentiated typologies of stores in different parts of the same city, each one with its own assortment to meet the specific needs of those who live in the area.
Other architectural elements that must be taken into consideration are the parking lot, the facade and the signboard, all components that communicate with people outside of the store to invite them in. In particular the entrance and the showcase have a strategic function since they attract and intrigue the costumer. The entrance represents the meeting point between the outer and the inner world, a kind of selection gate for visitors. The showcase instead has the crucial role to emphasize store image, stimulating passersby and convincing them to step in. Furthermore its flexibility and the possibility to be easily renewed increases even more its value.

Also the planning of the merchandising activity needs to be taken into account. This activity represents the marketing of the store done into the store itself, and consists of two aspects: facility layout and goods layout. The former is about plotting the horizontal surface and the vertical mobility trough elevators and stairs. It defines the paths of visitors into the store by dividing the space on the base of exhibition, sale or service needs. It is designed relying on the positioning and image of the store and can be modeled both by island or by grid. The latter instead integrates facility’s layout by organizing the sequence of sector, divisions and product families. It uses several criteria: price, goods affinity, brand, context of use, etc.

Another important aspect of the store design is the display of goods. It is essential to exhibit properly both products and environment, combining different competences in design, communication and semiotics with the goal of strengthen the relation between what is physically inside the store and what the company wants to express. In this way it will be easier to visualize products, to understand offers, to inform the costumer, to create a brand culture. Relying on the commercial and communicational purposes, it is possible to use many different display techniques at the same time, such as shelving, hanging, pegging, folding, etc. however the modern tendency is to offer store paths more and more free, to increase the costumer will to buy not just products but ideas, gadgets and combinations.

The identity and image of a store depends also from its atmosphere, that is the psychological feeling and the level of involvement felt by the costumer both from outside and inside the shop. Already in 1973 Kotler explained the importance of planning a point of sale to influence costumers choices, since then the topic has been heavily enriched. Indeed if for years the analysis focused on rational individuals who based their choices on the cost-efficiency maximization, recently the main topic has become the shopping phase in which the costumer decide where to shop and his behavior during the shopping time. The consciousness of the fact that he enters in some shopping environment stimulated by un-rational motivations, more hedonistic and emotional, leads to the creation of point of sale increasingly exiting and engaging.
We could define the store atmosphere as a “silent language of communication” omnipresent and characteristic for the surrounding environment. It is the result of different elements, tangible and intangible, that act in synergy to stimulate all five senses to create a distinctive image that helps the competitiveness of the store. It is a multidimensional combination of factors, scrupulously developed to stimulate not just the view, but the smell, the touch, the hearing and the taste. In this way perfumes can increase pleasure, recall memories, evoke places or events; a rhythmic music can foster purchases; the possibility to touch and taste products involves the visitor helping him to adapt rapidly to the environment.

The use of sensory stimulation is already a widespread practice in most commercial stores, and take the name of sensory marketing. Several theoretical contributions have witnessed the importance of the atmosphere and of the five senses in influencing the behaviors into the store, as Eroglu and Machleit (1989) stated “the atmosphere in the point of sales is made of all the physical and non-physical elements that can be managed to influence the behavior of both customers and sellers”. If Kotler has been the first to introduce the concept of atmosphere defining it as “the result of the attempt to design spaces of sales capable of provoking specific emotional reaction so that the probability of purchasing increases” (ADDIS, 2005), in the same years Mehariabian and Russel (1974) attempted to develop a model to represent the influence of store atmosphere on individual actions. These studies rely on the model of environmental psychology called PAD. The starting point is the sequence: Stimulus – Organism – Response: it recognizes that the environmental stimulation, of physical or social origins, and the individual personality affect the emotional attitude of a person. The authors divided the this emotional attitude into three components:

- Pleasure: those linked to pleasure, joy, satisfaction;
- Arousal: those linked to excitement, joy, satisfaction;
- Dominance: those liked to the possibility of controlling the environment;

The interaction we just talked about has an impact on these three state of mind, creating a consequent behavioral response that can be positive (approach) or negative (avoidance). These theories had a great consensus and have been applied on retailing in several and important occasion: Donovan and Rossiter (1982) who used the model in the study of sixty-six stores in the USA to demonstrate how emotions influence the purchasing power of individual.

Later researches moved on, following two main streams: those who studied the effects provoked by environment as a whole, considering then the holistic dimension, where you can distinguish the model-based studies that followed the approach of Meharabian and Russel and the non-model based studies that don’t rely on precise models and study for example the impact of atmosphere on mood.
and time perception; and those who focused on the influence of single dimensions of atmosphere on the costumer behavior. For the latter the most significant contributes came from the analysis of how music influences waiting time and total expense (Bruner 1990; Milliman 1982, 1986; Yalche Spangenberg 1988, 1990, 1993; Rieunier 1999, 2002); or those on colours (Belizzi, Crowley e Hasty 1983, Crowley 1993; Roullet 2002) or on lights (Golden e Zimmerman 1986).

Common are the examples of firms who invested on this concept of polysensoriality to gain a competitive advantage, especially in the clothing industry, think about Abercrombie, Ralph Lauren or Sephora. Also many supermarket exploited these marketing tools: Woolworths during the Christmas time introduced the perfume of a Christmas dinner in twenty of its storehouse, while others used an artificial bread fragrance to tempt visitors toward the bakery corner.

One of the best example is the giant coffee shop chain Starbucks. The firm aim to create around its brand a strong and powerful value system, turning the consumption of its product in a real experiential path. Born in 1971 as a retailer of coffee beans and powder, after many years it became a location devoted to the act of drinking coffee, relax and spend a peaceful time. From then on it grew dramatically in thousands of store all sharing the same mission of allowing people to live every time everywhere the same experience of “drink a coffee” in a well-known and familiar environment. The attention on the architecture and interior design maniacally pursue this goal: the space is organized to create harmony between full and empty and furniture is selected by colour and shape. Light wood is everywhere in the store and coffee beans are almost idolized on paints, crafting and furniture. Moreover in all Starbucks stores the fragrance on coffee is omnipresent, a warm perfume that fits with the jazz-pop sound track defining the identity of the store as a convivial and relaxing place where to escape from the outside world confusion. In this way the same theme is presented and represented in different forms: coffee is seen, smelled, tasted and transformed into music. A polysensory strategy that gained a huge success giving an international image to the company, and with it a gigantic competitive advantage.3

3 Starbucks Coffee Company www.starbucks.com
However it is fundamental to not consider the store design as perfect science: it is not the only activity that needs to be managed and it is not everlasting, it is crucial then to constantly monitor its results and to modify the strategy when not in line with the evolution of the brand.

But there are other elements that contribute to the competitive advantage of the firm by creating a long term relationship with the costumer, elements called soft because of their contribution on the entertainment, ludic and social function. It is not just about inform the visitor, whose need is satisfied by monitor, physical demonstrations, courses etc.. but is becoming more and more important to maintain individuals into the store as long as possible, creating spaces where people can spend a pleasure time, like reading areas, music areas, relax areas. A fair example of this is what Sony did on its “Sony Gallery” stores, creating areas where people can play Playstation, listen to music, surf the internet and much more. Many times companies organize events on their stores to attract customers and let them interact with the product, creating an experience that might remain on their memory. There is a positive correlation between the level of involvement of a client and its interaction with other customers and personnel. The personnel in particular represent the main guide into the brand world and contributes heavily to the creation of a positive shopping experience, for this reason is vital for the firm to ensure that these people have a proper formation that guarantees their competences and interpersonal capabilities. The staff contributes to the customer satisfaction, increases its fidelity to the shop and lowers its perception of inefficiencies, creating multiple incentives for a positive word of mouth.
Another solution that optimizes the fascination of a store and its credibility is the use of ICT. From now on Information and Communication Technologies will represent irreplaceable tools for the survival of companies and retailers. The introduction of devices such as the Personal Shopping Assistant or interactive totems offers a higher quality service into the store (speed of information, level of stock, etc.) and allows cost savings in the measure of which sales personnel is free to follow more demanding customers. Moreover companies have the possibility to obtain a massive number of information on visitor behaviours in store, so that they can promote more specific and personalized offers to establish a strong store loyalty that in the recent years struggled in front of the homogeneity and similarity of shops. An example can be found in what OVS did in partnership with Google on the project “OVS digital experience”: in the store of Milan the sales personnel assists customers with iPads that instantly investigate the stocks and tell in which other point of sale is possible to find sizes and colors of the product, visitors can use touch-screen kiosks spread all around the shop to check catalogues, watch videos and listen to suggestions from the company. Furthermore the firm created a “virtual dressing-room” where the costumer, while tries clothes, can interact on a screen through which can share his outfit with friends on social networks to receive feedbacks and tips. If then he is not satisfied with what he tried, through the same screen he can call the sale personnel and ask for a change, and if not available, they can search in other stores of the chain and eventually set the delivery.

Figure 1.4 OVS store, Via Dante, Milan.

Source: http://www.ovs.com/

1.2.3 Did Internet influence retail business?

If you think of how Internet dramatically changed the business environment in the last twenty years, it is clear why so many people seriously worry about the possibility of a complete loss of the role of intermediates in the real economy. E-commerce and virtual platforms in general allowed companies to distribute their good directly on-line, avoiding all the costs of the creation of a physical
distribution channel. But in reality this phenomena is not as common as people might think: selling on Internet is as much complicated as selling on store, maybe even more, and the cost saving is not that relevant, companies still need warehouses, programmers, huge investments on advertising, etch... For these reasons the elimination of intermediates has not happened jet and probably will never happen: the importance of physical store and people that dedicate time and energies to the relation with costumers is still vital for most of companies. Even though Internet potentialities are well known, in many countries local culture and shopping habits tie consumers to shops: shopping is perceived as a recreational activity to socialize and spend a pleasure full time; the value given to social consensus, reassurance from the vendor, physical analysis of the product, possibility to possess the object right after the purchase moment, are all aspects hard to forget.

Anyway if the problem of a loss of the role of physical distributors in the intermediation role is not so concrete, what is happening these days is a change in their role as information actors: Internet has stimulated a more frequent consultation of its pages in the search of data on products, stealing the power of influence and drive buyers’ preferences and purchases. Physical stores in this way risk to become mere containers of goods and services, taking the role of logistic bases. That is why it is vital to transform the point of sale in a richer place where to offer value and differentiation through experiences and entertainment. Acting as a threat, the Web pushed retailers to shift their behaviors, fostering the importance of a more efficient use of the store in a strategic and communicational prospective. At the same time this factor stimulated firms toward innovation, creating awareness on the possibilities of web intended not just as e-commerce platforms, but as a means to push brand image and customer satisfaction.

These conditions however have also a negative side: it is now more difficult to manage the cohabitation of virtual and physical distribution channels, which in most of the cases cause the rise of conflicts. While few companies rely exclusively on the web to sell their products, losing the possibility of high volumes, the number of firms that utilize a combination of online-offline distribution model is noticeably growing. These companies faces the risks of losing control over their commercial policies determined by the conflict we talked about above: online prices can be lowered and consequently consumers shift on the virtual store. Only few brands with solid identity and huge financial power are able to manage these types of issues. A great example comes from Intimissimi, who was able to develop a combined strategy in which the two channels cooperate to offer the best service possible: online and offline offer the same products at the same prices, they have same promotions during the year, an online costumer can change his goods in store and a store visitor can buy online the size that he could not find during his shopping. By combining the two
methods Intimissimi was able to adequate its offer depending on the purchasing habits of each countries, satisfying both online and offline lovers and enlarging its user base; people purchase and obtain information on an integrate system, increasing their involvement, interest and interaction.

1.3 DISTRIBUTION FORMATS TO FOSTER BRAND IMAGE

1.3.1 Difficulties and conflicts in distribution: importance of control

The recent evolution in the function of the point of sale determined an acknowledgement of the importance of its proper management. Stores are acquiring strategic importance and entrepreneurs are striving to integrate distribution to consolidate their brand. However the attempt to create channels that allow, at least partially, a direct contact with final markets, creates conflicts with distribution actors. The latter understand the strategical value of controlling the point of sale and try to maintain and increase their role by developing their own marketing strategies while un-attending suppliers’ requests. Supported by the success of commercial brands – more and more similar to industrial brands – retailers are unwilling to display on their stores the positioning choices of producers, who witness the increasing risk of discrepancy between advertising campaign and instore policies. By direct management of point of sales, firms would be able to create an ad-hoc space entirely dedicated to the brand and consistent with its image, that could catch consumer’s eyes lost in an overcrowded market.

Issues arise also from store data collection. Many times information from retailer are partial, rough, slow, useless for product policies. This because the most precious resources collected in store often remains to distributors that use them for their own purposes.

The creation of a tight relation with customer would allow companies to monitor the market and consequently adequate the strategy to the needs of its target, especially in those sector where a rapid and precise feedback from the client is essential for the producers, like in fashion, where more than clothes people buy values and lifestyles. In markets where products lose their physicality in favor of immaterial aspects linked to the brand, it is vital to embed these elements in all store components, to communicate a culture and a “way of doing things” that goes beyond the commercial relation.

In such a context, it is clear why producers and distributors are converging in a unique entity capable to control the entire value chain. On one side industries are striving to vertically integrate the distribution channel, on the other retailers are building a defense wall and start to produce their own goods. Because of this, many firms begin to consider new ways to organize their commercial nets, solutions that flank traditional formats in several ways depending on density and structure of the market, to allow firms to get in touch with the most loyal clientele. These models differ from
classical point of sale for their purposes: the focus is no more on turnover and sales, but on brand identity and communication, they function as catalyzers and advertising tools to replace the lost visibility on old distribution model.

1.3.2 Flagship store

Flagship stores are the best representation of how firms evaluate the direct management of the distribution channel. They are shops entirely dedicated to a single brand where the firm has the possibility to reproduce its value system to involve and capture the visitor. Assortment is wide and deep, often enriched with personalized and exclusive products, limited editions and future collections⁴, to offer an increased value that concretize and empower the firm identity. To pursue this goal everything in the shop – interior, lighting, layout, atmosphere, appeal... - is maniacally designed to be consistent with the rest. The purpose is to entertain the subject, to involve him in a unique experience by staging the firm philosophy. Communication is the key concept for this format, there is no will to directly increase company’s turnover, the goal is to support other channels sales by fostering the brand image. Huge expenses needed for its maintenance are considered as long-term investment in communication and advertising.

The main feature for this format is the location: flagship store are situated in most important and renown roads, in ancient building characterized by wide selling surface that can host a broad range of products. Areas reachable by thousands of people, easy to find by loyal customers and visitors, locations that often become point of interest for domestic and international tourists, where people can state “I’ve been there” such as the Apple Store in Fifth Avenue, New York or the Luis Vuitton Palace in Champs-Elysees, Paris.

Codeluppi (2000) fifteen years ago defined flagship store “...places where all components gravitate around one theme and where before products, what they want to sell is the satisfying experience of being into the shop, that must express the firm philosophy, spectacularly staged by a specific interior design”. Spectacularization indeed plays a central role, space is designed and organized to render the shop experience as much engaging and stimulating as possible by using polysensorial effects, hi-tech solutions or historical references. Nike Inc. played a pioneer role in the evolution of flagship stores, starting the first Nike Town in 1988 and counting today sixteen of them all around the world.

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⁴ Luis Vuitton flagship store in London has a entire department dedicated to the presentation of new collection of watches and jewels.
The store of Chicago in the biggest one (around 6200m$^2$) and is one of the main touristic attractions of the city. The construction is one of the best example on how it is possible to blur the functional features of a good in favor of its intrinsic value: products are presented as artwork on a museum, furnishing is characterized by elliptical shapes to recall the swoosh and all around are displayed historical pieces of Nike-sponsored athletes. In every area of the shop colors and sounds are appositely designed to evoke sport-related emotions: tennis balls on clay in the tennis division, basket balls and shoes whistle in the basket area, flying and singing birds for the outdoor department. These effects contribute to the creation of a surreal atmosphere that surprises the customer and ensure him a unique and unforgettable experience.

**Figure 1.5 Nike Town, Chicago**

Another one of the first firms that realized the importance of the store in creating a close relationship with its costumers was Ralph Lauren. The first flagship store was opened in 1986 in Madison Avenue, New York. An old buildings renovated that convey the feeling of entering into a luxury US building where patriotic elements are redundantly represented in all the aspects of the store to transmit those values that has always characterized the brand communication campaigns: prairie farms, west ranches and all those images that cinema and literature proposed as typically US values. Even though the annual turnover of the store is far from the total amount of expenses (the Madison Avenue building rent by itself is around one million dollar per year, plus operating and
renewing costs, the firm lose around one million dollar every year), the firm considers those spaces as a fundamental means to sustain the brand image. These points of sale, matched with other strategical tools, gave to Ralph Lauren a great competitive advantage, becoming one of the most important company in the world.

Figure 1.6 Ralph Lauren flagship store in Madison Avenue, New York.

Source: http://www.thecityreview.com/lauren2.html

But we don’t want to convey the message that in the modern economy flagship stores are the only way to create a sustainable brand image. In the recent years crisis shrink back the investments on these “brand temples” and some companies quit to believe on their fundamental role and importance. One of them is Prada, who believes that flagship stores represent a loss on the creativity and innovation power of a firm in favor of a mere financial grow. The surprise and emotional impact of entering in a flagship store rapidly get lost after the first time, while obviousness increase the idea of the store as a linking node between the brand and an immutable everlasting brand identity. For this reason Prada responded to the “flagship store mania” with its innovative concept of Epicenter, a means to avoid banality “becoming a way to renew the brand, replicating or giving stability to every aspects of what Prada is, does or will become. The Epicenter act as a conceptual window: a medium to foresee future tendencies... Prada strongly believes in these concepts and tries to embed them into the emotional and affective appeal of Epicenter” (CODELUPPI, 2000). These shops are different each other, both on identity and on interior design, they are not meant to be mere points of sales where to display products, but they are created to represent an exclusivity factor for the city in which they are located, entities that
continually evolve and maintain the vitality of the brand, linking it to nonprofit and cultural organizations where to stage fashion shows a events. The first of four epicenter stores was inaugurated in 2001, a structure designed by Koolhaas at Soho, New York, in the old location of Guggenheim Museum. It is a place full of fascination and innovation: the floor is a wave of striated wood, screens display art images, manikins are presented into iron cages and dressing room are made of glass that matts with a button. These buildings represent an attractive pole for millions of visitors from all over the world, however they do not contribute to the profitability of the shop that is mainly visited by architects and people interested more on the structural part of the store than on the products displayed. This is one of the big issues for these new concept stores, where the shop itself does not fulfill its primary function and the brand experience results to be inadequate. “Visitors end up to feel overwhelmed from the surrounding atmosphere and leave Prada as if it is just a touristic attraction rather than a point of sale... The building is perceived more as a consequence of Koolhaas’s megalomania that a functional store” (CODELUPPI, 2000).

Figure 1.7 Epicentres, New York


1.3.3 Single-brand store

Another tendency that is rising both in America and Europe is the diffusion of points of sale that offer a single brand. Mono-brand stores, that grew especially on certain sectors as fashion and food, can be both on franchising or on brand proprietary base and represent the best place where to express brand identity in its uniqueness and entirety, thanks to the absence of direct competition from competitors. The brand has the possibility to create its own value system and attract customers into a distinctive atmosphere where products are displayed on a well-known and controlled environment. Here the focus is on the ability to manage all the brand-related aspects in the space:
define visitors paths through layout, decide how to match product categories, identify which materials can be used or not, design illumination and visual merchandising to promote products and the message they want to convey... these are only few aspects that contributes to the creation of a valuable mono-brand store, further more it important to notice that these spaces can count on dedicated personnel which know product specs and ensure an adequate costumer service. It is clear enough how a direct management of the point of sale ensure the company higher freedom in the store choices rather than a franchising solution, even though the second one is much less expensive. The franchising is a commercial solution that offers to the brand company (franchisor) the absolute control over marketing tools without a direct financial investment. Indeed in return of a royalty, it grants to an independent retailer (franchisee) the right to sell the company’s products on a company branded store. The franchisee agrees to respect product and price restrictions and communication and image policies. Good examples of success franchising strategies are McDonalds or Zara.

The essential point on this type of stores is the ability to convey in every shop in every country a unique and distinctive message, recognizable and always homogeneous. This is what Benetton did on its stores, buildings that indelibly contributed to the creation of a company identity widespread standardized: furniture, value system, communication strategy are the same both in Milan and in New York stores. This involves and ties customers to the brand, developing a strong affective relationship: the shopping experience, on symbolic and emotional terms, will be much more memorable on a single-brand rather than on a multi-brand store. The company-customers link is strengthened and foster the brand loyalty also thanks to a more specialized and differentiated offer in respect of normal shops: because of the wide surface entirely dedicated to its products, the firm can display an extensive and deep assortment, facilitating cross selling activities based on the proven quality ensured from the brand and from previous positive experiences of costumers.

Location plays also for these type of shops a crucial role. Usually the choice is related to where the company’s flagship store has been located. Different dimensions and purposes allow the companies to place mono-brand stores in urban areas and historical centers. Indeed, even though they do represent brand image and stimulate consumers, they are not just communication solutions as flagship stores are; they are intended to be profitable, focusing on sales targets to enlarge the market share thanks to the higher visibility of the brand and of its products. Single-brand store are cheaper and more lucrative, that is why companies such as Pomellato created a commercial system based on directly managed mono-brand matched with indirect retailer, so that they maintain a solid brand image while lowering commercial expenses and increasing turnover.
1.3.4 Factory outlet center

Factory outlet centers are a third commercial solution that proved to be really helpful to sustain luxury firms during the crisis, allowing them to explore new market segments. They are the evolution of firms’ outlets, more complex structures where to sell faulty goods, previous collections, overstocks, samples and all those products that cannot be sold full price.

Once again the location has a vital role for these centers: they need to be placed between two or more urban areas, following a logic that tend to lower as much as possible transportation costs for potential visitors. Indeed, their relevant dimension leads to the necessity to locate them out of city centers but still on strategic points easy to see and to reach, such as highways or tourist destinations. Since this format is pretty new, all these centers are built greenfield, designed as small villages that hosts dozens of mono-brand stores, defined as factory outlet stores, of several typologies, mainly apparel, accessories, cosmetics and jewelry. These shops are directly managed by companies that use them to get rid of all those goods that otherwise would only represent a cost for the firm, without the necessity to sell them to an intermediate that would lower the markup. Moreover companies see this format as an innovative tool to open up to new market segments, diversifying offers and prices. It is about those individual that are interested in highly symbolic products but are not willing to buy them on traditional market places, people that pay attention to the price factor and to savings. These people are also influenced by environmental factors; here furniture, layouts, services, are all components that push individuals to come in and socialize, spend a good time, escape daily life in a social context of happiness and excitement. The space is designed by an experiential architecture that recreate a sort of city center made of alleys, squares and benches combined with high level services like restaurants, free parking lots, children garden, ATMs, etc.. all carefully premeditated to ensure visitors a unique experience where entertainment and recreational factors are dominant. They represent sites where there is no more separation between public and private space, hybrid solutions determined by smart marketing strategies that blur the boundary between shopping and entertainment. New market places, magnetic situations, “esthetic physical and social environments, spectacular sites that harshly contrast with common scenarios of modern and modernist cities, scarce of communicational contents” (TORRES, 2005).

Single factory outlet stores contribute to the creation of this “ideal city” by offering a communicational support to the brand: they ensure great visibility and accessibility to labels empowering their image and driving customers toward new collections. It is vital then to pay great attention to the qualitative level of each point of sale, the center hosts companies and products that are aligned with the target of the entire outlet system, so that the overall image is consistent with
every single shop. On contrary if there is a misperception of the quality of the village, it will affect also the singles stores and all the efforts to create an effective store image will turn out to be useless. The success of such formats, which in recent years leads some companies to extend their production in lines entirely addressed to factory outlets, affected also traditional trade. Sometimes they are blamed to be responsible for the crisis of hundreds of smaller distributors, but it must be noticed that the location of these centers on rural areas gave new life to these territories, offering thousands of jobs and stimulating direct and indirect occupation of window dressers, arranger, insignia suppliers, etc... moreover it stimulated the renewing of historical centers, that partially witnessed a negative trend due to this new competition.

How this format will evolve is not clear yet, but it is gaining higher and higher success, moving out to developing countries where new richness and growing middle class are asking for luxury goods at affordable prices.

1.3.5 **Corners and shop in shop**

All the retail solutions we talked about in the previous paragraphs are characterized by the demand of massive financial possibilities: flagship stores, mono-brand stores and factory outlet stores all need to be part of a complicated commercial net comprehensive of several shops, each one with high investments behind. Not many entrepreneurs has the possibility to adopt them, so firms developed a forth alternative that offers proper distribution, does not affect production policies and need relatively small investments. Corners and shop in shop represent a privileged tools for in-store communication through which industries has the possibility to directly distribute their goods while exploiting structures and competences of classical retailers.

They can be defined as areas that allow companies to isolate their products from the rest to highlight their image and identity, in this way the consumer perceive them better in respect of those who are not on dedicated areas. Because of their dimension and location, they only partially represent the brand’s value system, but can count on continuous updating tanks to the higher flexibility of its structure, that is constantly controlled and demands low budget to be adapted to new needs. Off course by using this format companies accept a limitation of their branding polices, that must never contrast with the image of the insignia who hosts the shop, to allow kind of the same consistency we saw for the factory outlet centers. Here firms can decide what is the level of involvement they wish for their stores, so for example all the choices regarding furniture, visual merchandising, assortment and sale personnel can be taken by the company itself or delegated to the distributor that hosts the shop, always with the goal of creating a brand atmosphere that embodies as
much as possible the brand’s value system. How these areas are managed and coordinated can vary a lot from store to store, depending on which form of contract is used: higher is the level of activities directly operated by the producer, higher will be the possibility to transfer on the point of sale its own commercial policies and to manage the relative information flow to understand shopping behaviors and adequate the offer.

The difference between corner and shop in shop is based on dimensions and on operating costs. Both of them are located in department store, but while corners are characterized by a surface of 10 to 30 m², shops in shop have a dimension of 20 to 120 m² and are real shops with entrances, showcases and specific interior design. They represent the only sustainable solution for those companies who wish to distinguish their products on store, but do not have the possibility to afford a mono-brand chain.
CHAPTER 2. CHINA: AN ECONOMIC SCENARIO MADE BY DYNAMIC MARKETS, ETHEROGENIUS CONSUMERS AND EVOLVING DISTRIBUTION SYSTEMS

2.1 CHINA: 30 YEARS OF TRANSFORMATIONS

2.1.1 How China became the second economic power in the world.

If you think about how economic power was distributed in the world until the half of the 19th century, you realize how at that time China, India and Russia represented the most powerful nations in the scene. Things dramatically changed when industrialization shuffled the economic assumptions of that time, moving westward the commercial routes and driving eastern countries toward deindustrialization and decline. But today the world is witnessing a complete opposite process to the one happened with the Industrial Revolution: today those countries are growing again and forecasts estimate that in 2050 BRIC countries will produce more than 50% of the world GDP, exactly as it was before 1800 (O’NEILL, 2001).

The main actor of this unstoppable process is China: although a slight slowdown in its growth rate due to the global crisis, China confirms itself as the second economic power in the world. World Bank estimates that in 2014 China contributed to the global GDP with 10,356,508 million $, more than twice of what Japan did and constitutes more than 50% of BRICs GDP together.

These data give a clear idea of how the country increased its position in the international panorama and of how it affected the population living conditions and thir possibility to generate richness. The positive situation that affects China today is the result of a reforming process that overturn the economic system from a “planned economy” to a “socialist market economy”. During the People's Republic of China (1949-1978) Mao Zedong started a long period of isolation and tight control over economy. With the goal of a radical transformation, he fostered the development of a highly centralized economy based on the concept of Stalin’s industrialization, which focussed on the expansion of heavy industry at the expense of agriculture. It was soon clear that this strategy could not lead to a favourable results, and when Mao Zedong died in a short time Deng Xiaoping started the reformation process that ran to the great transformation of Chinese economy and society, leading to the creation of the country we all know today.

5 It is important to note that China overtook Japan just in 2010, with a GDP of 5.878,6 trillion $, this mean that in four years the country was able to almost duplicate its GDP; this estimate is in line with what The Economist stated when the overtook happened: “it is realistic to affirm that in ten years Chinese economy will have the same value of the American one".

36
The phases that led to the transition from centrally planned economy to socialist market economy are characterized by a series of reforms that took place in all main sectors of Chinese market, which can be grouped around 3 main political lines: the Decollectivization of China's rural economy and the “Open Door Policy” in 1978, the reorganization of urban areas an industrial sector in 1984 and the WTO inclusion in 2001 with the consequent financial, fiscal and bank reforms.

All these changing inputs were made possible thanks to the sharp application of market incentives that did not necessarily undertake massive privatisation, but by using multiple institutional innovations, the government allowed the growth while avoiding macroeconomic instability (YUEH, 2010). In this way the Chinese “dual track system”, where the government controlled some segments of the market, liberalising the remaining to the open market, allowed the experimentation of the effects of privatization and open economy without incurring in irreversible consequences.

It is worth to deepen the historical path that led to today’s China by analysing the three main phases that characterized it:

1) The first great transition: rural reforms and Special Economic Zones.

When Deng Xiaoping took the power in 1978, he faced the reality of what Mao’s polices had done to the country in the previous 10 years: the institutional system had been destroyed by the Cultural Revolution, underdeveloped industry and agriculture, inexistent international relationships and the political and social atmosphere was tense and unstable.

The leader not only had to reorganize its country, but he had to rebuilt all the institutional asset that was needed to govern it; for this reason economic reforms moved sideways with the rehabilitation of the legal instruments to govern socio-economic dynamics, with the creation of a modern legal structure and with the reorganization of the institutional system. Such reforms represented the core of the Four Modernizations, who affected science and technology, agriculture, industrialization and defence. The starting point of all the reconstruction process was the renovation of the core priority, intended as the definition of agriculture and light industry as new critical sectors, while heavy industry, who was the economic driver in Mao’s view, shifted to a support role.

Territorial collectivization did not recognize any incentive to farmers: the salary was based on the number of working days and not on the effective productivity and for this reason the efficiency on agriculture was close to nothing. Because of that, the first two main reforms in 1979 concerned: the adoption of a household-responsibility system, which divided the land of the People's communes into private plots and allowed farmers to become responsible for the outputs of their fields; the creation of Township and Village Enterprises to absorb all the
workforce that could not be employed in the agriculture. Production quotes were abolished in 1985 and substituted with normal taxes. Farmers’ family returned to be the centre of Chinese economy (ZOU, 1996; JOHNSON, 1998).

Even more important where those initiatives that pursue the goal of recreating an international net of commercial and politic relationship. To attract foreign investments Deng decided to create four Special Economic Zones (SEZs): territories around the cities of Shenzhen, Shantou, Xiamen and Zhuhai, that were characterised by special laws from a commercial, fiscal, monetary and customs point of view, which granted a higher elasticity respect to the rest of the country. This initiative was the starting point of what would had determined the massive expansion of Chinese manufacture all over the world. By analysing the effects of such experiment on the relative territories, the government understood the great potentiality of international openness, which became the drivers of Chinese vertical growth.

2) Reorganization of industrial sector and social tensions.

In 1988 it was enforced the law on State-Owned Enterprises, which officialised the separation between property and administration, introducing management autonomy and operation responsibility, together with the possibility for these enterprises to fail. Reformers aimed to create a system where industry could free itself from central administration interferences, so they fostered work division and job specialization, so to link local, central and collective enterprises by lowering those bureaucratic barriers that hindered production processes. Great focus was also given to the training of technically specialized personnel, composed by students who were sent abroad to learn most innovative production techniques.

Administrative autonomy empowered firms on their production, commercial and financial choices and on the final outputs of their activities. Market demand drove product offering and pushed entrepreneur toward competitiveness and productivity. The level of Chinese firm grew, forcing managers to a more wise use of human and physical resources to lower those wastes that since then looked as the only economic activity.

In 1986 foreigners were allowed to constitute Wholly Foreign Owned Enterprises: this meant that was no longer needed a Chinese partner to operate in the country. From 1988 was also permitted them to invest on Cooperative Join Venture, a structure much more flexible than the previous Equity Join Venture.

Also the pricing system was rationalized, thanks to the gradual introduction of mechanism able to regulate the free-market structure: subsides on commodity price were put aside, freeing some sectors to set autonomous market prices, while at the same time it was allowed to open small
retailers and service suppliers in general. Such actions stimulate the economy, increasing production and goods disposal, together with salaries and occupation. But the earliest consequence of this revolution was a running inflation in those sectors that the government freed for first, which dropped people’s expense power. Moreover occupation started to be a problem: Deng introduced a new contract form to give flexibility to the labour market, but this system was misperceived and could not compensate the “life-long guaranteed” job of the previous structure, provoking a widespread discontent and a conflictual situation between old workers and new contract ones. These issues contributed to split the Party between those who feared a loss of control over the new economic scenario and those who wanted to keep fostering reforms. Instability of this period culminated in the Tiananmen Square Protest in 1989, where the government forcibly suppressed the student-led popular demonstration to enforce martial law in country's capital.

After this dramatic date, the international community shut down diplomatic and commercial relationships with China, action that provoked a hard fall of Chinese economy. Deng Xiaoping was however focused on his goal and in a short time restarted the reformation process to drive China to the socialist market economy. Between 1991 and 1993 he was capable to re-establish all the relations net with western countries, stimulating once again the market and restoring political stability.

3) Socialist market economy and impressive growth.

Thanks to the new reforms plan that developed the private sector and encouraged foreign investments, the country started a steep growth that during the ’90 reached the rate of 13% per year. But this phenomena was not supported by an adequate financial system, and this brought again the spectre of inflation. Between 1991 and 1994 the govern promoted and important fiscal reform, based on fiscal federalism as a means to rationalize the control over expenses at all the level of administrative structure: taxes where divided into local, central and common and their management and collection was given to a particular organization composed of both central and local agencies (Zhan, 2007). This implementation changed positively the way in which tax revenue was distributed and also it modified the relationship between the centre and peripheries, increasing the dependency of the latter on central power.

Moreover at the beginning of the ’80 it was clear how China needed a financial reform: the Special Economic Zone were increasing year by year their relevance in the country’s economy, they needed banks specialized in international businesses, and the highly centralized system of People’s Bank Of China (PBOC) was not capable to satisfy the requirements of a high-speed
growing country. The bank performed too many function to sustain them efficiently and effectively. It was together the deposit, the monetary regulator, the free-rete lender for state enterprises and the means to achieve the planned political goals. All these function were absolutely incompatible with the socialist-market-looking reform that Deng Xiaoping was pursuing. One above all, zero-rate loans led state enterprises to cumulate a massive amount of non-performing loans; to solve this problem together with the SEZs question, between 1979 and 1984 the Party decided to hive of the PBOC the so called “Big Four”: Agricultural Bank of China dedicated to the rural areas; Bank of China whose aim was to manage monetary transaction; China Construction Bank to finance real estate investments; Industrial and Commercial Bank specialized in the financing of industrial and commercial sectors (LARDY, 1998; OKAZAKI, 2007). But sadly the generation of these banks and the division of fiscal powers represented only a formal and hierarchical transformation. The Big Four continued to lend money to state enterprises even though most of them were dramatically at a loss, with the unique aim to guarantee an occupation to their employees, avoiding any further social tension. The central bank lacked of an effective control and supervision of the behaviours of these institutes; as consequence of the concession of free loans, the money stock increased oversize, leading to excessive inflation rates.

In 1995 the born of WTO and the interest of China in participating to this organization, forced the country to face the problem of its financial structure and to adequiate it to the internationally recognized parameters. The Party tried to solve the situation by commercializing the property of the Big Four, splitting business loans by political loans, but also this initiative failed and the four major Chinese bank at the end of ’90 were almost insolvent. Moreover the Asian financial crisis of 1997-98 convinced the political leaders that a fragile banking sector could represent a destabilizing factor in the integration of China in the international community. A two-step recapitalization of the Big Four, for a total amount of US $ 109 billion, increased the Capital Adequacy Ratio above the international standard of 8% (OKAZAKI, 2007) and with this move the 11th December 2001 the country entered in World Trade Organization.

From this moment on, the intensification of international relationships and the growing global integration accelerated the renovation of the institutional system and with it the progression of commercial, contractual and property rights.

The two laws that best embodies the entire transformations that China lived during this 30 years period are the Property Law of 2007 and the Company Law in 1993.
The first brings three fundamental innovations: first, the inviolability of private property, which before affected only the public property; second, the overcoming of the distinction between the private possession of consumption goods and of production means, or in other world the distinction between those goods that can or cannot be considered private property; third, the right to obtain an indemnity in face of an expropriation (SCARPARI, SAMANARI, 2009).

The Company Law in 1993 instead introduced the two archetypes of corporation used in the western country: limited liability companies and limited companies; moreover it increased citizens autonomy in the constitution and management of firms, lowered the minimum level of capital required to found a company, improved the protection of minority shareholders and the bureaucratic transparency while increasing the responsibility of managers.

Today the transition path that rose Chinese destiny seems close to the completion. China is the second most powerful country in the world, its cities has nothing to envy to western capitals, and the average development level is already close to advanced countries. But somehow this unparalleled renovation did not erase the past, and China continues to be a container of differences and contradictions, as we will see in the next paragraph.

2.1.2 China today: a pervasive dualism

In the last thirty years China was able to transform itself from an underdeveloped country to the first Asian economy and the second in the world. Yao and Morgan (2008) defined the process that led to this great success in three main phases, each one characterized by a different time period, strategy and goal, each one overlapping those reforms we talked about in the previous chapter.

The first stage was the one aimed to fight misery and hunger through the implementation of the rural reforms and the introduction of the household-responsibility system, moreover the born of the four Special Economic Zones and the impulse to exportations, supported by the restructuration of all the financial institutes, attracted a huge amount of foreign investments, which fostered the country economy and accelerated the catch up of developed economies thanks to the technological spill-over. This phase characterized the whole reforming period headed by Deng Xiaoping, from the ’70 to 2000. Once hanger and misery were defeated, it was time to work on the upgrading of Chinese income: between 2000 and 2020 the main goal has been to consolidate the country position in the international arena, strengthening commercial and diplomatic relationship, to keep nurturing the progress. The most relevant event in this phase has been the adherence at the WTO in 2001, that steeped the growing rate of the country. The third stage focuses on the goal to becoming the first global superpower within 2050. This achievement is pursued by a rebalancing of the relation
between foreign and domestic market. The vertical growth that characterized the country in the last 30 years brought also new social issues, issues that may represent instability factors for the achievement of a such enterprising goal; China needs to face them with modern reforms that will shift its development strategy from quantitative expansion oriented to a qualitative one.

Living conditions bettered far beyond everyone’s beliefs: most of the objectives planned by Deng Xiaoping were achieved five or ten years in advantage, in 2010 China overtook Japan as the second largest economy in the world, a threshold reached even twenty years in advantage; in 2004 its GDP was just 6th in the global ranking, but today it is more than the GDP of Germany, UK and France together, more than hundred time the its level in 1978 (CHEN, 2011).

Chinese economy is not only huge, but it is also open: the country is today the biggest exporter in the world with US$ 2,252 trillion market, in 2012 generated a commercial surplus of US$ 231 billion and accumulated foreign exchange reserves for US$ 3,310 trillion (National Bureau of Statistics of China, 2012). The level of integration with the international community is clear by analysing its level of FDI: in 2012, China was the world's largest recipient of inward foreign direct investment attracting US$ 253 billion, while its capacity to invest abroad continues to increase with a total outward FDI of $62.4 billion (OECD, 2013).

But as it was said in an article of The Economist: “nobody can maintain a double-digit growth forever; when Chinese economy will be mature and its workforce will be on top, it will be natural for its expansion to decelerate”. The development model set by Deng Xiaoping to overcome the period of Mao’s planned economy, was based on export supported by low cost labour force and investments on infrastructures. The openness to foreign trade attracted a massive amount of external capitals that fostered the country’s expansion. But now things are changing: in the last years the growth rate slowed down, shifting from 8.1% in the first semester of 2012 to 6.9 in June 2015. There are several factors that can explain this happening: first government actions has been oriented more on investment than on internal development, in 2012 48% of GDP was composed of expenses for plans, machinery, buildings and infrastructure, while consumption represented only a third of the total. This because the Party gives a core role to foreign trade and invests to support it, but the weakening of foreign demand, caused by the global crisis in 2008, with the consequent reduction of Chinese export gave a harsh blow to the economy of the country; moreover the salary increase of Chinese workforce, the rose of land price and the competition of new emerging countries, caused a migration of production activity toward Thailand, Malaysia and Vietnam, while on the same time those companies who produce high-end goods are calling back to origin countries their plants, decreasing the flow of FDI in the country and limiting the effects of government policies to
stimulate them. Also the high attitude of Chinese consumers toward savings has a big role in the decrease trend, linked to the poverty of the past and to the lack of a social system able to guarantee education, security and wealth.

China represents then a place of thousands of opportunity, but also a field for never ending challenges. Indeed if the presence of government in the strategic sectors of Chinese economy remains central, local governments play a fundamental role also in the privatization process of those enterprises that play in minor fields and in the management of the relations with foreign companies. The independence of those institutes that regulates the social and economic life of the country from the main political actors is still a big challenge. A widespread and pervasive corruption affects all the level of the organization, from members of the Party to the smallest officer in the deep west. A clear image of this phenomena is given by Miss. Federica P., the manager of a luxury Italian restaurant in Nanjing: "In China once you have money, there is absolutely nothing you cannot do. In 2011 when the owner decided to build this restaurant, he had a problem with the infrastructure: since the building was not meant to host a professional kitchen, it did not have the room to place at the required high the hoods exits. In Europe this would have led to a different choice in the location of the restaurant, but here all they had to do was to send a bottle of Baijiu (Chinese liquor) and a cartoon of cigarettes to the local inspector and to invite all the tenants of the building for a dinner, thanking them with a little gift. At the next condominium meeting all presents stated that the infrastructural lack was not such a big deal, allowing the entrepreneur to locate here the restaurant”.

Another of the major challenges that the government need to face is the fight of all those social imbalances that came with the liberalization process and that contributes to increase the distance between rural and urban areas. This dualism derives from the Maoist era, when life in urban areas was organized in “danwei”, places of employment that guaranteed social and sanitarian services, while farmers activities were organized in people’s communes, where services were provided basing on the revenues that came from the sale of agricultural products. Today of course the scenario is different, but the gap is still evident: take as an example the per capita income, which in urban areas is three time the rural one (MUSU, 2011). Most recent reforms are trying to level inequalities by offering a minimum salary to farmers in rural areas, but this mechanism is governed by local institutions and works based on the diversity of each zone. New cities continue to stimulate the migration of farmers, even though the government tries to limit it by offering residential permits only to those who can demonstrate to have a solid income and a residence. Being a registered urban citizen means to have certain guaranteed social rights, but even not being registered is still better

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6 Quote from an interview part of the data collected on field during a six month experience in China. Further explanation will be given on the paragraph that explains the research methodology.
than living in the countryside; this explain why in 2007 45% of the urban population was not registered. More in general the urban population in 1978 was 18% of the total, today it grew up to 54%; this, translated in labour market terms, means that in 40 years China lost almost half of its farmers.

The inequality does not affected only rural and urban zones, but it is today a multidimensional phenomenon that affects business sectors, social classes, poverty marginalization, and regional growth. Another problem indeed is the logistic lack of infrastructures and transportations to move people and materials from the coast to the hinterland, where numerous cities are expanding year after year on the model of the eastern ones.

One of the common belief of foreigners who moved in China, is the fact that 99% of problems here is due to the enormous size of its population. Chinese are 1,4 billion, and this means that every demographic issue is hundreds of time bigger than in every other country in the world. The first and most serious problem that the government has to face about the population is aging: starting from the ’80, when Deng Xiaoping imposed the “One Child Policy” to free Chinese development from the burden of an exponential demographic growth, new birth decreased more and more, shifting from 6,16 birth/woman in 1965 to 1,66 in 2012. This rate will continue to decline also in coming years, due to the cultural influence that new prosperity caused in Chinese population. Indeed as long as China never had a retirement system, tradition wants that after the birth, grandparents move in their sons house to grow the child while parents are at work; this means that parents have to raise money to maintain the whole enlarged family, saving almost nothing for themselves. But today new young people are more and more hedonist and willing to spend money for their own pleasure, they have products, services, communication tools, hobbies, all thing that did not exists 10 years ago. In the choice between a life of sacrifice for a kid or a life of wellbeing by themselves, today the choice goes to the second option, causing the serious issue of population aging. This inevitably affects the retirement system that, even if it was introduced during the 90’, is not ready to support the huge amount of people that are going to stop their working career in the next fifty years.

Another challenge is the health care system, that once again brings out the inequality of urban areas respect to rural ones, where health infrastructures are deficient and not autonomous. Moreover at the beginning of this century less than 10% of the rural population could afford a health insurance.

Last but not least, the impressive growth of the past thirty years required a huge demand of energy and raw materials, which caused an increase in level of pollution far beyond the wealthy threshold.

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7The World Bank:
The government has today recognised the problem and started to work to switch the relation between economic growth and environment quality. One of the main goals of the last Five-Year Guideline is the decrease of dependency on manufacturing sector toward a more balanced industrial structure, to encourage the service industry which is less dependent on energy and raw materials. Moreover China is investing on acquiring the know-how, technology, and skill levels to upgrade the sustainability of its production sector. The country’s R&D expenditure moved up from 1.1% of GDP in 2002 to 1.5% of GDP in 2010 and this percentage is still growing.

The country is becoming more and more aware of its socio-economic situation, elaborating a strategy that, differently from the past, is no more focused on the rapid growth of its income, but looks today to the wellbeing of the population, to be able to sustain a fair quality of life in the long-term period.

2.2 MARKET AND DISTRIBUTION

2.2.1 Chinese consumer: geographical and generational heterogeneity

In describing the modern Chinese consumer, we want to start by reporting what Barton, Chen and Jin (2013) defined as the four main trends that characterize the market evolution of this country:

1) Increase in the level of discretionary purchases, intended as those goods that do not satisfy primary needs.
2) Increase in the level of aspirational purchase. A growing portion of Chinese consumers evaluates goods on the base of what they represent as a distinguish mark, as a status symbol that expresses the social role played by its owner.
3) Increase in the number of both old and young consumers. In ten years more than 5% of the population will be above 65 years old, these people will be more likely to discretionary purchases like trips, free time and clothes, and less devoted to savings as most of today’s senior citizen are, citizens consider superficial and not necessary such expenses. At the same time 35% of the urban population is going to be composed by the so called “generation 2”: single child born after the 1980, grew in a flourish economy, faithful in the future and open-minded. These Chinese are not likely to savings but at the contrary are willing to borrow money to finance their wellbeing. China Market Research Group in 2008 stated how, among 500 persons between 18 and 32 years old in six different cities, 70% of them was not able to save anything in the last year.
4) Development of new geographic areas. In 2002 40% of the middle class lived in Shanghai, Beijing, Guangzhou and Shenzhen, while only 15% lived in third and fourth tier cities.
Estimations forecast that in twenty years the growing industrialization of the central and western areas will lead to an increase of the middle class in second and third tier cities to a percentage of 30%. An example of this phenomena is the city of Jiaohe in the north, which is rapidly expanding thanks to its strategic position as a logistic hub for the north-east and thanks to the abundancy of raw materials. In 2000 less the 1,000 family out of 70,000 were part of the middle class, but in 2022 they are going to reach the level of 90,000 out of 160,000 (WANG HONG, 2012).

These four trends witness how deeply the Chinese consumer class has been changing in recent years. The rapid economic growth and development of the country led to the birth of high income consumers willing to spend money on goods that improve their living conditions. Some impressive data that help to give an idea of the phenomena: between 2000 and 2005 in China were built more than 400 malls, between 2003 and 2011 the number of cars sold moved from 2 million up to 19 million, and between 2005 and 2010 the number of credit cards improved from 13 million to 200 million. Independently from the purchase typology, Chinese consumer are increasing in their number, becoming more modern and more sophisticated, influenced by the American way of life and attracted to western lifestyle, looking for emotional satisfaction and assertiveness (HELLEN, 2012). Goods are perceived as status symbols, that identify a precise position in the society and show the personal background of the holders. China Daily on an article in 2012 reported: "China's growing middle class may have different ideas on how to spend their new-found wealth, but they share a common pursuit: The good life". For new riches indeed, shopping is seen as a means to upgrade living condition, it is the new hobby.

Differently from their parents and grandparents, who lived under the Marxist philosophy “from each according to his ability, to each according to his needs”, new generations are more likely to accept changings and evolutions on goods and trends, to undertake fashions coming from western countries, to express their own individuality. They are now appeased by the possession of latest fashion goods, evaluating completely different and new features in respect of what older generations did.

Here we just generally talked of how new economic dynamics affected the modern consumer, but it is worth to note that China is not only composed by young middle class individuals; the 1.4 billion people who live the country today are extremely heterogeneous: the dualism we talked about in the previous chapter and the tumultuous history of the People's Republic of China contributed to the creation of one of the most variegated society in the world. A society

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8 Described at pp. 43 - 44
that can be analyzed on precise characteristics, which help to give a better and more complete idea of who is today’s Chinese consumer.

The culture, customs and tradition of a person are strictly linked to its personal experience, to the environment he has been living in and, of course, to the historical period of its life. As we said, China in the past fifty years has witnessed a dramatic transformation of its political and economic context, multiple revolutions and reforms disrupt its institutional asset and determined several historical moments. Consequently also the mindset of its population has developed in complete different ways. In 2007, Hühngh and other researchers tried to link different consumer typologies to the different periods in which they were born, witnessing how this reflected on their values and purchasing behaviors. They identified three main segments:

-Red Guards: represented by those who lived the Cultural Revolution (1966-1979), when China was a single country isolated from the rest of the world and economic activities were totally controlled by the Party. These individuals were students that sacrificed their youth, material comforts and family life for the welfare of the country and the Communist Party, but the harsh, bitter, and violent struggles they endured during their formative years did not prepare them for the changing world. Thus the socio/political ideology they acquired during those years conditioned their personality and behaviors, giving them a pessimistic and frugal attitude toward consumption and a strong reluctance in trying new products and in purchasing foreign brand.

-Modern Realists: those who lived the age of economic reforms (1980-1991) and grew up in a dynamic and growing society who was moving toward the open market system, where main values where entrepreneurship, competition and individual accomplishment. They were encouraged by the government to pursue a relatively comfortable life. All these new ideals created consumers likely to search new solutions, to enjoy the shopping time and to utilize innovative products in their daily life.

-Global Materialists: those who were born after the Cultural revolution and came of age after the economic reforms period, when China was integrating into the global community and witnessed a growth around 10% for many consecutive years. During this period China became the largest advertising market in Asia, consequently this new generation has been exposed to a massive amount of consumerism messages in the media, that combined with the internet potentiality, especially as a vehicle to foster globalization, created a segment who is looking for newest foreign brands, very receptive on the symbolic meaning of goods, willing to live the shopping experience not only as a pleasure, but as a moment where to create relationships with
the world and where to find those objects that can contribute to define what is their position in this world.

But the generational segmentation offered by Hungh cannot be taken as the only way to distinguish Chinese consumers. Another fundamental source of differentiation is geography. While in western countries we are used to a widespread market homogeneity between the cities of the same country, this does not happen in China, where between cities there are enormous differences in terms of behaviors and lifestyles (ZANIER, 2011). Investment of the central government in the urban and economic expansion of coastal areas and their openness to foreign investments during the ’80, provoked a inhomogeneous development of the country. These areas are rich, industrialized and urbanized, while on contrary inner areas are more rural and weak. In this sense, Cui and Liu (2000) defined three big regions of the country: growth markets (south-eastern China), emerging markets (north, center and south-west China) and untapped markets (north-east and north-west China).

But the geographical diversity does not affect only the dualism between rural and urban areas, there is also an heterogeneous development of urban zones within themselves. Cities in China can be classified in tier, levels that represent population density and political and economic relevance of a determined urban area (China Statistical Yearbook, 2010):

- **Tier 1- Big Four:** the first level undertake the main four cities of the country (Beijing, Shanghai, Shenzhen, Guangzhou), with higher GDP and per capita income and a higher presence of expatriates. They are highly influential on politic, economy, finance, culture and in the attraction of foreign capitals because of the presence of a wide middle class and of high richness. Citizens of these megalopolis are usually not really linked to the Chinese tradition, this because they are more influenced by the international and western costumes both in lifestyle and in product choices. For the same reasons in these cities family are usually composed of parents and one son, grandparents do not live with them as it is supposed to be in the tradition. Lots of couples are mixed and this contributes to influence consumption behaviors. As long as these metropolis are hyper populated and moving around is stressful and complicated, individuals plan their purchases and try to accomplish them near home, to save money and time. The “Good enough segment” is growing, characterized by the search for those offers that guarantee a sufficient level of quality and reliability at low costs. These cities are today at the same level or even more developed of the Western capitals, and cost of life here has reached hardly affordable levels, that is way consumers starts to be more sensitive and careful on commodities price, even if for luxury goods they are still willing to spend a lot (GADIESH, 2007).
- Tier 2: here cities are highly populated and rich, but the market is less cosmopolitan and labor cost is cheaper. In recent years FDI has been attracted by the rapid growth of these cities, that with innovative services and supports to companies and individuals, are now considered better places to live respect to the big fours. The second tier can be divided into three sublevels: Climbers (11 cities) characterized by a high per capita income and a high population density; Niche (10 cities) characterized by a high per capita income but a lower population density; Mainstream (16 Cities) characterized by a lower per capita income but a high population density.

- Tier 3: they offer a relatively small market size, but affluent consumers, confident and optimistic on the future, thanks to the recent industrialization of these areas. Also this level can be divided into two sublevels: Next frontier (136 cities) which are expanding business areas with more than 1 million inhabitants; Pour cousins (484 cities) small urban areas with a population smaller than 1 million.

Second and third tier cities developed only in recent years, so people here have been in touch with richness and purchasing power for a short period of time and they are still getting used to it. Citizen are optimistic and confident on the economic growth and aspires to increase their living conditions. They are less independent and self-confident in confront of first tier ones, thus social acceptance obtained thanks to the economic success is fundamental. Here for brans the importance of recognizability is vital, independently by their origins, even though the “western myth” is still very strong. Shopping in these cities is perceived as an hobby, a moment where is possible to create social relationship. Consumers follow trend and fashions of upper tier cities and love to travel to Shanghai, Beijing and Hong Kong just to shop. Once customers found a shop they like, they tend to stay true to it, that is why it is important to create a strong connection with them by using the point of sale as a means to perform an exalting shopping experience.

More in general, those values that characterize Chinese culture and civilization come from the ancient history of this country. Even though new consumption values and globalization influenced young generations, some classical features of Confucianism, such as the value of education and training, the respect of own commitment in interpersonal and social relations, the large role given to the politic as dedication to the society wellbeing and not to personal interests, have proven to be fundamental in promoting the process of development of the Chinese economy. The strength of Confucius philosophy has deep roots in these people, its values has survived the Maoist period and can be considered as the cultural base for the social
transformation and economic reforms that characterized the country in the past 30 years (MUSU, 2011). But what is happening today, considering the new forces that shapes modern China and drive the metamorphosis of its society, raises the question about how new values of richness and ostentation can cohabit with the frugality, simplicity and collective wellbeing promoted by Confucianism. As Enrick Shwanze, a German engineer who moved to China 8 years ago, said: “Chinese only care about two things: money….and money!” This gives a good idea of how much materialism is today a topical issue: money are becoming more and more relevant for Chinese young people, to be able to satisfy an hedonism and vanity that was completely unknown in the past. Success and possession of material goods are intended as forms of personal realization and contributes to the formation of a new social stratification of which new generations are protagonists. Durvasula and Lysonski (2010) studied the consequences of this new attitude toward money in today’s youth and demonstrated how it affects the psychological aspects of purchasing experience, promoting compulsiveness, vanity and prestige.

So probably, the exposition of Chinese consumers to western trends and lifestyles is going to influence the social dynamics of the country, at the same time however it is hard to think that the cultural relativism is not going to contrast the shift of Chinese toward the postmodern consumer archetype. Thus if values of a society are determined by its culture, attitudes and behaviours of western consumers cannot be enlarged to eastern ones, but it is better to analyse Chinese consumers values for what they are in reality and not for what they look from a western prospective. Hofstede in 2004 proposed a theoretical framework that represents a good starting point for our analysis. He showed how in western countries is stronger the value of individualism, that induces people to satisfy their own needs and to purchase relaying on personal parameters. This pushes them to be more hedonistic than individuals who belong to collectivistic culture, providing pleasure, fun and enthusiasm during the shopping experience. On the opposite side Chinese belongs to the second category and emphasise the collective wellbeing, group activities, consensus, collaboration and loyalty. Their decisions are based on group consensus, consequently also their purchasing choices are more rational than emotional. They tend to evaluate products on the base of their social utility and functionality to catalysing the attention of the group and to reduce the risk of not being accepted. Moreover the Chinese historical path brought a negative perception of libertine and wasteful lifestyles, being criticized and discouraged by the Party (CAI, SHANNON, 2012).
Another important cultural dimension analysed by Hofstede is the time orientation. More precisely, Guo and other researchers in 2011 demonstrated that Chinese believe in the concept of time intended as a unique entity that embodies past, present and future as indivisible. On daily life people do not plan their activities, time schematization is not that important as it is in western cultures, because time is considered a continuum, there is no Sunday, no closing hours, no appointments. Chinese consumer then become loyal to those brands that are able to recall previous positive experiences, embodying a virtual link with the past, the present and the future, a link represented by the trust that the consumer decide to give to the brand: it becomes a means to time continuity. The study reveals that the brand is perceived as a container of both utilitarian and communicational functions, but in the new scenario the latter are much stronger, representing a guarantee for quality, an identification symbol and a recall for past experiences lived with friends or family.

Relying on these consideration, it is possible to explain how the self-realization, determined by the achievement of personal success, is linked to the capability of the same individuals to achieve and maintain a social position and prestige. For this reason it is possible that consumers perceive the choice of a mall for shopping as a way to demonstrate their social position more than as the best choice possible to purchase certain goods. Those people that evaluate more self-realization and self-confidence buy luxury goods in exclusive points of sale to enrich their image and identity. The purchase and show-off of status symbol goods acquire then a double meaning: from one side it helps the customer to build up its personal image and to communicate it to the rest of the world, on the other side it helps to display the appurtenance to a precise social group and to affirm the success not only of the individual himself, but of the group as a whole (TAI, 2008).

2.2.2 Retail revolution to face consumer evolution

Our consideration in the previous chapter (2.2.1 Chinese consumer) bring to the conclusion that over the past years China has witnessed an socio-economic transformation that is changing also Chinese’s attitudes, shifting their approach to life from “hard working and plain living” to “hard working and comfort living” (WANG, 2011). This progressive renovation of social attitudes inevitably moved alongside with a process of modernization that affected also the distribution system of the country. Before the ’80, retail was limited to a logistic function because the central government decided what to produce, where an in which quantity; there were no possibility to perform activities such as marketing, and even the import was allowed
only to Foreign Trade Corporation (FTCs). The distribution system was structured following central plans, and consisted of three vertical levels: at national level there were the distributors of the most important cities (Shanghai, Beijing, Tianjin and Guangzhou), at the second level were wholesalers of the different provinces located in the main urban areas, and third level wholesalers on smaller cities spread all over the country.

Today the situation is completely different: the scenario moved toward a market economy and all these functions have been left to distributors, that following the growing economic capabilities of consumers, have been evolving in new and modern forms, contributing to the phenomena of the retail revolution. It is clear how the openness to foreign investments has shaped this new structure, converging to most common international practises, with hypermarket and supermarket spread all over urban centres and main department stores and luxury shops located in exclusive shopping mall and cities main roads.

The modernization of distribution system is a process that still continues, influenced by three main factors: market demand, government policies and distributors offers. As we said, a great impulse to innovation is the mutation of consumers’ preferences and capabilities. Think that in 2007 the per capita income was nine times the level of 1990. To be more precise the average familiar income in urban centres shifted from 1.500 RMB to 14.000 RMB (UNCLES, 2010). This created dissatisfaction for the old formats, higher selection and willingness to find products and retailers able to combine good quality, affordable prices and high level services. Distributors were and are forced to strive for innovation and competition, especially in a country where numbers are enormous, both in terms of clients and of firms.

Also central and regional governments have a great role in driving the development of the third sector. As we said, one of the main issues of modern China is the great differences between eastern and western areas of the country. To promote the growth of the latter, the Party offers incentives, funds, and consultant activities to help firms to enter the market, to correctly position and to get in touch with foreign suppliers that can assist them in the growing path with modern technologies and knowledge.

Of course all the efforts of the government to foster the expansion of this sector translated in a growing competition: state incentives combined with the increase of individual richness brought to an explosion of the number local companies, which moreover have to face international players that find in this huge market a great stimulus to work in China. Inevitably such a scenario continues to affect distribution formats and offering, highlighting the importance of
“retail innovation” as a key factor to determine the competitive advantage of each firm (WANG, CHAN, 2007).

But presenting just the forward frontier of the distribution sector would not be fair. Chinese market is much more complicated than this, presenting the typical heterogeneity of emerging countries, where in urban developed zones modern formats cohabits with more traditional and underdeveloped retailers, while in rural areas preindustrial solutions and commercial channels which did not evolve since planned economy, are still the main actors (LING, JAFFE, 2007). Because of its huge extension, China presents a coexistence of different political, cultural and commercial situation that inevitably shape the distribution system. A system that is remarkably fragmented: modern retail chains covers only one third of the total market, with the majority of the players that consist of small points of sale, family managed and with reduced financial capabilities, that prevents them to be part of the forward runners in the evolution process.

It is possible to spot two main homogenous areas to identify the distribution trends of this country: the south-east area is characterized by an entrepreneurial environment that stimulates retail activities and attract investments from both Chinese and foreign companies. The historical background of this region explains why it is considered an interest hub for international investments, that bringing capabilities, technologies and knowledges, fostered the development of distribution formats. On the other side the north-west area is characterized by a less developed commercial environment, that however is perceived as a container of great opportunities, due to the large government incentives and to a market that is not saturated yet. Cities of these regions are seen as a greenfield where it is possible to test new formats without the compulsive fear of losing ground, like it happens in the hypercompetitive areas. Moreover because of the low development stage of these territories, labour cost is still cheap as much as transportation and services are. Such a scenario contributes to increase the attractiveness of these zones, that will probably embark on an astonishing growth in the next future.

Such an heterogeneous context shapes also retail strategies; in China indeed it is really hard to exploit replication formats in different regions, as long as those structures that result ideal in one city, may not work at all in another city. The stimulus that determine the success in an area, which must be linked with the culture and the history of that place, are different to those of zones that faced a different path. The consequence is that in China the distribution must take into consideration the localization of its points of sale when developing a commercial strategy.

A great example of what we just said is the research of Wong and Yu (2003), who analysed the perception of Chinese consumers about points of sale in shopping centres of tier-1 and tier-2.
cities. They observed how consumers of first tier cities care more about the position of the mall, its level of popularity, the quality and price of product and the variety of incentives and promotions. On the contrary second tier citizens tend to evaluate more functional attributes.

Anyhow they witnessed also that these differences are lowering more and more, reporting the fact that second tier individuals place importance also on shop atmosphere and to the quality of the services, being influenced by the ludic side of the shopping experience.

2.2.3 Chinese distribution formats and how their image is perceived by consumers

Now, to deepen our analysis on the single formats, we have first to explain that in China retailer and wholesalers belong to four company profile (BETTIOL, 2012):

1) State-owned enterprises: they represent the main structure of firms before 1978, when the only concern was to guarantee an equal distribution of goods, with no consideration for the effective demand. These companies still today are characterised by high structural rigidity, high bureaucracy and low level capabilities of their employees, even though they can count on the possibility to access to a high distribution network and to a deep govern support. Examples of this typology are company such as: Air China, Bank of China, China Unicom and China Oilfield Services.

2) Collectively-owned enterprises: most of these companies come from state-owned enterprises which operate on primary sector, who changed their institutional form to exploit higher dimensions and decisional autonomy, while maintaining linkages with the political class. Their property is divided between those subjects who are directly linked to the company: managers, employees, people who live in the surrounding area and government representatives. The relation with the local authorities is very tight and most of the time top positions are covered by former state officials. Today the majority of Chinese supermarkets belongs to this typology.

3) Private enterprises: this typology was born after the ’90, when the transition toward a market economy allowed private citizens to found their own firms. Indeed the capital for this typology of enterprise is entirely owned by privates, and depending on the type of operation, they can be classified as:

-Private business stores: those operating at the highest level of professionalism. Some examples can be found on most famous companies of China, such as Lenovo, Huawei Technologies Co. and Yurun Group Co.
- Private welfare stores: those created with the aim to sustain an person or a family, without any further intention to enlarge, to enrich or to professionally manage the business, just to survive;

- Private try-it stores: those who are managed by individuals that cover a public position, but at the same time want to run a commercial activity, which might grow and evolve in a private business store as it happened with Suguò or BlueFrog, or on the contrary may disappear.

4) Foreign invested enterprises: to this typology belongs all those companies that are entirely or in part owned by foreigners. This structure is relatively new, as long as before 1992 it was impossible for non-Chinese to found a company in China. In the first years of liberalization it was still hard to do business because of severe limitations and high level of control, but with reforms of 1995 and 2004 and the possibility to open retail chain and wholesalers activities, FDI started to flow into the country in the forms of:

- Foreign-Invested Commercial Enterprises (FICE): which were introduced specifically to make it easier for foreign investors to both buy and export China-sourced products without the need of going through an agent, and to allow foreign companies to develop their own sales structures and possess their own import licenses. Their structure enabled foreign investors to establish an entity that would provide both import and export licenses with minimal capitalization. Typical FICE are all the franchising companies such as McDonald’s and H&M.

- Wholly Foreign-Owned Enterprises (WFOEs), which are always entirely composed of foreign capitals and are more suited to actual production and manufacturing, but can operate in the commercial sector as well. Brembo is one of the examples of such enterprises.

- Cooperative Joint Venture (CJV), which are enterprises created with capital investment from both foreign entities and domestic companies, where profits are distributed between the investors in a proportion that may differ from the proportionate ownership interest of each investor. Example of this typology are Marpos and Simes and Bosh.

Of course the omnipresent Chinese dualism affects also the way companies choose one form or the other: in most developed cities, where the market orientation has fostered a great growth, collective and private enterprises, in competition with foreign invested enterprises, covers the biggest portion of the market. By contrast, on inner rural zones, biggest players are state owned enterprises, both for retail and wholesale activities, who operates through huge points of sale and warehouses, leveraging on their relational network and on the reliable reputation.
Since now we just talked about the enterprises institutional structure, but to be more specific on the distribution formats in China we have to look at the legislation. The regulation of retail formats was introduced only in 1998; before indeed the legislator had no idea of what could have been a retail format, consequently it was hard to produce a specific law on the topic. For the same reason, the first classification was not sufficient to contain all the innovative formats that continued to pop up in the market, so it was renewed in 2004 by the ministry of commerce with the GB/T18106-2004 standard, that we present in Table 2.1:
Table 2.1: Classification of retail formats following the GB/T18106-2004 standard

<table>
<thead>
<tr>
<th>Retail format</th>
<th>Location</th>
<th>Trade area and target customer</th>
<th>Size (mg)</th>
<th>Merchandise assortment</th>
<th>Service/policy</th>
<th>Business hours and and facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery store</td>
<td>Residential or traditional commercial districts</td>
<td>Trade area radius of 0.3 km; local residents</td>
<td>Business area ~100</td>
<td>Grocery, tobacco, Beverage, liquor</td>
<td>Counters and self service</td>
<td>12h</td>
</tr>
<tr>
<td>Convenience store</td>
<td>Commercial centres, main intersections, transport terminals, hospital, entertainment places, office buildings, gas stations, etc.</td>
<td>Small trade area, 5 min walk distance, shops, and/or young people purposeful shopping (5-7 min walk)</td>
<td>Business area about 100</td>
<td>Fast foods and small consumer goods; about 3000 items; price above average</td>
<td>Mainly self-service, on the go</td>
<td>16 h; fast food processing; appliance; services; (10%)</td>
</tr>
<tr>
<td>Discount store</td>
<td>Residential districts and main streets where retail low</td>
<td>Trade area radius of 2 km; local residents</td>
<td>Business area 300-500</td>
<td>Propped lower than market average; self brand important</td>
<td>Self service; one time pay</td>
<td>Fewer employees; limited services</td>
</tr>
<tr>
<td>Supermarket</td>
<td>City and district commercial centers; residential districts</td>
<td>Trade area radius of 2 km; local residents and random customers</td>
<td>Business area 8000 (about 1000)</td>
<td>Packaged foods and fresh foods; daily use goods; grocery supermarket; different from general supermarket</td>
<td>Self service; separate entry and exit; on-site pay</td>
<td>12 h (14:41 to 11:00; come parking)</td>
</tr>
<tr>
<td>Hypermarket</td>
<td>City and district commercial centers; urban fringe; large residential district</td>
<td>Trade area radius of 2 km; local residents and random customers</td>
<td>Business area 8000 (about 1000)</td>
<td>Clothing, food and daily use goods; self service; many brands; variety; home improvement</td>
<td>Self service; separate entry and exit; on-site pay</td>
<td>Parking 40% of business area</td>
</tr>
<tr>
<td>Retail warehouse/ membership club</td>
<td>Major roads/highways in urban fringe</td>
<td>Radius: 5 km; business and group purchase, random customers (customers with car)</td>
<td>Business area 8000 (about 10,000)</td>
<td>Clothing and daily use goods; self service; many brands; variety; home improvement services</td>
<td>Self service; separate entry and exit; on-site pay</td>
<td>Parking business area (large parking area)</td>
</tr>
<tr>
<td>Department store</td>
<td>City and district commercial centers; historical commercial clusters (inner city, arterial roads)</td>
<td>Customers for fashion and taste</td>
<td>Business area 8000 (about 20,000) (6000)</td>
<td>Large variety, apparel, shoes, luggage, cosmetics, daily use goods; household appliances</td>
<td>Counter and self service (nature allowed)</td>
<td>Emphasis on service quality; catering, entertainment</td>
</tr>
<tr>
<td>Specialty store</td>
<td>Commercial centres (city and district); inside department store or shopping mall</td>
<td>Random customers looking for certain type of good</td>
<td>Depending on merchandise</td>
<td>Mainly one type of goods; specialized; many brands; wide choice</td>
<td>Counter and self service</td>
<td>Employees with specialized knowledge</td>
</tr>
<tr>
<td>Home improvement store</td>
<td>Urban fringes, major roads/highways, and areas with high proportion of consumer-owned properties</td>
<td>Customers with own housing properties</td>
<td>Business area &gt;8000</td>
<td>Home improvement and home furnishings; sundry daily use goods; home improvement services</td>
<td>Self service</td>
<td>One stop shopping and full service; 2000 parking lots</td>
</tr>
<tr>
<td>Shopping mall</td>
<td>(Central commercial centers of major urban fringe)</td>
<td>(Anchor store &lt;40% of total area)</td>
<td>(Total area)</td>
<td>Department store, supermarket, specialty stores, exclusive stores, catering, entertainment</td>
<td>Shops are independent from one another</td>
<td>Parking matching business area</td>
</tr>
<tr>
<td>Community shopping mall</td>
<td>City and district commercial centers</td>
<td>Trade area radius 5-10 km</td>
<td>Floor area &lt;50,000</td>
<td>20-40 shops; including DCC, specialty store, exclusive store, catering, entertainment</td>
<td>Shops are independent from one another</td>
<td>Parking lots 300-500</td>
</tr>
<tr>
<td>Metropolitan shopping mall</td>
<td>City commercial centers</td>
<td>Trade area radius 10-20 km</td>
<td>Floor area &lt;100,000</td>
<td>40-100 shops; department store, DCC, specialty store, exclusive store, catering, entertainment, other stores</td>
<td>Shops are independent from one another</td>
<td>Parking lots &gt;500</td>
</tr>
<tr>
<td>Suburban shopping mall</td>
<td>Major roads/highways in urban fringe</td>
<td>Trade area radius 30-50 km</td>
<td>Floor area &gt;100,000</td>
<td>500 shops; department store, DCC, specialty store, exclusive store, catering, entertainment, other stores</td>
<td>Shops are independent from one another</td>
<td>Parking lots 1000</td>
</tr>
<tr>
<td>Factory outlet (mall)</td>
<td>Generally away from city area</td>
<td>Brand-conscious customer and purposeful shopping</td>
<td>Each with floor area of 100-200</td>
<td>Shopping directly manufactured, brand commodities</td>
<td>Self service</td>
<td>&gt;500 parking lot; joint owned by all outlets</td>
</tr>
</tbody>
</table>
Referring to our analysis, we want to focus on those formats that are more suited to the goal of creating a strong brand image, those then who are able to host flagship stores, mono-brand stores, factory outlet stores and corners/shop in shop. For this reason we are going to deepen our analysis on malls, department stores and factory outlet centres.

- **Malls:** it is possible to affirm that in China the concept of store image goes hand in hand with the one of shopping malls, huge buildings that are not only the main location where Chinese consumers buy high-end goods, but also recreational places that offer multiple services, from restoration, to hairdresser, to entertainment (WONG, YU, 2003). All over the country they are organized in the same way, copying the model that came from Hong Kong between ’90 and ’00, that wants these shopping centres to be located in important gorgeous buildings or hotels in the cities’ business areas, so that they can count on an already set consumer base, to which add external clients. Usually these buildings create a single entities also with metro-stations, so that when people step down the train find themselves in a commercial areas that enchants and stimulates the purchase. The creation of shopping mall is based on one of the cultural factors we already talked about: the concept of group and collectivism, that comes from Confucius’s philosophy. Best practices then recommend to avoid isolation when opening a new point of sale, to prefer commercial centres where it is possible to buy products of cognate categories: malls and department stores open around a specific theme, that can be luxury offers for the firsts and accessories, technologies, or whatever for the seconds.

In particular mall are best containers of mono-brand and flagship stores. This because their opening is often supported by the owner of the building or by the entrepreneur that created the shopping centre, who manages directly the human resources and provides the proper personnel for stores. The use to locate single-brand shops in these building is so common that firms consider it as the only option, taking into consideration no longer where to locate their points of sales, but in which mall, and more precisely, at which floor and among which other brands. Following Chinese culture indeed, there is a negative correlation between floor number and shop relevance: most important *griffe*, with a strong brand identity and great financial possibilities are located at the first and second floor, going up people would find other important brands but not so renowned, to end at the top floors with small and less important labels. Moreover as we said, it is not only a matter of floor, but also a matter of neighbourhood, those store located next to each other must have a group consistence: same importance, same image, similar customers, this to avoid a negative influence on each other reputation. Differently from what happens in western countries, where exclusive store are never located into close buildings
but usually positioned on main shopping streets, in China brands find it as a good solution to create a soft selection of visitors, that when decide to go into a shopping mall are already oriented toward the purchase, and do not incur randomly in the shop overcrowding it and lowering its perceived value. Of course big companies understand the value of street retail, especially for the visibility it that guarantees to the brand, but to take this model in China is not as easy as it is in Europe or US. Given the dimension of this country and of its population, also street retail of important brands must be consistent, firms cannot settle on a normal store but have to buy entire building, decorating it with themed façade and a proper interior design; this is why only few top companies can afford such an investment and usually use these store as flagship for their brand image in the country.

**Figure 2.2** Plaza ’66, Shanghai

![Plaza ’66, Shanghai](image)

Source: direct picture.

**Figure 2.3** Flagship stores in Shanghai

![Flagship stores in Shanghai](image)

Source: direct picture.
• Department stores: these stores are located in big buildings as well, but not necessarily on central business area, but also on touristic and commercial areas, on residential areas or on main arterial roads. As the name suggests, they are divided in departments, which means that each floor has a different good category, with a multitude of shops that sells cognate goods. Usually there is a theme that characterize the whole store, so for example Yuqiao Store in Nanjing contains personal care categories, with floors divided by apparel, accessories, cosmetics, bags, sheets and household, or the Dianzizhongxin Department Store in the same city that sells technology, with floors divided by cell phones, PCs, Hi-fi, repair shops, etc.. In this format goods belong to a lower category and many shops are multi-brand retailers. Products are displayed all around an open area where store locate one next to the other without clear boundaries; this might create confusion in visitors, who tend to not note the single brand but to focus more on the product itself. For this reasons those firms that wants to create a brand image but cannot afford a mono-brand store on a mall, need to enter in department stores with corners or shops in shop, to be able to separate their offering from the rest and to create an image consistent with the values of the company.

In such stores the level of interior design is much less sophisticated respect to the previous one, but at the same time it depends very much on the single building. Indeed, there are stores that offer a multitude of shops in shops, that even though they cannot be considered mall because of the typology of product displayed, come really close to them, with a general impression of middle-high end offers. On the other side there are locations that contain a huge number of small family managed retailers who offer wide ranges of fake and real brands, with basic display techniques and oversized selling personnel not professionally trained. These stores are really dangerous for those companies that aim to carve a role in Chinese market, because the general image perceived here is of a cheap low quality offer.

Figure 2.4 Yuqiao and Dianzizhongxin Department Stores

Source: direct pictures.
Factory outlet centres: this format more than others has been imported from western markets, who created them to be able to sell all those products that could not be sold at full price. As Carmine Rotondaro, worldwide real estate director of Ppr Group, said during an interview in 2011: “for the moment in China we are still able to sell the whole stock at full price, but soon or later we will face the problem of inventories, that due to high duties, it is impossible to dispose elsewhere. Will then be crucial to find outlet villages able to satisfy our needs”. Such villages are growing rapidly in last years, fostered by an expanding middle class that is looking for products able to witness their social role at affordable prices. If the first two format we presented are in some ways typical for China and developing country in general, the factory outlet centres are a format that has been copied in all its forms and detail from western countries. Most of the time they recall the typical European village environment, developed on an average area of 50,000 square meters, they are in many cases the result of collaborations between local and foreign operators. An example is Mega Mills, opened in Shanghai in January 2013 by a joint venture between Pearl River Estate Group, Shanghai Welead Investment and the US firm The Outlet! Company. It is characterized by an open structure of two floors that hosts over 300 between international luxury brands and local brands, as well as a grand gourmet area, an eight screens cinema, restaurants and coffees, on a total surface of 60.000 m² of rentable area. It is probably still too early to see how the Chinese culture and environment is going to transform these structures, but what is clear is that they have been fully accepted from the market, gaining as much success as they did in Europe and US. Consider that, since the International Council of shopping centres started the monitoring of this phenomena in 2010, the market has been growing at a rate of more than 50% a year. Between 2010 and 2011 12 villages opened, the year after other 13, and for the end of 2016 other 30 centres should open all over the country.

**Figure 2.5** Mega Mills Factory Outlet Centre

Once we understood which are the most powerful retail format to build a concrete brand identity, we have to analyse how this formats are able to influence the Chinese consumer.

As we already said, the brand has a fundamental function in this market, because it is one of the main drivers in the product choice. In a market overcrowded of products and labels, real and fake goods, national and foreign firms, the brand stands as a lighthouse for customers, a symbol that represents precise values and messages, that guarantee quality and performing standards. But to create a strong image in a country that has met western firms only twenty years ago, where communication runs on different binaries and where traditions are often blurred by modern trends, is not an easy task. Communication campaigns need to have massive dimension to be really effective, so firms tend to invest more on different strategies, such as the store image.

Pan and Zinkhan (2007) demonstrated how it is possible to find a progressive correlation between the positive perception of visitors and the purchasing probability.

One of the main problem that firms has to face when designing their store in this country is that most of the researches that has been done on store image and on the way it shapes consumers’ perception, has been done on western case studies, while very few researchers focused on developing countries and in particular on China. This because such theories were developed on situations where consumers had already reached a sophistication level that allowed them to perceive the environmental elements of the store and to translate them into positive emotions; this was not possible on countries where consumers were not ready yet. But as we all know, China has grew so rapidly in recent years, that people are catching up the level of western populations: the rapid expansion of the market and the willingness for modernity represented a great impulse for the technological development of Chinese points of sale, who started to invest on computerized cash machines, computerization of the information system, adoption of music and many other technological devices. The changing aspirations of the consumer and the dissemination of a new concept of shopping has led retailers to put attention not only to tangible aspects, but also the intangible elements of their offer (Wang, 2011); it is now time to move forward the theory on store image and to applicate it to eastern culture, to see how it is possible to maximize companies’ efforts.

Hu and Jasper (2007) studied the way in which American and Chinese consumers perceive social factors into points of sale and their influence in the formation of the store image. This analysis move from the assumption that social factors, together with physical and functional factors, affects the opinion about a specific shop. Moreover they stated that individuals from different cultures, due to their different orientation over conformism and autonomy, may have a different sensitiveness on
social aspects, meant as the lifestyle, attitudes, demography of customers and interactions with sale personnel, but also visual merchandising such as colours, lighting, graphics, signage and manikins. More precisely they analysed two main social factors that might determine visitors’ opinion: service customization, seen as the possibility to create a deep and satisfying relationship with sale personnel; and store design, seen as the main instrument to inform and vehicle the emotional message from the brand to the consumer.

The result of this research underlined how Chinese consumers are more sensitive than western ones to these elements, leading to the conclusion that some cultural variables, such as the orientation toward conformism, influence the perception of social elements and consequently the creation of the image of the shop who proposed them.

The same two researchers in 2010 tried to apply the model of the creation of store image on other two sample of Chinese and American consumers.

![Figure 2.6 Model of Store image creation](image)

Source: HU, JASPER, 2010

Their analyses demonstrated how, for both samples, the purchase intention was influenced by both affective and cognitive variables, but on contrary of what happened for Americans, who were strongly influenced by emotional perceptions, Chinese were more conditioned by products quality, prices and physical features of the point of sale. This is in line with our hypothesis, that related this factor to the lower sophistication of this population. Anyway it is worth to note that even though Hu and Jasper demonstrated that there is a lower perception of intangible elements, Chinese still recognise the value of these elements, leading to the important conclusion that those instruments utilized by western companies to shape the emotional experience into the shop, works also with Chinese consumers, even if not at the same magnitude.
CHAPTER 3. RELEVANCE AND ANALYSIS OF COUNTERFEIT IN THE CHINESE MARKET

3.1 COUNTERFEIT ORIGIN AND WEIGHT

3.1.1 Distribution similarities between China and Western countries

From what we just showed, it is clear how Chinese consuming trends are converging toward western ones. Customers are becoming more sophisticated and aware of what they want, what it represents and which is the best way to get it. This acknowledgements is clearly due to the rapid development of the Republic influenced by western countries who, after the ’90, started to invest in China not only with production plants, but also with distribution networks and retail formats. To support their initiatives, foreign brands created specific commercial campaigns and advertisements that, on one way or the other, drove consumers’ preferences, shaping their mind to be more receptive on western values and habits. This process led to a transformation not only of the good categories that Chinese are willing to buy, but also of their shopping behaviours and consequently of those structures that are designed to satisfy them. As we saw, if Chinese needs were once merely functional, today they are shifting toward a more ideological sphere that embeds symbols and messages. Retailers, in China as in the rest of the world, have a primary role in determining which are the values that a good represents. The format, the design, the architecture, the location, the sensory stimulus are all factors that a brand needs to exploit to be able to transfer the principles of the company to its products. As long as consumers changed, point of sales changed with them, and as long as western culture influenced Chinese population, it influenced also their distribution system, that now more than ever is converging toward international standards.

The retail revolution of last decades led to the consideration, in the store planning, of all those elements that western firms consider as a fundamental tools to differentiate their offer and to determine their competitive advantage in the market. Chinese shops today are more sophisticated, more elegant, precisely organized to assist the consuming process; more and more they understands the importance to offer not only goods, but experiences. Technology becomes part of the store: ICT and computerized cash machine, data analysis, mobile devices to link visitors to the shop, all such modern tolls are driving customer and sellers toward a more engaging shopping path, that combined with specific smells, tastes, sounds and visual effects define e precise experience that contributes to give uniqueness to a store and consequently to the brand who head it.

The search for differentiation is perceived as a primary issue in the Chinese market, both for local and international firms. The size of its population and the rapid economic development led to the
birth of uncountable firms, moreover these dynamics attracted companies from all over the world, that found in China an outlet to escape from the stagnation of developed markets. These two phenomena, combined together, result in a market that today, especially on coastal areas, looks like a container of endless brands, logos, signs and jingles where it is really hard to emerge.

In this scenario, every possible means that allows any sort of differentiation is considered as vital, and companies strive to learn how to use them and how to adopt them as quickly as possible. This is why all those methods that has been developed in hyper competitive economies, such European or US ones, are colonizing also eastern markets, that are progressively catching up the distance. Today many of the store in the shopping areas of Shanghai, Beijing or other big cities in China, present characteristics similar to New York or Berlin points of sale. We are witnessing a sort of normalization between retail standards of eastern and western countries that is inevitably affecting also market dynamics.

But since now, in talking about what happens in the Chinese market, we left behind one of the main phenomena that has characterized the economy of this country since the beginning of its growth: counterfeit. Every counterfeited products all over the world is considered for its definition “Chinese”, this because China for years has been by far the main producer of such goods. The next chapter is going to deepen the analysis over such a trend, but what we want to state here is that the progression and dynamics of Chinese economy shall not be considered aside by this eternal practice of its citizens.

The manufacturing of fake products has been one of the drivers of Chinese rebirth and it is deep rooted in population’s customs. Copies invaded the market and contributed, together with foreign investments, in modelling consumers’ perceptions and preferences. But as long as everything else evolved in this never-stopping scenario, where goods influence consumers which then influence distribution and vice versa, also counterfeit shaped its role in the chain, and adapted itself to changing trends. If once it was enough to reproduce a good to sell it as the real one, today more sophisticated and acknowledged consumers are easily capable of distinguish real from fake ones, so also this black industry needed to find a way out, a way out that turned out to be the logical evolution of the former stage, the replication not only of the product itself, but of the entire system that confers value to the good: the distribution system.

As we have seen in Chapter 1, retailers has a core function in transferring the values and intangible features of a brand to its products; this is obtained by exploiting a precise strategy that embed several elements such as architecture, services, sensory stimulus and information-communication technologies. Such a precise strategy is different from company to company and contributes to
confer uniqueness to the brand. But if it is possible to reproduce a fake product, why shouldn’t be possible to replicate also the furniture, signs and general environment of the store who is recognised as unique authorized reseller of that good?

Chinese entrepreneurs found on this solution a valuable way to proceed on their business, raising the level of sophistication of the entire parallel system and renewing the threat for original brands. But before to go head on this specific topic it is better to deepen the analysis on the origins and status of the art of counterfeit in China, to understand what it really represents and what is its magnitude.

3.1.2 Why is China the leading country on counterfeit?

One of the phenomena that characterized Chinese economy since the very first beginning of its global experience is counterfeit. This is a well-known features of Chinese economy, on the contrary what only few people know is that authenticity and sincerity has been strong and ancient values in the culture of this country. Roger Greatrex reports how in China some archaeological finds demonstrate that artisans used to sign their artworks to attest who created them, their provenience and their authenticity. To witness it, some signs has been found also on pieces linked to the terracotta soldiers from the Qing Dynasty, around 300 b. c. This sort of proof of authenticity was linked to the concept of sincerity, indeed Book of Rites reported: “the worker’s name should be written on his work, to give proof of its sincerity. If the work is defective, the workers shall be punished. The State shall confiscate those products that are defective or made of poor materials”.

Still today on the great wall of Nanjing is possible to see on each stone a sing of the worker who built it, so that if enemies would ever down the wall, it would have been possible to trace those workers who did not properly absolved their mansion. This is a practical example that helps to give an idea of the role of seriousness in the Chinese culture.

But if authenticity is such a considered value, why does China has been in the past ten years the counterfeiting leader in the world? The answer is as easy as it looks: money. As we said talking about Chinese consumers, the search for richness and wellbeing is today the driving force of this economy, and counterfeit represents a shortcut to reach it. Thus in the first period of capitalism, China had a big disadvantage respect to the western countries and nothing to lose, copying meant to skip some phases of the development process and it was enough to convince the public opinion. New entrants from emerging markets relied heavily on imitation to compensate for their lack of capital and know-how, and the cost saving they reap, by skipping R&D while adopting pre-existing but new-to-the-market or new-to-the firm technologies, was crucial to their competitive advantage.
Moreover, the great value Chinese put on popularity contributes to justify this behaviour: in the common mentality, what is famous is also a source for revenues, a power able to skunk competitors and succeed in the market. This leads to the belief that without any creative effort, by replicating others’ brands or images, it is possible to thrive thanks also to the complicity of local authorities and to the low number of patents and registered trademarks of this market. Consequently, the use to exploit others’ brands notoriety, especially if foreigners, has become a widespread practice, and counterfeit an activity that is worth to perform.

For the same reasons, scammers are not criticized by the public opinion, but on contrary appreciated for their cunningness and abilities. Chinese pretend to be blind in front on the phenomena of counterfeiting, while calculates how much it is possible to earn from it.

Aside to this cultural factor, there are also several environmental factors that contributed to stimulate the development of this phenomena:

- the delocalization on many production phases from western countries to China, which allowed a technological spill over. Outsourcing dispersed knowledge and resources, that were once contained within a single company, among several overseas suppliers, whose flexible systems permit profitable small-batch. The suppliers themselves typically start by filling orders placed by others, but eventually they turn to imitation to develop stand-alone businesses. Initially, they simply replicate the goods they make for the end-product firm, but then they gradually vary the product or undercut the pricing by teaming directly with large retailers. Aided by the reluctance of many buyers to sign exclusive supply agreements, these firms often transfer their acquired know-how to another buyer or appropriate it, especially in a country where legal protections are weak, making capability barriers to imitation crumble.

- the great number of alliances, fostered by government policies that obliged foreign companies to join Chinese ones to operate in the domestic market, are the most effective learning vehicles for the absorption of tacit knowledge. Think about equity joint ventures, wherein experts and executives on both sides spend a long time together, sharing oversight of operations and working together to resolve complex problems. This allowed Chinese firms to learn how to perform western activities and consequently gave a great impulse to knockoffs production.

- the enormous size of the population and its low educational level, which offered a great low cost labour force to clandestinely employ when needed without any contractual boundaries;

- difficulties faced by many little companies who see the shift of the production toward counterfeiting activities as a good option to rise their condition;
- simplification of production processes of the majority of middle and big size companies, in order to reduce costs, production time and labour force requirements. This helped the replication process, which had no longer to rely on sophisticated machinery and knowledge.

- the transformation of haphazard, ill-structured knowledge into a structured, unified codex. The spread of low-cost automation made it possible to codify and quantify vast tracks of information and transformed knowledge into a commodity that can be bought, sold, and replicated. Codified information is represented in blueprints or formulas that are easily stored, retrieved, used, and transferred at a fraction of the cost of producing it and with greater speed, accuracy, and consistency. With advances in electronic communication, even the variable cost of codification has declined, so profitability increases with use, creating an incentive to codify even more.

This is especially true in large systems needing “recombination, reuse and cumulativeness” and in dealing with complex problems. And, thanks to simulation techniques and artificial intelligence, even previously tacit knowledge can be codified. A final impetus for codification comes from the spread of universal standard certification, benchmarks, best practices, and the consultancies that disseminate them.

- the growing availability on the market of production machineries and working tools that facilitate the imitation of those products who already succeed in the market (SHENKAR, 2010).

These factors help to understand where does counterfeited products come from; of course there is not a single origin, it depends on the level of sophistication of these products.

Best copies, those that look exactly like the original ones and that are hard to distinguish even for best professionals, usually come from over production stocks of those firms who has been charged of the production in developing countries. So for example, the brand company outsource the fabrication of 10,000 pieces to a Chinese company, which instead produces 11,000 pieces and sells the oversized production on the black market for a price that is not as much high as the certified one, but still high due to the fact that the good is completely identical to the original one.

There are then those products that are really similar to originals but it is possible to verify they are not the real ones. These copies usually comes from companies ran by former employees and managers of those suppliers charged of the outsource production from western companies. During their working experience they learnt how to construct the product, its specificities and the process required, getting to know the materials and machineries required. Once the reached a sufficient level of autonomy they leave the company and start a parallel one to counterfeit the same products. Even when individuals are not sufficiently enterprising to start their own company, they can be hired by counterfeit specialized industry that are willing to invest in these persons’ knowledge.
Furthermore multinational usually do rely on a wide range of suppliers spread all over the world, so that they are able to control them and to bargain on prices thanks to their contractual power; but if the working relationship ends, it is likely to image that the supplier is not going to waste the amount of knowledge he gained, and will probably continue in its activity to sell fake products on the black market.

There has been an evolution of the counterfeit phenomena: at the beginning it concerned the few and well done reproductions of high-end goods, sold at high prices to guarantee high profit margins and to make customers less suspicious, convincing them to acquire original goods at lower prices in confront of official retailers. But today Mr. Tsang, president of an investigation agency against counterfeit, stated that only 5-10% of scammers produce oversize stocks on original industrial plants to sell it illegally, following economic dynamics and entrepreneurial strategies, the new frontier is to focus on commodities, with lower level imitations at cheaper prices, but with a much higher level of diffusion, that continues to guarantee high returns.

Numbers and trends of counterfeit are changing year by year, and as long as it is an illegal market, it is really difficult to calculate and monitor them. As communication and transportation have advanced, opportunities for imitation have burgeoned: globalization and technological advances have expanded the ranks of imitators and have made imitation more feasible, more cost effective, and much faster (SHENKAR, 2010). Several sources offer different interpretations: the Organisation for Economic Co-operation and Development (OECD) estimated that counterfeit goods market reached $1.77 trillion in 2015, growing of about 70% from 2008, when the level was around US $550 billion. It represents 5-7% of total world trade and it has been estimated that one of its consequences has been the loss of 2.5 million jobs worldwide.

Even higher are the estimation of Frontier Economics on an analysis project promoted by the International Chamber of Commerce (ICC), entitled “Estimating the global economic and social impacts of counterfeiting and piracy” (February 2011). This research try to forecast the counterfeit value in 2015 starting from data collected by OECD in 2008. More specifically they considered: the value of counterfeit and pirated products on international trade; the value of counterfeit and pirated products consumed on domestic market (those that do not cross the boards and so are not present on customs archives, which OECD used to write their report); the value of pirated digital products; macroeconomics effects such as missed tax revenues, welfare expenses, costs of social and sanitarian services for scammers and loss of FDI; the loss of job in the 20 great countries in the world.
The results of this analysis are showed in this table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationally traded counterfeit and pirated products</td>
<td>$285 - $360</td>
<td>$770 - $960</td>
</tr>
<tr>
<td>Domestically produced and consumed counterfeit and pirated products</td>
<td>$140 - $215</td>
<td>$370 - $570</td>
</tr>
<tr>
<td>Digitally pirated products</td>
<td>$30 - $75</td>
<td>$80 - $240</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>$455 - $850</strong></td>
<td><strong>$1,220 - $1,770</strong></td>
</tr>
<tr>
<td>Broader economy wide effects†</td>
<td>$125</td>
<td>$125 +</td>
</tr>
<tr>
<td>Employment losses*</td>
<td>2.5 million</td>
<td>2.5 million +</td>
</tr>
</tbody>
</table>

Source: Frontier Economics

† Effects on government tax revenues, welfare spending, costs of crime health services, FDI flows
* Estimate limited to G20 economies

Source: ICC, 2011, Estimating the global economic and social impacts of counterfeiting and piracy

In Table 2.7 it is presented a value that is once again different from the previous one, stating that in 2008 the counterfeit market had a greater value than the one estimated by OECD. This gives an idea on how difficult and complicated it is to give even a coarse estimation how the real value of the phenomena. What we showed are no more than estimations, sometimes based on the market value of the original goods, sometimes on the value of fake goods, and moreover they are based on data from a market that for its definition is black, hidden to authorities and to research institutes and for this reason hardly accountable.

In such a chaotic scenario, the only reliable data are those that come from the fight against counterfeit. The “Report on EU customs enforcement of intellectual property rights – Results at the EU border 2014” by European Commission gives data about violation of intellectual property rights collected during real cases of customs operation; for this reason it is the only reliable tools to track the trends of this market, even though enforcement activities might represent only an indirect measure and a little portion of what is really happening in the world.
The report witness how cases of intellectual property violation in 2014 have reached all time high quote of 95.194, increasing the level of the previous year by 8,76%, when they recorded 86.854. Each case covers a certain amount of individual articles that can vary from 1 to several millions and can cover different categories of goods and different right-holders. At same time, this growth corresponded to a slight decrease in the number of articles who has been detained -1,04% and to a significant decrease their value, with a -24,50%. This means that even though the number of cases has increase after a slight decrease in 2013 respect 2012 (-4,17%), the total value of what has been detained is much lower, in line with the evolution trend toward imitation of commodities we mentioned above.

**Figure 2.8** Number of registered cases

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>43.671</td>
</tr>
<tr>
<td>2008</td>
<td>49.381</td>
</tr>
<tr>
<td>2009</td>
<td>43.572</td>
</tr>
<tr>
<td>2010</td>
<td>79.112</td>
</tr>
<tr>
<td>2011</td>
<td>91.254</td>
</tr>
<tr>
<td>2012</td>
<td>90.473</td>
</tr>
<tr>
<td>2013</td>
<td>86.854</td>
</tr>
<tr>
<td>2014</td>
<td>95.194</td>
</tr>
</tbody>
</table>

Source: Report on EU customs enforcement of intellectual property rights – Results at the EU border 2014

**Figure 2.7** Number of articles

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>79.075458</td>
</tr>
<tr>
<td>2008</td>
<td>178.908278</td>
</tr>
<tr>
<td>2009</td>
<td>117.959298</td>
</tr>
<tr>
<td>2010</td>
<td>103.306928</td>
</tr>
<tr>
<td>2011</td>
<td>114.772812</td>
</tr>
<tr>
<td>2012</td>
<td>39.917445</td>
</tr>
<tr>
<td>2013</td>
<td>35.940294</td>
</tr>
<tr>
<td>2014</td>
<td>35.568982</td>
</tr>
</tbody>
</table>

Source: Report on EU customs enforcement of intellectual property rights – Results at the EU border 2014
The first emerging data is that China, since the beginning of this report in 2007, has always been on the top position as supplier of counterfeit products addressed to Europe, providing 80.08% of the total number of articles, plus an 8.02% from Hong Kong, that in some way is linked to the country.

Figure 2.8 Country of provenance by articles

The second important feature that is interesting to note is which typologies of infringements are registered. As it is shown in the graphics here under, the most relevant features is about infringements of trademark, intended as Community, national and international trademarks, with 93.37% of articles and 86.19% of the total value.

For registered Community, unregistered Community, International and national design and model rights also a wide variety of products were concerned with an emphasis on toys, other body care items and shoes. With regard to copyright infringements, the product categories most concerned were toys, clothing and CD/DVD. While talking about suspicion of patent infringements, the main categories of products concerned were medicines, other body care items and audio/video apparatus, even though both of the percentage are under 1%.

With regard to suspicion of plant variety right infringements the involved products, namely fruit, belonged to the foodstuff category, while the detentions related to geographical indications concerned exclusively spirits and are almost irrelevant.
Figure 2.9 IP rights in percentage of articles

![Figure 2.9 IP rights in percentage of articles](image)

Source: Report on EU customs enforcement of intellectual property rights – Results at the EU border 2014

Figure 2.9 IP rights in percentage of value

![Figure 2.9 IP rights in percentage of value](image)

Source: Report on EU customs enforcement of intellectual property rights – Results at the EU border 2014

All these data emphasise one figures over the others: the total amount of the value of counterfeit market calculated by custom agencies in Europe, based on the domestic retail value (DRV) which is the price at which the goods would have been sold at retail on the Member State market had they been genuine, is for the 2014 €617,046,337: an amount that is way lower than the one offered by the estimation that we gave before. Of course this number is calculated only on European bases, but even if we imagine that on average every single continent could collect such an amount, which is not so realistic, the size of fake trade would still be lower from what has been estimated.

But the reality is that is impossible to have a clear idea of what this phenomena represents and what does it involves, the only things countries and governments can do is to contrast it with shared and solid legislation aimed to limit it and to create enforcement tools able to vanish the counterfeit phenomena.
3.2 CHINESE LEGISLATION ON INTELLECTUAL PROPERTY RIGHTS

3.2.1 Intellectual property rights in China

Once we gave a sort of generic idea of what does counterfeit means in terms of number and countries, it is now time to understand also what is the level of protection that is, at least on the paper, guaranteed to intellectual property rights holders in China.

Communication strategies, both in the case of advertisement campaign and experiential marketing through retail formats, are defined as a combination of precisely designed tools that interact to pursue the transfer of specific values from the company to its products. Such tools are different and customized around each firm, constitute then a source of uniqueness that ensure great added value; for this reason, as it happens for products, the specific and distinguish features of such instruments need to be protected from counterfeiting, to prevent other companies to appropriate the advantages coming from the image that the store is able to create around the brand’s offer. In this way furniture, logos, jingles, architectural elements, all need to be registered and patented, to be able to defend the precise combination that constitute a winning strategy for the company that was able to develop it.

But patenting and IPR protection might not be as simple as it looks in a country that finds in counterfeit one of the most powerful economic means to foster its economy.

The concept of protection of intellectual property has been considered in the Chinese legislation only since the opening of the market to western countries. The reason of this delay in respect of more developed countries is due to its cultural background: in China culture deeply embedded with traditions, where Confucius philosophy gave great emphasis on personal development more than on profits and where each individual was considered only on the base of its contribute to the society. Because of this, the patenting of inventions and to the granting of property right has always been considered completely antithetical. Let’s think to Mao period when, because of the collectivization of means of production, there was a total indifference towards recognition to authors or inventors of their works of genius; furthermore during the Cultural Revolution just the idea of asking for a moral gratification was judged as reactionary (ALLISON, LIN, 1999).

The end of the First Republic and the openness to foreign market greatly revolutionized not only to Chinese market, but also to its social environment and consequently to its legislation. After 1979, with the gradual recognition of private initiatives and with the slow introduction of competitiveness and open market elements over planned economy, those rights that were linked to intellectual property started to be recognized by the legislator, who issued new laws to defend
them. Laws that had together the aim to defend intellectual property rights and to reassure international economic operators, encouraging them to invest in China and to import in the country new technology. The government wanted to create a familiar juridical environment for foreign companies, but the modernization of the legal aspects about intellectual property was mainly an effect of the normative adjustment of Chinese legislation to all the international commitments the country was facing.

The goal to rapidly develop productive power, to satisfy the needs of development of the socialist market economy and to accelerate the entering process in the global economy gave a great impulse in the catch up of western countries. The reforming impulse of the Second Generation of the Party headed by Deng Xiaoping, who wanted to promote the Open Door Policy as a means to rise the country from the dramatic experience of the Great Leap Forward, gave a significant push to the restructuration of the politic-economical system. Respectively in 1983, 1984 and 1990 the National People’s Congress issued the three main law on intellectual property: Trademark Law, Patent Law and Copyright Law. Many laws and implementing regulation were then issued and periodically integrated after the many international treaty that China signed in the following years, such as the Paris Convention (1985), the Berna Convention (1992), the Madrid System (1989) on regulation of trademarks, the Nice Agreement (1994) concerning the international classification of goods and services for the purposes of the registration of marks, and the Patent Cooperation Treaty in 1994.

On those years, to witness the effective intention to reform the legal system, it was also adopted the first Chinese law against unfair competition, the Anti-Unfair Competition Law of 1993, which has been revisited in 2008 after the adoption of the Anti-Monopoly Law.

Another important law that it is worth to mention for what we said in the previous chapter is the new Labour Contract Law of 2008, which give the possibility to add on labour contracts some specific confidential clauses that concerns the employee’s obligations of secrecy related to companies sensitive information and to information on intellectual property rights, providing its responsibility in case of damage. This new regulation was introduced to, at least formally, stop the technological spill over that allowed Chinese companies to copy products and processes from western firm by hiring former employee who were legally free to transmit their knowledge from a company to the other.

Moreover between 1990 and 1995 the government adopted the Regulations of the People’s Republic of China on Customs Protection of Intellectual Property Rights, and with the Action Plan for Effective Protection and Enforcement of Intellectual Property Rights they created a
body delegated to the coordination and supervision of application of intellectual property regulation and to the enforcement against violations.

This reforming process found a fundamental turning point in the will and need of China to become part of the World Trade Organization, membership that would had guarantee an easy access to the global market and would had determine which direction was the modern China going to take. Indeed to be part of the organization, it was necessary the rectification of TRIPs, the Agreement on Trade Related Aspects of Intellectual Property Rights which required every member state to adjust its legislation around uniform precise precepts and standards. To join the WTO and to recognise the TRIPs regulation essentially meant from one side to accept a restriction in the use of others’ technology, but from the other side meant also to access to the possibility of using those same means to defend its own position in the market. In 2001 this second positive effect was not perceived as much important, and the restriction were substantially limiting one of the main economic activities of the country, but the Party was acute enough to understand that China would not live on counterfeit products forever: a country with none important firm in the global market is a country with no power in the international arena, as long as national firms represent its technological progress, its importance and its image. China needed to exploit the possibilities offered by WTO to be able to develop its own national company while continuing to foster a widespread growth at all levels of economy. It was a successful strategy: the country grew 10% per year over more than ten consecutive years and new economic giants shaped their position in the global market. Companies like Lenovo, Haier, Tcl, Baosteel are today renewed all over the world not for their low tech capabilities, but for their innovations and knowledge which found a great ally on the intellectual property protection offered by the World Trade Organization. The more China develops, the more Chinese brands will enter in the global market, the more managing class understands that if they want their intellectual property to be protected overseas, they have to protect others’ intellectual property rights in China.

3.2.2 TRIPs as the main legislative source

The Agreement on Trade Related Aspects of Intellectual Property Rights is at the top of Chinese sources system on IP protection. Chinese legal system indeed, allows those international conventions and treaties who has been accepted and signed, to directly access the internal normative corpus, becoming at all effects part of it. It is divided into seven segments for a total amount of 73 articles. The first part describes general provisions and basic principles,
affirming the clause of National Treatment (art.3) and of Most-Favoured-Nation Treatment (art.4) which are a common line in all the WTO agreements. Part II is about standards concerning the availability, scope and use of intellectual property rights, and in eight different section describes what has to be considered intellectual property and what is the specific legislation.

The eight section are:
1) copyright and related rights
2) trademarks
3) geographical indications
4) industrial designs
5) patents
6) layout-designs (topographies) of integrated circuits
7) protection of undisclosed information
8) control of anti-competitive practices in contractual licences

Part III concerns the enforcement of intellectual property rights. It underlines the importance of enforcing protection rules and asks to member states to adopt mechanisms, procedures and remedies able not only to reimburse owners of intellectual property rights in case of violations, but also to avoid piracy acts and to empower custom agencies to avoid import and export of counterfeit goods.

Part IV is about acquisition and maintenance of intellectual property rights and related inter-parts procedures, while Part V concerns dispute prevention and settlement.

Last two parts are about transitional arrangements and institutional arrangements, to end up with general final provisions.

For what concerns our research, would be useless to analyse in deep every part of this document, we will then focus on those intellectual properties rights that might be involved in the protection of a specific distribution format, in its atmosphere, architecture and services aspects.

The first topic its worth to discuss is the Part II - Section 4 on industrial designs. Before Uruguay Round\(^9\) industrial designs had a very limited security, but with the advent of TRIPs they obtained a protection of at least ten years. The owner of a protected industrial design obtained the right to prevent third parties not having the owner’s consent from making, selling or importing articles bearing or embodying a design which is a copy, or substantially a copy, of the protected design, when such acts are undertaken for commercial purposes (art.26).

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\(^9\) The Uruguay Round, spanned from 1986 to 1994 and embraced 123 countries as contracting parties, which led to the creation of the World Trade Organization.
In Section 5 instead the agreements deal with the issue of patents. Art. 27 describes patents without giving a precise definition, stating that patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. Patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced. This gives the idea of what we meant when we talked about the fact that the TRIPs involved a substantial adjustment of the China legislation toward the western countries’ one, homogenizing the IPR in all the member states, China included. However there is in this agreement some space for local adaptation, indeed “members may exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect order public or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by their law” (art. 27, paragraph 2). The agreement defines also the minimum rights exclusive of the patent owner, which consist of the possibility to prevent third parties, not having the owner’s consent, from the acts of making, using, offering for sale, selling, or importing for these purposes the product or, in case of a the subject matter of a patent is a process, to prevent third parties to use the process and the products that from this process are obtained. Moreover the patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts (art.28).

Section 7 then introduces for the first time in TRIPs the concept of protection of undisclosed information. These information and know-how are not considered as a new form of intellectual property, but it is established that to ensure effective protection over unfair competition “natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
(b) has commercial value because it is secret; and
(c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret” (art.39).
For what concerns registrations of patents for inventions, utility models and design models, it has to be required to the State Intellectual Property Office (SIPO) as soon as possible, because dominates the “First to file” principle, which recognises the intellectual property rights to the natural or legal person who apply sooner. The patent protection lasts for twenty years, but lowers to ten years for designs and models. About eight month are needed to obtain a design patent, while about a year for a model patent, but most of the time it is hard to define how long the process is going to take, for this reason for 18 months it is possible to protect the patenting object with a provisional security by SIPO. The application can be done by a natural or legal person; also Foreign Invested Enterprises after 2001 have the possibility to directly relate with responsible authorities, while foreign firms has to choose a Chinese agency to play practices, agency that after the reform of 2009 is no longer required to in the list of those authorized by patent office.

3.2.3 Enforcement: a slow path toward effectiveness.

The other aspect of this documents that it is worth to discuss is the Part III, which concerns the enforcement of intellectual property rights. This chapter is particularly sensible in the Chinese environment, indeed common opinion recognise how to make amendments to China’s intellectual property laws was not easy, but to put these amendments into effect in society is much more difficult and the enforcement of intellectual property laws may well be described as unsatisfactory if not dismal or in crisis (NIE, 2006). Pushed by the will of becoming part of the international community, the reforming process started at the end of ’70 moved from a situation in which the Rule of Law was only a blurred idea and where judges were subjected to the will of members of the Party and personal relationships, the so called guanxi, were considered more than official laws. The legal system, even though was improved on every level and every topic, suffers of a widespread low awareness of procedural justice in the public opinion and of a limited transparency of its institutions (POTTER, 2007). The most common method in conflict resolution before the entrance in WTO was the mediation, which was formalized in 1954 with a regulation who oblige the creation of People's Mediation Committees in each district or village. The central role of this mediation in the Chinese social dynamics once again is linked to the culture: social relationship are considered of fundamental importance, and use the law to enforce each own reasons is perceived as an unfair behaviour that could irreversibly damage social relations (LUBMAN, 1999). In 2001 the entrance in WTO gave a drastic shift to this situation, consequence of the adoption of a new binding system of dispute resolution.
Before introducing the enforcement system of Chinese legislation against IP infringements, it is better to give a general overview about those institutions responsible for the efficiency of the process.

The court system in China consists of three main courts: Courts of Special Jurisdiction (special courts) which comprises military courts and railroad transportation and water transportation courts; Local people's courts, which handle in first instance criminal and civil cases, and the Supreme People’s Court which supervises the administration of justice by all subordinate local and special people's courts and represent the court of last resort for the whole People's Republic of China. Jurisdiction over civil and criminal infringements of intellectual property rights lies to local people's courts. These people's courts consist of high people's courts at the level of the provinces, autonomous regions, and special municipalities; intermediate people's courts at the level of prefectures, autonomous prefectures, and municipalities; and basic people's courts at the level of autonomous counties, towns, and municipal districts.10

Since 1996 the Supreme People’s Court has a specialized section on intellectual property topics, while in 2004 in all provinces and urban centre in high and intermediate people’s courts has been created specific ad hoc sections dedicated to this subject.

The Chinese structure of protection of intellectual property rights follow a two-track system: the first born and also the most common form of enforcement is the administrative track, in which the holder of an IPR files a compliant at the local administrative office. Following what stated the representative of the State Council for what concerns the intellectual property, departments employed more than a million people which work on cooperative basis in all country patent offices, administrative offices for industry and commerce, offices for trademarks and copyright, custom agencies, public security, etc. (RUICHUN, 1999). The second track is the judicial track, in which companies and individuals are filed through the court system that we talked above.

For what concern the administrative enforcement, as we said the most used track in China, the institution that is responsible for the supervision and regulation of the market is the SAIC (State Administration on Industry and Commerce), which is structure in different levels to undertake respectively provinces, municipality and districts, and its offices cover subjects such as trademark registrations, customer and brand protection and handle disputes arising under the Anti-Unfair Competition Law, including trade secret matters. As we said the administrative

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10 The People’s Republic of China exercise exercises jurisdiction over 22 provinces, five autonomous regions (Inner Mongolia, Xinjiang, Guangxi, Ningxia and Tibet), four direct-controlled municipalities (Beijing, Tianjin, Shanghai and Chongqing), and two mostly self-governing special administrative regions (Hong Kong and Macau).
system provides that the IPR holder files a compliant to the competent office, which is
determined relating on the subject, the location and the business area of the specific intellectual
property violation. Most Chinese prefers this type of procedure because of the low costs and
length and because it is considered the only realistic means of IP rights enforcement, or at least
the only valid alternative to the courts system (BROWING, WANG, 2005). SAIC authorities
indeed has the power to investigate with inspections and in case of determination of an
infringement, has the power to order that the sale of infringing items cease and to stop further
infringement, order the destruction of infringing marks or products, impose fines, and remove
machines used to produce counterfeit goods. But even though this is the most preferred means
of enforcement, it remains unsatisfactory, especially for foreigners. Authorities indeed are free
to decide when and which cases to investigates, so many time it happens that, because of
corruption or simply to favour local protectionism, they avoid to investigate on certain cases or
delay the inspections to allow scammers to sell the counterfeit goods or to move them
somewhere else, or also happens that after the confiscation, the same products are returned to
the original owner. Moreover transparency lack is another serious limit: the complex system of
offices and departments we talked above constitutes an intricate net of administrative and
bureaucratic linkages that most of the time lack of coordination and communication processes
(SIMONE, 1999).

The judicial system instead is still limited in the common use of intellectual property conflict
resolutions. The main reason is linked to its high costs and length, and low trust over a court
system deeply interconnected with the political environment. To obtain judicial protection
indeed it is necessary to prosecute the action to the specialized department of the intermediate
court where the violation has took place, where however judges are not yet sufficiently prepared
to these specific subjects and moreover are affected by a deep corruption. It is possible to refer
to such court both directly, to denounce violations of IPR or to determine their authorized
holder, or in second instance against the decisions taken by the administrative authorities
(SAIC). This methodology is the preferred one in those cases when the IPR holder wants to
obtain a high compensation for the suffered damages or in those cases that for their complicated
nature, are not regulated by administrative legislation. This situation is more and more frequent
in a country that is living a codification process that is not fast enough to keep pace of the
dynamics of a country that moved from a complete rigid and static centralism to the condition of
second economic power in the world.
One of the most important features of the judicial system is the possibility of courts, before that the real procedure begins and based on the assumption that a violation is occurring, to take emergency measures such as the preliminary injunction to prevent irreparable injuries to the IPR holder.

Then another typology of judicial protection is the criminal enforcement, which by the way can be activated only by the State and private citizen are only allowed to start a judicial procedure connected with the criminal one. The IPR holder has to denounce the violation to the Public Security Bureau or to the Economic Crime Investigation Department, which both depends upon the Ministry of Public Security. More than 80% of the cases under the criminal procedures are about infringements in trademarks, because respect to the other two methods, this is the one that offers most evident effects.

Chinese legislation, in addition to the administrative, judicial and criminal protection, offers also the safeguards of customs authorities. The registration to the General Administration of Customs lasts for seven years and gives the possibility, by submitting a written application to customs at the suspected point of entry or exit where protection is sought, to ask for the automatic monitoring of imported and exported goods, and in case of suspected infringement, custom agencies are authorized to confiscate the goods, and may even destroy it and impose a fine.

To conclude, it is not possible to establish which of these procedure offers a better protection, given the low coordination of the respective authorities on intellectual property rights and their local favouritisms. The administrative track is considered in general as the most advantageous, however the high heterogeneity on geographical areas of the juridical and institutional framework, does not allow to consider such advantages as absolute (GANEA, PATTLOCH, 2005). Judicial protection instead becomes more valuable in the measure in which is possible to ask for emergency actions against scammers and to claim for damage compensation. However it looks like judges grant sparingly emergency actions, and often the amount obtained as compensation is far from the real entity of the injury.
CHAPTER 4. DISTRIBUTION COUNTERFEIT: AN ANALYSIS OF THE PHENOMENA AND OF ITS MANAGERIAL IMPLICATIONS.

4.1 RESEARCH METHODOLOGY

4.1.1 Introduction

As we said, the constant evolution that China has been witnessing in the last 30 years changed every aspects of its society: the culture, the values, the behaviours, the perception of the population are being transformed by innovative trends and globalization stimulus, which shape the approach to the market and the market itself. Such a dynamic context affected also distribution formats, that shifted from basic products providers to modern interactive stores, designed to engage consumers by a shopping experience able to communicate emotions and values to goods.

Inevitably these happenings could not leave aside the main engine of Chinese economic growth: counterfeit. Evolution of trends, perceptions and sophistication of Chinese consumers shaped the path of counterfeit industry, which progressed from the production of fake luxury goods to the replication of general commodities such as toys, shoes, accessories, etc.. But the border is moving even forward: some acute entrepreneur understood that it is not just about the product itself and its functional characteristics; the price of a product is linked to its perceived quality, in turn the quality of a good is related to the advantages that consumers identify on that good; advantages that are no more based only on practical features, but as long as Chinese consumers evolve in their sophistication and social complexity, are more and more related to the capability of communicate a precise status symbol, specific life styles and societal positions. In this scenario it is clear that the product itself is unable to convey all the requested functions, but it needs the support of a strong commercial campaign made of advertising, social media promotion and retail systems, able to surround the products of a communication power strong enough to satisfy the consumers’ expectations.

As a consequence scammers understood how, to be able to acquire a higher mark-up, they needed to confer on their fake productions not only the same physical characteristics of real goods, but also those intangible values that made the products really desirable. People buy Nike shoes on Nike stores to be sure of their authenticity, so that when someone looks at them, he recognises a sportive person from the middle class who is acknowledged of fashion trends. They prefer to spend more and visit a Nike Store rather than stop in Han City black market in Shanghai and buy an almost identical pair of shoes for one third of the price, why? The reason belongs to the shopping experience itself; going through the purchasing path of a Nike store stimulates sensations and
feelings that contributes to constitute the idea around what the person is buying and then about what he believes people will think about him wearing them. Han City black market is not able to furnish the same experience, so the customers will have a complete different approach to the good, even though it might look exactly the same.

But what would happen if the person finds an apparently real pair of Nike shoes in an apparently real Nike store? There is a high probability that he is going to buy them without paying that much attention to details as if he would have done in Han City, because of the fact that the distribution formats influence people perception of goods much more than what details do. This is exactly what is happening in China today: most forerunner scammers realized that to be able to sell more and to sell it better, the counterfeit of not just products, but also of the entire retail format, it is an optimum solution.

This is the phenomena we are going to study in this chapter, by presenting real cases that witness how incisive is this practice and by considering the managerial implications that come from it.

4.1.2 New and untouched field

First documented cases of such a phenomena date back to 2011 and this gives an idea of how recent the trend is and of how hard it is to find not only realistic and reliable data, but any kind of data on it. As we have already mentioned, counterfeit is a branch of black market, and for this reason the access over trustworthy quantitative statistics is almost impossible, independently by the country; moreover the fact that the counterfeit of distribution formats is developing in China, a country with a legislative organization far from European ones, that allows a soft or even inexistent bureaucratic control, and the fact that even when documents exist, they are in Chinese, a language that is hardly translatable even with modern technologies, made unachievable the collection of written quantitative information to support our analysis.

But this is not a valid excuse to avoid the analysis of a phenomena that, even if not documented by concrete statistics, is growing year after year, and needs to be investigate starting from somewhere. For this reason in the 6 month I spent in China visiting the cities of Nanjing, Shanghai, Suzhou, Beijing, Chengdu, Leshan and Huangshan, we investigated the phenomena of fake points of sale spread around the country, reporting pictures and direct experiences of what is the reality of these structures and how they affect the local market. Moreover for all the time needed to produce this

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11 First witnesses of this phenomena dates back to 12 August 2011, when BBC News published an article titled “Fake Apple stores found in Kunming city, China”. Link: http://www.bbc.com/news/technology-142367869++9+9
12 Between February and August 2015.
thesis, we have been in contact with many people that still live in China, who helped me to get the required information and interviews.

To be more precise, we will give a brief introduction of these individuals, that might help in understanding from which point of view information has been collected:

- **Name**: Alberto Bellini  
  **Age**: 50  
  **In China since**: 1996  
  **Nationality**: Italian, Alba.  
  **Profession**: manager  
  **Background**: Alberto arrived in China 15 years ago as market researcher for Fiat, then moved to Brembo Nanjing Brake System as quality manager and today he is production manager at Koepfer China. Moreover he is one of the owner of Bellini Restaurants in Nanjing, which he started as an hobby and which ended up being one of the most renewed restaurant chain of the entire city.

- **Name**: Federica Pacini  
  **Age**: 26  
  **In China since**: 2012  
  **Nationality**: Italian, Firenze  
  **Profession**: manager  
  **Background**: Federica studied Communication Science at the Siena University and after an experience as store manager for Intimissimi, decided to move to China to experience a new country. After the first year at the Nanjing Normal University as Chinese language student, she entered in Bellini restaurant as waiter, and after a two years’ experience she became the manager of one of the restaurants, which is her actual occupation.

- **Name**: Igor Piotrowski  
  **Age**: 43  
  **In China since**: 2001  
  **Nationality**: Poland  
  **Profession**: Engineer
Background: Igor arrived in China as team-leader for BSH Hausgeräte GmbH (Simens and Bosh), for a three years’ experience which has been extended to an indefinitely period. Together with Alberto he is the co-owner of Bellini Restaurants and the manager of one of them.

- **Name**: Henrik Shwanze  
  **Age**: 42  
  **In China since**: 2008  
  **Nationality**: German, Berlin  
  **Profession**: Engineer  
  **Background**: Also Henrik is one of the engineers of the group BSH Hausgeräte GmbH, but he came to China for a 10 years program. Due to its role in the company, he travels a lot around China so he has the possibility to visit many cities and to bring a vast witness of what is the situation around the country.

- **Name**: Marco Zambon  
  **Age**: 36  
  **In China since**: 2009  
  **Nationality**: Italian, Padova  
  **Profession**: Entrepreneur  
  **Background**: Marco used to work as commercial agent for an Italian company, when a friend in Nanjing convinced him to remain and seize one of the many opportunities that the city could offer. He started to work as teacher of Italian language for the Nanjing University and after 2 years decided to open its own private school called Basilico, which organizes language courses both for Chinese who are willing to move to Italy and for Italians who want to learn Chinese. In the past three years the school has been growing really fast and accounts now more than 50 students.

- **Name**: Rachel Stutins  
  **Age**: 24  
  **In China since**: 2015  
  **Nationality**: England, Glasgow  
  **Profession**: Designer
**Background:** Rachel has lived in China only for a year now, she is a designer for a Chinese company of sportive apparel and she represents the most young and fresh point of view over Chinese economic dynamics and societal condition among my contacts in the country.

As can be seen from the above description, we tried to be as much heterogeneous as possible in the choice of which persons could help me in the research, in terms of age, profession and permanence in the country, so that it was possible to listen to the points of view of people which has been differently affected by the Chinese environment and can enlarge the research prospective to widen the range of possible explanation to the phenomena we analysed.

Unfortunately it was not simple to get direct information from the managers and sales personnel of the counterfeit shops we met: most of them could not speak a single word of English, and even when we had a Chinese speaker with me, most of the time it was not easy to obtain something useful, both because they did not want to talk about their store, because they did not know to be in fault or because they did not have the specific knowledge to sustain a conversation over marketing tools and store design elements.

As a consequence of these difficulties, most of what is reported in this chapter comes from our personal conclusion of what we witnessed during our trips, so should not be considered as an absolute truth, but more as a general indication on what is happening in this country and on what might be the consequences in the future.

### 4.2 REAL CASES

The starting point that drove our observation during the entire period is: is it possible to counterfeit the retail format of a well-known company to steal the added value that it gives to products? And is this practice sufficient to fool consumers and to convince them they are buying real ones?

Of course the answer cannot be unique and absolute, but it is aligned with the several differences that characterize the Chinese scenario, depending on which region and which target we look at.

More precisely we identified four different typologies of counterfeited distribution systems:

1) Fake shops which sell real goods;
2) Fake shops which sell fake goods;
3) Original shops of Chinese brands who copied the distribution strategy of a western brand and try to fool oblivious consumers;
4) Original shops of Chinese brands that do not even try to fool the consumer, but use similar distribution formats to present themselves as a local alternative to western brands.
In the next paragraphs we will present practical examples for each one of these typology, to give a clear idea of what they are about and of how they are structured.

4.2.1 Fake shops which sell real goods

The first typology we are going to present is the less renewed one, mainly because of the fact that most of the time consumers do not even know they are in a fake store.

These shops present themselves as a perfect copy of real stores, choosing locations in line with those of home brand, so that when consumers pass by and see them, the first thought is that it actually makes sense for a shop of that company to be located in that area and in that position. The shop is in every aspect identical to the original one, with great attention to details: same furniture, same design, same structure, same signs, same finishing and moreover same sales personnel. Indeed most of the time, employee themselves do not know they are not working for the original brand, they are convinced of the fact that the famous multinational chose them to work in the local point of sale; for this reason they sell products with the same modalities of original sales personnel, they wear the same uniform and they have a name tag that is in line with the home brand.

But the most important feature of these shops, that is also the reason why so few people suspect of their originality, is the fact that they actually sell real products. Even though the shop is fake, the goods inside are authentic, and it is enough to convince people of the reliability of the store.

At this point the question is: why a fake store should sell real products? And moreover, where do these goods come from? The answer can be connected to what we said in Chapter 3.1.2: many of the companies who are charged of the outsource production for western brands tend to over produce stocks to then re-sell them on the black market. Black market that in this case enrol its function on these point of sales, which have to present themselves as much similar as possible to real ones, to convince visitors of their authenticity and of the fact that they are buying from an authorised reseller.

Sometimes it happens also that the products origin from robbed trucks or warehouses and arrives to fake point of sale as an outlet way to the open market.

One example that best represents this practice, which has already been reported by many international newspapers, is the counterfeit of Apple Stores.
**Figure 4.1** Fake Apple Store in Chongqing, China.

**Figure 4.2** Real Apple Store in Dalian, China.

Source: direct picture

Source: direct picture

**Figure 4.3** Fake Apple Store in Da Xin, Shenzhen, China

**Figure 4.4** Real Apple Store in Zhongjie, China.

Source: direct picture

Source: direct picture

**Figure 4.5** Fake Apple Store in Kunming, China

**Figure 4.6** Real Apple Store in Nanjing, China.

Source: www.forbes.com/this-is-not-a-real-apple-store/

Source: direct picture
Figure 4.7 Fake Apple Store in Kunming, China.  
Figure 4.8 Real Apple Store in Xiamen, China.

Here it is some examples of how fake Apple Store appears from outside and from the inside. As can be seen, it is clear not only the close similarity between these shops and the real Apple Store, but moreover it is evident the way they create a substantial confusion and misperception to the consumer, who finds himself inside an environment that looks from every point of view an apple store. The furniture, the design, the product display, the internal layout, even the classical personnel blue t-shirt is the same used in authorized resellers. Only most acute visitors and Apple maniac would note that real Apple stores never writes “Apple store” on their signboard, but the shop is indicated only by the renewed logo. Moreover in most of these shops the finishing are typically “Chinese style”, with table corners that are not perfectly matching, paint on walls that is roughly applied, chairs that, even though might recall original ones, are not the same model and personnel name tags that do not contain any relevant information. The point here is that an average consumer, who does not visit hundreds of apple stores, but on contrary it is more likely to be the first time he sees one of them from real, does not know which are the distinguish characteristic of this chain, but only have a general idea based on the information he received on the net and on social media, which are not sufficient to give him the ability to recognise a fake Apple store from a real one In this way unaware consumers will believe they are inside a real Apple store, which sells real Apple products, and the suspect of being part of a black market won’t even touch their mind. 

Even from my personal experience, during my stay in China, I was really worried about losing or being robbed of my Iphone, not just because of the value of the cellular, but mostly because of the fact that once I would had buy a new one, it would have been really hard for me to understand which of the hundreds of Apple store around were the real ones.
Of course the strategical implication over such a situation are really complicated for home brands, which face the loss of control over their distribution and also a significant economic damage due to the thousands of goods sold that escape the company turnover.

For this reason the brand moved from the patenting of its products to the patenting also of the architectural structures that define an Apple store and are recognized as unique distinguish features of the company points of sales. An example is the patenting in 2013 of the giant glass cylinder staircase that sits at the heart of the Chinese outlet of Lujiazui in Pudong, the central business district of Shanghai. Apple's patent not only covers the design of the cylinder, but also the type of glass and construction methods used to erect such a structure designed by architect Bohlin Cywinski Jackson, who has also worked with Apple stores in New York and in London. Moreover the whole look of the store, conceived by Steve Jobs, is now covered by a number of U.S patents, a process that was started in 2003, with a patent covering the Store's famous in-store glass straight staircase.

Then on January 24, 2013, the US Patent & Trademark Office published Apple's latest registered trademark certificate for Apple's "Distinctive Design & Layout".

Unfortunately, as we already said in chapter 3.2.3, Chinese protection over counterfeit of foreign patented invention is still weak, as enforcement tools still strive to be effective, but things are changing and Apple moved on the right direction by setting the conditions to be one of the first that will exploit the progress of Chinese legislation on this topic.

4.2.2 Fake shops which sell fake goods

The second typology concerns those shops that present themselves as 100% fake, both in the store environment and in the products sold. On contrary of the previous class, these shops alarm the consumer because they apparently look as an original shop, but after few seconds an average acknowledged consumer is able to recognise their fake origin. Indeed they display products that, even though might recall original ones, show characteristics that create suspects about their originality.

Moreover, on contrary of the previous typology, these points of sale are located in positions that are not consistent with the commercial strategy of the brand that they imitate. Indeed, apart for those ones located in fake markets, which are for definition fake, many of these stores are positioned on

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13 The in-store glass straight staircase patents can be seen at this link: http://www.google.com/patents/USD4789999?dq=D4789999&ei=TmpWTsXEL8isQLbnc2dDA

14 The Distinctive Design & Layout patents can be seen at this link: http://www.patentlyapple.com/patently-apple/2013/01/the-apple-stores-distinctive-design-layout-is-now-a-registered-trademark.html

91
metro station, next to international supermarkets, inside commercial centres or in medium/low-end department stores, location that in some ways influence the perception of these shops by communicating a sense of foreign provenience which is perceived as a reliable source of quality and trustworthy. But at the same time such locations contrast with the usual choices made by the authentic brands, that locates their points of sale on precise spots depending on the typology of distributed goods and on the level of recognisability of their trademarks.

To give a more practical idea of what we are talking about, let’s think about sportive shoes retailers, the most common typology of shops that belongs to this category. Stores such as Nike, Adidas, Reebok, New Balance and mostly those shops that sells multi brands shoes on the model of Foot Lockers are those where it is more common to witness the imitation of both products and shop as a whole. Walking down the Imperial Examination Lane in Chengdu, or visiting Fashion Lady in Nanjing, it is possible to see plenty of these sportive stores which sells the most renewed shoes, displayed on the classical shelves with original looking boxes. At first sight they might look as most popular shops that sells everyday shoes; sometimes the impression is that of a point of sales created as an outlet for higher stores. But after the first sight, going closer and analysing the product, you see how the Swoosh on Nike shoes is right oriented instead of left oriented, or how it is a little bigger than the normal one, or how the Adidas sole is harder than the one you tried in Europe, etc..

You than realize that it is strange for Foot Locker to locate a store in that position, among thousands of other shops that sells lower range goods; also the boxes are kind of strange, you have never seen boxes of that colour for Reebok, and when you ask to the sales personnel why does a pair of shoes is so cheap, he does not know how to answer or he just says “这是假的”, which means “this is fake”.

The shop is clearly fake, but it took you 90 seconds to realize it, at first sight what you think is: “oh look, a sports shoes store, it is also cheap, let’s have a look!”, so your reaction is not the one of a person who realize that the shop is counterfeited and passes by without wasting any time. The point here is that if at first sight such a format might fool a western consumer, who grew in a market where counterfeit goods constitutes a phenomena that is relatively new and so he is able to individuate fake goods in a short time, such counterfeited shops might convince a Chinese consumer, still too naïve to get the difference, convincing him of its authenticity and of the original nature of the goods it sell, ending up with the latter purchasing and obtaining the same satisfaction of buying from an original store, but at a lower price.

15 The Imperial Examination Lane is one of the main shopping road in Chengdu, while Fashion Lady is the biggest departments store of Nanjing, that embrace a whole metro station and three five-floors buildings, each one connected to the others.
The implications over this second counterfeit class are pretty obvious: here the problem concerns not only the loss of control over distribution and the economic damage, but also a reputational damage due to the fact that fake products sold in such shops have a lower quality and ruin much faster than original ones, creating unsatisfied customers. Moreover, usually these points of sales are not able to reproduce the shopping experience furnished by home brands, so the counterfeited goods lose all the intangible attributes that the distribution usually transfer to its products, weakening the brand image of the mother company.

Since such a practice focuses more over products sold than over the distribution model itself, those brands that are more engaged in this phenomena can only try to protect as better as possible their goods, but we have already seen how hard it is in this country.

Nevertheless there is an alternative to fight these unfair competition. We have already explained how distribution is capable of creating a huge part of a goods perceived value; here, even though the counterfeit concerns more products than formats, firms can use their distribution channels as a way to isolate and weaken the action of scammers. Indeed, by investing on their retail capabilities to create points of sales able to provoke unique emotions and unforgettable shopping experiences, they can distance from poor imitations and sell values more than objects, so that customers will desire not just the good itself, but the good that has been bought on an official retailer, to be able to witness what such an experience fells like.

Figure 4.9 Fake Nike reseller in Shanghai, China.

Figure 4.10 Fake sportive shoes reseller in Beijing, China.
4.2.3 Original shops of Chinese brands who copied the distribution strategy of a Western brand and try to fool oblivious consumers

This phenomena is one of the most notorious, because of the fact that all foreigners who visit China are easily able to recognise, from the sign of the shop, the evident discrepancy between a real and a fake brand. Indeed, on contrary of the previous category, where it takes few minutes to realize the one in front of you is a fake store which sells fake products, in this case the false nature of the brand is immediately clear, even without looking at the products.

But to say that shops that belongs to this category are fake shops that sell fake goods is incorrect: they are points of sale of original Chinese brands, with an identity and their own production line, that creates knockoffs of the original ones, but do not counterfeit them. In other words, it is not about a specific model of New Balance shoes with the N a little bigger, it is about a new line of shoes signed with the name of a Chinese brand that is really similar to the Western one. It is a really tiny difference, but it is significant in our analysis, because the presence of a real brand, rather than a ghost one, implicates that there is a company that is responsible for those actions, with a legal position, documents, balances, and all the typical features of a company that belongs to the normal business and is not hidden in the branches of the black market.

The best example to explain this trend is Anmani. As you might have noted, the name of this Chinese company is very similar to the one of the Italian stylist Giorgio Armani, but with an N instead of the original R. Anmani, as well as Armani, produces high-end apparel, sold in luxury single-brand stores located in most renewed shopping roads and commercial centres of China. What gives great relevance to this brand is the fact that it is not simply a counterfeited brand that works in the shadow, but Anmani is a great company that disposes of huge financial basis that allows it to invest in a retail network composed of more than 100 points of sale. Of course if you compare it with the 263 Chinese store of Armani Collection, Emporio Armani and Armani Jeans, is less than half of the commercial capacity of the Italian giant, but it is still a considerable size that must be really annoying as a direct competitor.

The interesting point is exactly this: Anmani produces knockoffs of the Italian superpower, goods that would not have any relevance in the Chinese market by themselves; but what makes the difference is the huge added value that the distribution channel is able to transfer to them. The clothes are sold in mono-brand stores located in best shopping malls and renewed streets, stores that are carefully designed and furnished to communicate a sense of richness and quality, replicating many of the elements that appears in original Armani stores. Anmani is a direct open market competitor of Armani, not only for the goods sold, but for the self-image that it is creating in China.
Think, for example, about IFS Square in Chengdu: on one side of the square is located a three-floors store of Emporio Armani, while on the opposite side of the same square there is a 500 m² Anmani point of sale. A Chinese consumer that is willing to buy an expensive pair of trousers and go for a walk on one of the main square of the city, finds himself between two points of sales that offer similar goods, on a similar environment, with similar shopping experience, both with elegant Chinese personnel, one 50m far from the other, in the most exclusive location of the town: how should he be able to recognise which is the western and the eastern one?

By replicating not only the goods typology and style, but moreover the distribution formats and characteristics, Anmani is able to fool consumers, by presenting itself as the original brand and creating the suspicious of Armani being the fake brand. Remember that most of Chinese population has never stepped out the country, their knowledge for what concerns fashion and style is based only on what they see around them and on what is promoted on media and social media, which are always overviewed by the Party, who tends to favour local brands rather than foreign firms. The consequence is that they cannot rely on their experience to recognise what is authentic and what is not; or better, they rely on their experience which is based on Chinese panorama, where Anmani presence is somehow comparable to Armani one, and this factor can only complicate the situation.

Figure 4.11 Positions of Emporio Armani Store and Anmani Store in IFS Square, Chengdu, China.
**Figure 4.12** Anmani Store in Beijing, China.

Source: direct picture

**Figure 4.13** Real Armani Collection Store in Saint Tropez, France.


**Figure 4.14** Anmani Store in Shenzhen, China.

Source: direct picture

**Figure 4.15** Real Armani Collection Store in Hua Mao Da Sha, Huizhou, Guangdong, China.

Source: direct picture

**Figure 4.16** Anmani Store in Chengdu, China.

Source: direct picture

**Figure 4.17** Real Emporio Armani Store in New York, USA.

Source: [http://www.shopshorthills.com/emporio_armani](http://www.shopshorthills.com/emporio_armani)
Another good example of Chinese firms that copy the distribution format of western companies to fool oblivious consumers is 11 Furniture. This name might not tell you anything, but the Chinese name “十一家具” (ShiYiJiaJu) sounds really similar to “宜家家居” (YiJiaJiaJu), the Chinese name of one of the most famous furniture company in the world: Ikea.
11 Furniture indeed is a four-floors furniture store of 10,000 m2 in Kunming (south-west corner of China) that copied the distribution format of Ikea to sell its goods. As can be seen from the images below, the point of sale replicates the colour and internal layout of the famous chain, with its mock-up rooms, miniature pencils, signage and even its rocking chair designs. Everything is studied and designed to convince customers they are visiting an Ikea store, but none reference indicates that 11 Furniture based their shop on the Swedish model. Even by analysing the website of this company and translating every part of it, nothing is said about Ikea or about the history of this shop and about why did they decide to develop it in such an unoriginal way. Anyway, it is worth to mention the fact that 11 Furniture made a relevant investment to develop its point of sale and to enrich it with an online portal that allows you to virtually enter the shop and visit the exposition standing on your laptop, to then order the goods on the e-commerce platform. This gives an idea of how also in this case the Chinese company, even if it imitates a western one, has a concrete financial background, characteristic of solid company that once again does not hide behind the shield of the black market, but present itself as a valid alternative for Chinese consumers, on a region where Ikea Has not arrived yet.

On the article in the Daily Mail Reporter which firstly reported information about this phenomena, the journalist was able to interview Zhang Yunping, a 22 years old girl who works as customer service representative at 11 Furniture. Her position on the evident similarity of the Chinese shop to Ikea’s features is in line with the one of most of sales personnel of counterfeit shop we interviewed during our trips: ”If two people are wearing the same clothes, you are bound to say that one copied the other” Zhang said, shrugging her shoulders. “Customers have told me we look like Ikea. But for me that's not my problem. I just look after customers’ welfare. Things like copyrights, that is for the big bosses to manage” she said. 11 Furniture's owner could not be reached for comment.

Of course, it happens that sometimes employees do not know they are working on a counterfeit store (see Apple Store), but many times it also happen that on top position staffs perfectly recognise the ambiguous situation of their working environment and develop a defence strategy that is based on a sudden loss of communication capacity (they do not speak English anymore, or they do not
understand your Chinese because of the “wrong pronunciation”), or on a pervasive ignorance about those topics that concerns copyright, patents and intellectual property rights, as in this case.

Anyway it must be said that there are some substantial differences between the two store: first of all goods in 11 Furniture are made to order, not flat-packed as it is at Ikea; then listening to what visitors who has been in both the real Ikea and the fake one said, at the real Ikea the layout is much neater and the decorations are laid out properly; except for the appearance, it is really hard to compare them.

But the point is a different one: Xiao Lee, a Kunming resident who was shopping at 11 Furniture for a bedroom wardrobe with her husband, said :”I thought of shipping products from the real Ikea store by cargo, but I thought that would be too troublesome, so I came here”. What we get from Xiao Lee statement is that Ikea opened its stores mostly on the coastal areas, more developed and suited for its market, but the rest of China still ignores Ikea existence. This means that the great majority of citizens does not have anything to compare 11 Furniture with, and so does not live this shopping experience as a counterfeited one, but as an authentic experience drove by those elements that has been originated by the Swedish company and replicated by the fake store.

Ikea reached its success not only because of the low price if its furniture, but moreover because it was able to create a selling environment capable of catalysing people’s attentions and time, to create emotions arounds pieces of woods that convinced people of the value of its furniture. Following Shenkar (2010), 11 Furniture can be considered a pioneer importer, a late entrant that establishes itself as the first entrant in another region or product market utilizing an arbitrage strategy that exploits asymmetry across markets. 11 Furniture presents itself as an entity able to substitute the original firm by offering knockoffs with the same service, and this might guarantee to the store a relevant success by the time in which Ikea will reach that part of the country.

Figure 4.18 11 Furniture store in Kunming, China.


98
Figure 4.19 Ikea Store in Padua, Italy.

Source: direct picture

Figure 4.20 Furniture store in Kunming, China.


Figure 4.21 Ikea Store in Padua, Italy.

Source: direct picture

Figure 4.22 Furniture store in Kunming, China.


Figure 4.23 Ikea Store in Padua, Italy.

Source: direct picture

Figure 4.24 Furniture store in Kunming, China.

Both Ikea and Armani are facing the necessity to distinguish themselves by Chinese imitators that might be able to substitute them as original brand for the Chinese consumer, losing portions of the biggest market in the world and wasting all the efforts that has been done since now. Of course, even though Anmani and 11 Furniture are two solid companies with relevant financial resources, the two western colossus are many time stronger than their Chinese competitors, (especially if you think that Ikea owns 19 mega-store against the one of its local competitor) so they can exploit massive commercial campaign to convince local consumer of the validity of their production.

Moreover what Chinese consider as a reliable proof of authenticity is the power of a firm expressed by its presence over the territory. Indeed it is not strange to walk on main shopping roads of Chinese cities and note two or even three stores of the same company in a radius of 100m; this because it has been proved that the population consider such a pervasive presence as a sign of great power and is attracted by these companies. Clearly this is a strategy that is dramatically expensive for western groups, but consider that been perceived as a leading company in a 1.5 billion people market is a guarantee of success and of unprecedented turnovers, and this is a good enough stimulus for those companies that can afford it. Armani and Ikea should then increase even further their presence in the local scenario, placing stores in visible positions that can witness their value as superpowers against imitators who, soon or later, will quit the market unable to sustain the financial competition of western brands.

4.2.4 Original shops of Chinese brands that do not even try to fool the consumer, but use similar distribution formats to present themselves as a local alternative to western brands.

Everything we presented since now has been based on firms that were, in one way or another, linked to specific western brands, because, as we mentioned in the chapter on counterfeit (Ch. 3.2), Chinese culture perceive the action of copying something successful as the easiest and smartest way to reach the same success.

At the same time we stated also how Chinese government is understanding that China needs to have its national firms as main actors in the global market if they wish to defend an international economic and political role. For this reason many Chinese mega-companies are growing both in the domestic and foreign market, not trying to counterfeit others products, but promoting their own goods by observing and replicating what other successful firms do.

In this category the counterfeit element is much less evident that in the previous ones. When getting into one of these point of sales, most people reaction is: is it a counterfeited shop or is it just a shop that looks like western ones?
The fact is that China has always been so different from western countries in its general environment that seeing some places designed with western standards was really unusual since 20 years ago. Then western brands started to colonize the country, but if you think about the commercial scenario of the past years, people were only used to see three typology of shops: Chinese ones, western ones, and fake western ones; it did not make any sense to see Chinese brands showing off with its own western looking design and style, and when you saw one, it was granted to be an imitation of some US trademark or whatever.

Today instead companies like Lenovo, Li-Ning, Xiaomi, Huawei, sell their goods in modern stores that follow western standards, they are no longer perceived as counterfeited shops of some famous brand, but are local firms that present themselves as a valid alternative to foreign ones.

Let’s look at Li-Ning, the most popular sportive brand of China, who produces athletic shoes and sporting goods. For a western consumer, the first time he passes by a Li-Ning store, the impression is to see just another fake Nike store with a sign that is really bad done. But after few days you note that in China Li-Ning stores are much more frequent than Nike ones, furthermore often the two brands locate one next to the other, which would be really strange for a real shop and its counterfeited one. You then realize that the product lines are different and also the general environment is different, with an interior design that is well done and suited for a sportive store, but is different from the Nike one. Li-Ning indeed developed its 4297 retail stores by exploiting the same techniques used by most renewed global brands such as Nike and Adidas, but does not try to confuse the consumer pretending to be one of them: it has a well-defined identity and image, and even though it displays goods in the same way, uses dynamic mannequin to transfer life to products, apply blow-ups of its athletes on walls, uses music to stimulate purchase, etc.. Li-Ning store are not counterfeited shops, but are simply points of sale of a Chinese brand that uses the same commercial tactics of western companies.

This approach allowed Li-Ning to exploit all the advantages of a pre-made store image strategy without linking its identity to the one of another brand, and permitted it not only to gain a huge success, with almost US$ 409 million turnover in 2013, but also to expand its market out of China, in the home country of those brand which has been used as a model for its development: in January 2010 indeed, Li-Ning opened its U.S. headquarters and flagship store in Portland, USA.\textsuperscript{16}

\textsuperscript{16} http://www.wsj.com/articles/SB10001424052748704678004576089553357777300
Figure 4.25 Li-Ning Store in Hefei, China.
Source: direct picture

Figure 4.26 Nike Store in Miami, USA.
Source: http://imgbuddy.com/saw-grass-mills-mall-stores/

Figure 4.27 Li-Ning Store in Beijing, China.
Source: direct picture

Figure 4.28 Nike Store in Shanghai, China.
Source: direct picture

Figure 4.29 Li-Ning Store in Liaoning province, China.
Source: direct picture

Figure 4.30 Nike Store in Venice, Italy.
Source: direct picture
We can make the same reasoning for Xiaomi, one of the top player in the Asian smartphones industry, who looked up to Apple to define its format. Moreover Xiaomi raised the bar of our analysis, shifting the concept of counterfeit of distribution systems from real stores to online stores. Indeed Xiaomi built its success over the online distribution, and only in recent years started to create offline stores. In both cases the core concept has been based on Apple standards and in the way the US giant presented to the public its models.

In Xiaomi website as well as in stores, stores the clean design, the shining colours, the aseptic architecture, the way technology comes out from the wood to focus the attention of customers and to give relevance to smartphones, are all elements that both companies utilize and that make the Chinese brand very similar to the US one, even though the name of the brand and logo are completely different.

Xiaomi is now the third largest smartphone maker in the world and in 2014 became the largest smartphone vendor in China, moreover in the end of December 2014, it became the world’s most valuable technology start-up after it received US$1.1 billion funding from investors, making Xiaomi’s valuation more than US$46 billion (DOU, 2016). From such data it is pretty clear how it is impossible to define Xiaomi as a ghost company of Apple, even though by looking at the images below some suspects might raise.

Consider that the first smartphone of this firm was launched in August 2011; in three years the Chinese start-up was able to conquer a huge portion of the smartphone market, and this was due also to the fact that it based its commercial path on the strategy and models used by the US giant. By coping advertising methods and in general online and now offline presentations, Xiaomi was able to convince Chinese consumer of the quality and reliability of its products, transferring to goods an halo of global suitability while maintaining its roots in the Chinese culture and exploiting the strong nationalism that has always characterized the Asian giant.

Figure 4.31 Similarities between Apple and Xiaomi

Source: http://www.cultofandroid.com/66569/xiaomi-dont-copy-apple/
Both Li-Ning and Xiaomi has been able to achieve an enormous success in a short time by matching the commercial strategy of western companies that obtained great results in the global arena with the domestic environment of China, made of millions of people that are today willing to spend their money on new and modern products, goods that directly or indirectly link them with the rest of the world and that for this reason must recall an international atmosphere on their inner features and on the way they are distributed through retailers. These company understood the role played by the distribution and how important is to dominate such a tool, for this reason invested on formats that could both transmit a sense of internationalization while in the main time remained consistent with their origin, to attract also those slices of the population that are still scared by the outer world.
4.3 A MODEL TO CLASSIFY CHINESE DISTRIBUTION FORMATS ON THE BASE OF THEIR AUTHENTICITY

4.3.1 The process

In this work we analysed how the exploitation of distribution formats, as a tool to transfer company values to products, has a central role in the definition of a brand identity and image. Retailers, through the elaboration of precise commercial strategies that involves physical and emotional elements, are able to create a shopping experience that engages the consumer and attracts him through a fantastic world made of feeling, entertainment and deep values. Companies from all over the world today are using such a model, defined by Ritzer (1999) as “retailment”, as a central concept for their commercial techniques, defining the importance of having stores able to communicate with visitors and to be a means of diffusion for those values that identify the company as unique and trustworthy.

Hofstede researches then helped in defining how it is wrong to think that those marketing techniques that work in certain areas, can be standardized and utilized in other contexts; it is fundamental to understand which are the core values and habits of a culture, to adapt advertising campaigns and distribution systems in the way that better suit the local environment.

For this reason we decided to focus our research on the distribution formats of Chinese market, analyzing the way retail systems match with the local dynamics, and in particular on how they relate to the counterfeit segment that for years has been the main driver of Chinese economy.

The investigation over the general state of the art of the counterfeited marked around the world and in China, drove us to the conclusion that it is really hard to define precise dimensions of the black market; anyway the evidence of what is happening in the Asian giant pushed us to move on in the analysis of the phenomena, relying not on numerical data (which were impossible to collect)\(^ {17}\), but on the direct observation of the phenomena and on those direct information that we were able to collect on the field.

Our examinations drove us to present four different typologies of counterfeited distribution formats, typologies that we discussed together with real case studies, as a proof of our statements.

At the end, the whole process led us to create a model that could somehow classify the counterfeited distribution techniques used in this country; a model that does not have to be considered as tailor-made on the characteristics of the Chinese market, but can be adapted to all regions and all

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\(^ {17}\) As it was explained in Ch.3.1.2, the collection of reliable data on the black market is a really complicated issue. Firms that operate in this field indeed, do not collect any balance sheets, financial reports, statistics, etc... Moreover, they hide as much as possible their businesses, so that authorities (and much less students from another country) cannot find any kind of numerical reference about them.
countries, in consideration of the fact that none of the variables we utilized are linked to a specific socio-demographic area.

### 4.3.2 The matrix

The matrix develops around two variables:

1) **Origin of the products sold**: this variable has to be intended as the nature of the goods displayed in the considered shop. They can be “original”, so manufactured by a brand that works under the protection of a patent or copyrights and is then allowed to produce it; or “counterfeited”, manufactured then in ways that do not follow legal standards, in the sense that they infringe intellectual property rights, safety rules or toxicity limits.

Between these two extremes, we individuated also those ones defined as “knockoffs”: this world has been used by Schnaars (1994) to define close copies of others’ products that carry their own brand names. Knockoffs are often legal goods in their own right. The absence or expiration of patents, copyrights, and trademarks makes many of them legal, even though they look very similar and could then be confused for products belonging from notorious brands; they might also look different from them, but show trademarks or names that could somehow recall other brands (see Ch. 4.2.3).

2) **Techniques used by the store to distribute its goods**: in particular, with this variable we wanted to focus the attention over those aspects of the selling environment that could, in one way or another, recall to consumers’ minds some notorious elements seen in others stores of different companies. With this criterion, at one end of the scale we meet “original”, which considers techniques used by firms that for first were able to create a particular selling environment, by utilizing specific commercial methods that made their store unique and identifiable.

On the opposite side, we find again “counterfeited”, used instead to describe shops that stole the retail techniques from more popular brands, to fool oblivious consumer and convince them they are visiting the store of a real company. These points of sale copy not only the signboard, logo and name of someone else’s store, but replicate also their internal design, furniture, layouts and even sale personnel’s uniform. In between the two extremis is located “Trade Dress”, which Schnaars (1994) defined as copies that trade on the style, design, or fashion of a competitor’s popular product. Trade Dress combine aspects of innovation and imitation represented in commercial techniques that might recall those adopted by more famous companies, but at the same time cannot be confused with them, because of the absence of any direct or indirect reference to the signs, name or logo of other brands.
Once we introduced the two variables that defines the matrix, it is time to enter also the elements, as it is shown in Figure 4.32:

![Figure 4.32 Matrix to classify retail formats in China on the base of their level of authenticity.](image)

**Techniques of distribution**

- **X axis**: decreasing level of originality in the techniques used to distribute goods
- **Y axis**: decreasing level of originality in distributed goods

In brackets are reported the reference targets, meant as the combination of the two formulas:

(The commercial strategy is Original-Trade Dress-Counterfeited compared to whom?/Products are Original-Knockoffs-Counterfeited compared to whom?)

As can be seen, we decided to fill up the graph by entering those practical examples that we discussed in the previous chapter. Inside every circle, together with the name of the firm, is reported the reference target, meant as the combination of the two formulas: (The commercial strategy is Original-Trade Dress-Counterfeited compared to whom?/Products are Original-Knockoffs-Counterfeited compared to whom?), while the grey area represents the black market. In this way it is possible to have a quick idea about what the company is about and why does it locates there, but let’s explain a little further the above figure by spending some words for each one of them.
If you look at the first column on the left, you will see names of stores that we have not dealt with since now; this because they belong to the category of points of sale that utilize their own commercial techniques without receiving any inputs from what others brands do. In these cases there is not counterfeit in the distribution format, so they did not fit in our previous discussions. But now they become relevant in the debate, as examples that match the matrix under the condition of originality in the retail methods, and need then to be investigated to give a complete view over the entire model.

The first column indeed shows three elements:

- **Original/Original**: Original stores are those points of sales that are 100% authentic, both in the products sold and in the methods utilized to sell them. To this category belongs all those chain-stores that we used as examples to define home brands that scammers counterfeit most frequently: Apple Stores, Nike Stores, Ikea, Emporio Armani, etc..

- **Original/Knockoffs**: AnFuSale is a Chinese chain of shoes resellers that offers in its points of sale a multitude of different brands, combining together all those etiquettes that might satisfy a medium-low target. Among this huge range of shoes, it offers original products together with knockoffs, so that if someone cannot afford the real model, can settle on something that is similar to it, but on a more economic end. We used AnFuSale to represent those shops that possess their own identity and commercial strategy, but sells together with real goods also goods that might be considered as close copies of others’ products but carry their own brand names.

- **Original/Counterfeited**: Space is a skate shop in Nanjing, located in between the two main universities of the city. As most of the skate shops around the world, it represents a meeting point for all skate-lovers of the city, who use this store as a location where to meet up, spend some time together, watch skate movies and of course buy gears. For these reasons, Space can claim a well-defined identity, modelled around the local community who shaped its features as skate shop over the years, personalizing its interior design by drawing on the wall, providing pieces of urban arts and organizing event to promote shop’s activities. The interesting point about this shop is that, since most of the local customers has never left the country, they are not able to critically observe the goods that Space offers. But for a western consumer, the presence of counterfeited good is pretty obvious: the shop indeed display apparel of Vans, Etnies, Elements, and many other famous streetwear brands, that even though might look identical to original ones, they are substantially different on the materials and details. This point of sale is the perfect example to witness the existence of activities that uses original and
unique commercial techniques to sell goods that are entirely counterfeited; for this reason such a typology locates on the top left corner of our matrix.

Once we presented the first column, composed of those firms that has a precise identity, communicated to customers throughout specific commercial methods, let’s move on the opposite side of the graph, to analyze examples of companies that lives on the shoulders of renewed brands, stealing their formats together with all the attributes they are able to transmit:

- **Counterfeited/Original**: Fake Apple Stores has already been discussed in Ch. 4.2.1, so we are not going to present them again. They have been chosen to give an idea of the class of shops that, even though use the façade of a western brand, sell products that are original, resulting from overproduction of local suppliers or from robbed trucks and warehouses. Many times these stores are so well designed that visitors do not realize they are in a fake one; the fact that products are actually original and present then all the functionalities and features of those sold in real stores, makes it even harder to understand the deception. The differences often stands on details, details that however are difficult to catch, especially for a population that is not used to travel and so has not the possibility to compare a real store with the fake one.

- **Counterfeited/Knockoffs**: 11 Furniture and Anmani instead represent the category of those points of sale that uses other brands’ formats to sell knockoffs; goods that are not perfect copies, but belongs to the same range, both in terms of typology and end, of those produced by the western companies they imitate. The result is that, while developed consumers are immediately able to catch the trick, more naïve visitors tend to be trapped by such similarities. These companies has often a solid financial background that allows them to invest in several points of sale and on their relevant dimensions, characteristics that in the Chinese culture tends to be associated with power and reliability; for this reason it often happens that less sophisticated consumers confuse the replica for the original brand, and consider the Chinese company as the owner of the authentic production rights, at damage of its western competitor.

- **Counterfeited/Counterfeited**: 100% fake Apple Store is another typology of shops we did not mention in the previous chapter, but it is one of the most frequent cases of counterfeited shops in the Chinese panorama. They are shops that look like Apple Stores, but then sell counterfeited imitations of Iphones, Ipads, Ipods, etc.. which are clearly fake. The diffusion of these stores in every city of China is an evident phenomena that stimulated our interest over the topic we analyzed in this paper. Fake-fake shops has been the first type of counterfeited distribution format in the country and remains the most common class above all. It does not concerns only Apple stores, but also sportive shops, apparel and fast foods. The coincidence of the counterfeit
in both the distribution model and products sold, locate this typology of shops on the top-right corner of the matrix.

Once we discussed the two extreme columns, the remaining is the one that concerns those distribution systems that imitate retail techniques of established brands, without directly counterfeiting their logos, names or whatever:

- **Trade Dress/Original:** Li-Ning is defined in the matrix a brand that produces its original goods, but sells them by exploiting commercial techniques that has been used before by global companies, who operates in the same segment. Firms who belong to this category are provided of a strong and established brand identity and image, so they do not need to use others name and image to be attractive to consumers. At the same time such a success has been created by utilizing the distribution formats and characteristics that older companies had already proven to be successful. In this way, respective stores might look somehow similar, even though there is not a direct link between eastern and western ones.

- **Trade Dress/Knockoffs:** Xiaomi stands in the perfect center of the model, representing the most hybrid category above all. This company indeed, even though presents many similarities with Li-Ning example, such as a well-defined identity supported by a great success in the Asian market, achieved thanks to the imitation of others’ commercial techniques, offers a line of products that is almost identical to the one displayed by Apple. The evidence is given by the fact that the company has been facing in the past several copyright troubles in Europe and USA, being accused of copying all Apple products, marketing strategies and even on stage presentation\(^{18}\). Xiaomi smartphones and PCs are considered from most of western consumers knockoffs of IPhone and MacBook, and this, combined with the stores similarities we presented in the previous chapter, locates the Chinese company as a representative for all those companies that imitate others’ distribution formats to sell their own knockoffs, leveraging on a strong brand identity and huge financial support to defend the legality of their actions.

- **Trade Dress/Counterfeited:** Fake Foot Locker has been the name we used to define those stores that in some ways refer to Foot Locker in the format, meant as multi-brand athletic shoes resellers, displaying the same shoe models offered by the US company, but all of counterfeited nature. In many of the cities we visited, athletic shoes, and shops in general, were by far one of the most counterfeited goods on the market. Especially in Sichuan (south-west region) it was possible to find plenty of these stores, which even though did not make any reference to the

Foot Locker label, used similar shelves and internal layouts to display fake shoes from Nike, Adidas, Reebok, New Balance etc.

Sometimes in these stores it is even possible to find particular pairs of shoes that are not displayed in official Chinese retailers yet; indeed such points of sales receive fake goods based on the inventory of western shops, that are in advance respect to Chinese one; it is then possible to purchase newest products earlier on fake Foot Lockers than on authorized ones.

Because of the presence of counterfeited goods, sold in an environment that recall Foot Locker ones, even though it is not considerable as a replica of the US label, this category has been placed on the upper-center of the matrix, where fake products meet the imitation of competitors’ distribution methods.

The matrix we were able to define as conclusion of our research is just a theoretical model that classifies distribution systems on the base of their level of authenticity.

Almost all the examples we proposed come from the Chinese market, this because the particular history and characteristics of the country played a crucial role in the creation of an environment that could stimulate the birth of this phenomena. Nonetheless this should not lead us to assume that the model can be applied only to China; none of the variables we utilized to define the matrix are related in any way to a specific area, nor in social, demographic or geographical terms. Not even many of the examples we presented are particularly linked to the Asian market, and probably we could find similar cases in others developing countries.

This to say that the model might be a useful tool for those firms that wish to investigate the situation of their competitors, not only on the Chinese market, but wherever they intend to set some businesses, utilizing it as a means to implement the analysis of those antagonists that operate an unfair competition based on counterfeit.

4.3.3 Limitations of the model

Of course the model lacks of some important aspects: one above all, the fact that it has been developed relying on my personal observation and of those of my assistants, who, even though committed to the scope providing interviews and photos, still remain few people among billions of consumers. Moreover although we tried to rely on reports made by different peoples, characterized by diverse nationalities, ages, occupations and permanence in China, we all still remain Europeans, a factor that might have influenced our the point of view over the reality we witnessed and over the interpretations we made.
For this reason further researches might focus on the exploration of this phenomena trying to find numerical and empirical data that contributes to strength our hypothesis or, on contrary, to weaken them, discovering for example which is the breath of this trend, how many cases exist, which are the most counterfeited brands and why, which is the turnover of these companies and how is it possible to calculate the damage that they produce to the companies they copy. We did not had sufficient tools and time to deepen our analysis in these directions, but such effort might be fundamental to assign an empirical tone to this paper.

Another interesting topic to advance the knowledge in the specific field, might be the analysis of how retail scammers behave in the rest of the world. We had to base the research over a direct observation, so we just could focus on the Chinese market, but journals and web news witness how the counterfeit of distribution systems is a phenomena that is expanding also in many other developing countries, both in Asia and South America. Further research might investigate what is the situation in countries like Brazil, Morocco and Malaysia, how do scammers behave in these areas and which are the ploys they utilize to enter fake products in the market. The analysis on how widespread is the imitation of western shops and of where do they locate in our matrix, might clear the situation over unfair competition in countries that are becoming more and more attractive for foreign investments and need then to be examined in every possible aspect, to assure that opportunities overcomes threats.

The last inputs concern the Xiaomi example: as we said, Xiaomi created its huge success leveraging on the online distribution. This whole paper developed around real retailers and their power to transmit values to objects, but at the same time we do not have to forget that in the 21st century distribution is evolving also toward online resellers. The use of an online portal not just as a tool to communicate information about a company, but also to emotion the visitor, to give him a perception of what the brand is about and what does it offer and its functioning as a platform to sell products like real points of sale do, is becoming a necessity for all those firms that face the global market. But as well as brick retailers, also websites starts to be counterfeited. The goal is always to create an environment that ensure the consumer and convince him about the reliability of what he is purchasing, with the difference that in this case the architecture, color and design choices, are about the online environment rather than the store one. Further researches might investigate this phenomena and try to individuate which are the similarities with what we reported in this thesis, defining its magnitude, which are the most adopted practices and what is their impact over customers perception. Counterfeit of web-stores is going to be a really actual topic in the future, think of how cheaper it is to develop a website rather than a real shop and of how much the use of
internet in Asian countries is diffused\(^\text{19}\); moreover consider the fact that today new generations born with a technological background that is hundreds of time higher than what we had: in 20 years Chinese scammers might be able to create perfect copies of www.luisvuitton.com to sale fake bags, without the need to invest thousands of dollar to create a fake store. For these reasons the creation of a side report that analyzes such modern dynamics might be very useful to give a complete state of the art about what counterfeit of distribution systems is about in China.

As you see, there is much more to say on this topic, we just gave a starting point were to move from, but the counterfeit of distribution systems is still an almost untouched field and all literary contributions that will be developed around such a theme can only further the knowledge on a subject that, in the next years, might acquire a significant relevance in the analysis of the competition for global companies.

\(^{19}\) McKinsey in its article “Five keys to connecting with China’s wired consumers” forecasts that by 2018 China’s annual online-retail sales are going to reach about $610 billion, passing Europe and the United States combined.
CONCLUSIONS

The intent of this paper was to investigate the most recent evolution of the counterfeit phenomena in China, in the way it overtook the simple replication of objects and labels, to move toward the imitation of the full selling environment, with the purpose to offer not only goods, but the entire range of emotions and values that a distribution system is able to transmit.

In the last decades the distribution activity has dramatically changed its features. External factors such as stagnation of some businesses and transformation of others, modified the consistency of market segments, leading to the increase of some and to the death of others. New technologies facilitates consumers information process, giving them the possibility to become more and more acknowledged and demanding on high quality at low prices and transparency, while factors such as e-commerce, mobile web, social media, crisis and social responsibility influenced the economic context, transforming brands, retailers but most of all consumers.

Classical approaches has always considered the consumer as a complete rational decision-maker oriented toward the maximization of efficiency and minimization of costs in the choice of best alternatives. Today, these assumptions are no longer sufficient: new customers are more and more competent and conscious, persuaded and stimulated by fashion and trends and at the same time mindful on what the specific good represents and on the lifestyle it undertakes.

Shopping in this era is no more merely functional to the appropriation of a good, it is now a recreational activity, a way to spend the free time. People do not go on a shopping center just to buy specific good, they go to enjoy the atmosphere, to spend some time, to socialize; the need of a sensorial experience replace the need of owing something rationally.

Such a shift in the consumption behaviours inevitably affected also distribution formats, with the overcoming of a store intended as an anonymous place that serve just as a holder of goods, to end up as a location full of meanings. The site where people actually buy things becomes from a strategic and communicational point of view a fertile ground for most innovative and forward looking companies, that can use their stores as dynamic locations where an informed costumer can live a unique experience, enriched by a valuable brand atmosphere, credible and concrete. The individual is able to satisfy its desires, to build its identity and to participate to a performance in which he is free to decide whether to be or not the protagonist or the spectator and when to shift from a role to the other.

Firms today face the necessity to have a physical place where they can interact whit the consumer and build with him a long-term relationship. These locations are point of sale: Disney Store, Apple Store, Nike Town are all places where is not just about visual entertainment, but a
specific music or perfume evoke memories, stimulate sensations, create an unforgettable experience. These marketing tools are replacing traditional advertising methods and are more and more adopted from global companies, which are able to obtain significant results based on irrelevant advertising investments.

The common line is fascination, spectacularization and simulation, to capture the consumer while blurring its consciousness of reality. The sociologist Ritzer (2005) was one of the firsts who, at the end of ‘90, used the concept of retailment (retail and entertainment) to refer to the strategic planning – through activities such as in-store management and sensory marketing – of all the elements in the store that become fundamental to interact with the consumer, transforming the action of buying in a recreational activity, unique and unforgettable.

Innovation becomes the new key concept to face a changed environment and catch its opportunities. Following Ritzer reasoning line, Aubrey and Judge identified three main levers that companies can use to exploit physical retailers in the creation of value for their clients: first, the integration of real stores as part of a more complex distribution networks, made of online and offline solutions; second, the utilization of points of sale as logistic supports to be able to supply the right product, at the right time, in the right place, for the right consumers; third, the adoption of store design as a means of differentiation, able to drive consumers’ preferences.

In the first part of our research, we focused on how this last lever can be used to transfer the values and image of a brand to its products: the store design functions as a bridge between physical entities and store atmosphere, giving beauty and sense to products and services, facilitating shop dynamics and flows, creating an environment that allows social interactions between all subjects in the store. It gives effectiveness in the communication of the identity of the brand, differentiates the point of sale from competitors and becomes one of the most interesting and tangible feature of the shop.

The store design is composed by a complex mix of tangible and intangible elements, all combined together thanks to the clever collaboration of architects, designers, marketers, experts in communication, people who work to provoke sensations. Today the basic require for the creation of a successful store is the combination of different knowledge and capabilities: locations are designed not just to entertain the visitor but to involve him, ensure that he consumes atmospheres and emotions more than products.

The revolution that retail systems are witnessing affects not only their external and internal look or their dynamics, but it is changing also the final purpose they are built for: the focus is no
longer on turnover and sales, but on brand identity and communication; modern stores function as catalyzers and advertising tools to replace the lost visibility of old distribution models.

These transformations started from developed countries, where sophisticated consumers are harder and harder to satisfy and claim for innovative consumption tools in a saturated market, stimulating the rush toward research and development oriented to new commercial techniques that keep alive customers’ interest for the brand.

Global companies play today the role of forerunners in this eternal race to success, locating their points of sales around the world to meet the requests of differentiated consumers and build up a strong international reputation.

China represents a critical market for the majority of these companies, a container for endless opportunities, as well as eternal challenges: a country that has been living dramatic changes in the past 30 years, changes that led it to become the second most powerful economy in the world, but at the same time characterized it with a pervasive dualism, that contributes to complicate the analysis and comprehension of its dynamics.

The positive situation that affects China today is the result of a reforming process that overturn the economic system from a “planned economy” to a “socialist market economy”. During the People's Republic of China (1949-1978) Mao Zedong started a long period of isolation and tight control over economy but it was soon clear that this strategy could not lead to a favourable results, and when Mao Zedong died, Deng Xiaoping started the reformation process that drove to the great transformation of Chinese economy and society, leading to the creation of the country we all know today. A process characterized by a series of reforms that took place in all main sectors of Chinese market, which can be grouped around 3 main political lines: the Decollectivization of China's rural economy and the “Open Door Policy” in 1978, the reorganization of urban areas and industrial sector in 1984, and the WTO inclusion in 2001 with the consequent financial, fiscal and bank reforms.

In these thirty years China was able to shift it status from an underdeveloped country to the first Asian economy, whose GDP constitutes more than half of the total GDP of BRICs countries together. Chinese economy is not only huge, but it is also open: the country is today the biggest exporter in the world with US$ 2,252 trillion market, in 2012 generated a commercial surplus of US$ 231 billion. The level of integration with the international community is clear by analysing its level of FDI: in 2012, China was the world's largest recipient of inward foreign direct investment attracting US$ 253 billion, while its capacity to invest abroad continues to increase with a total outward FDI of $62.4 billion (OECD, 2013).
But the liberalization process, supported with such enthusiasm, could not mind the basis of a sustainable development; the consequences felt over a widespread social imbalance that evolved as a multidimensional phenomenon, affecting business sectors, social classes, poverty marginalization, and regional growth. China today is a country characterized by a pervasive dualism, dualism on the distance between rural and urban areas, between east and west regions, between old and young generations, between law and corruption. An heterogeneity that inevitably pour over its population.

China today is one of the most variegated society in the world, a consumer class that has been growing, becoming more modern and more sophisticated, influenced by the American way of life and attracted to western lifestyle, looking for emotional satisfaction and assertiveness, willing to spend money on goods that improve living conditions. Differently from their parents and grandparents, who lived under the Marxist philosophy “from each according to his ability, to each according to his needs”, new generations are more likely to accept changings and evolutions on goods and trends, to undertake fashions coming from western countries, to express their own individuality. They are now appeased by the possession of latest fashion goods, evaluating completely different and new features in respect of what older generations did. The exposition of Chinese consumers to western trends and lifestyles is going to influence the social dynamics of the country, shifting their approach to life from “hard working and plain living” to “hard working and comfort living”. This progressive renovation of social attitudes inevitably moved alongside with a process of modernization that affected also the distribution system of the country.

Before the ’80, retail was limited to a logistic function because the central government decided what to produce, where an in which quantity. Today the situation is completely different: the scenario moved toward a market economy, with distributors that, following the growing economic capabilities of consumers, have been evolving in new and modern forms, contributing to the phenomena of the retail revolution. They are forced to strive for innovation and competition in a country where numbers are enormous, both in terms of clients and firms. It is clear how the openness to foreign investments has shaped this new structure, converging to most common international practises, with hypermarket and supermarket spread all over urban centres and main department stores and luxury shops located in exclusive shopping mall and cities main roads. As long as consumers changed, point of sales changed with them, and as long as western culture influenced Chinese population, it influenced also their distribution systems, that now more than ever are converging toward international standards. Chinese shops today are
more sophisticated, more elegant, precisely organized to assist the consuming process; more and more they understand the importance to offer not only goods, but experiences. We are witnessing a sort of normalization between retail standards of eastern and western countries, a normalization that is inevitably affecting also market dynamics.

At the same time, in this complex scenario, together with the openness to foreign investments, there has been another important driver for Chinese economy that it is worth to consider: counterfeit. In the first period of capitalism, China had a big disadvantage respect to the western countries and nothing to lose, copying meant to skip some phases of the development process. The search for richness and wellbeing has been (and is) the driving force of this economy, and counterfeit represented a shortcut to reach it. The manufacturing of fake products has been one of the most important sources of Chinese rebirth and it is today deep rooted in population’s customs. Copies invaded the market and contributed in modelling consumers’ perceptions and preferences.

But as long as everything else evolved in this never-stopping scenario, where goods influence consumers, which then influence distribution and vice versa, also counterfeit shaped its role in the chain, and adapted itself to changing trends. If once it was enough to reproduce a good to sell it as the real one, today more sophisticated and acknowledged consumers are easily capable of distinguish real from fake ones, then also this black industry needed to find a way out; a way out that turned out to be the logical evolution of the former stage, the replication not only of the product itself, but of the entire system that confers value to the good: the distribution system.

Communication strategies, both in the case of advertisement campaign and of experiential marketing through retail formats, are defined as a combination of precisely designed tools that interact to pursue the transfer of specific values from the company to its products. Such tools are different and customized around each firm, and constitute then a source of uniqueness that ensure great added value. For this reason, as it happens for products, the specific and distinguish features of such instruments need to be protected from counterfeiting, to prevent other companies to appropriate the advantages coming from the image that the store is able to create around the brand’s offer.

Because of Chinese cultural background, where Confucius philosophy gave great emphasis on personal development more than on profits and where each individual was considered only on the base of its contribute to the society, the concept of protection of intellectual property has been considered in the Chinese legislation only since the opening of the market to western countries. After 1979 indeed, the government wanted to create a familiar juridical environment
for foreign companies; the modernization of the legal aspects about intellectual property was mainly an effect of the normative adjustment of Chinese legislation to all the international commitments that the country was facing. A fundamental turning point has been represented by the will of China to become part of the World Trade Organization: for the scope it was necessary the rectification of TRIPs, the Agreement on Trade Related Aspects of Intellectual Property Rights, which required every member state to adjust its legislation around uniform precise precepts and standards. The Agreement on Trade Related Aspects of Intellectual Property Rights became the top source of Chinese intellectual property protection system. Chinese legal system indeed, allows those international conventions and treaties who has been accepted and signed, to directly access the internal normative corpus, becoming at all effects part of it.

Pushed by the will of becoming part of the international community, the reforming process started at the end of ‘70, moved from a situation in which the Rule of Law was only a blurred idea and where judges were subjected to the will of members of the Party, and personal relationships, the so called guanxi, were considered more than official laws.

In 2001 the entrance in WTO gave a drastic shift to this situation, consequence of the adoption of a new binding system of dispute resolution. But today the legal system, even though it has been improved on every level and every topic, still suffers of a widespread low awareness of procedural justice in the public opinion and of a limited transparency of its institutions.

The Chinese structure of protection of intellectual property rights follow a two-track system: the first born and also the most common form of enforcement is the administrative track, in which the holder of an IPR files a compliant at the local administrative office. Even though this is the most preferred means of enforcement, it remains unsatisfactory, especially for foreigners; authorities indeed are free to decide when and which cases to investigates, for this many time it happens that, because of corruption or simply to favour local protectionism, they avoid to investigate on certain cases or delay the inspections to allow scammers to sell the counterfeit goods or to move them somewhere else, or also it happens that after the confiscation, the same products are returned to the original owner. The second track is the judicial track, in which companies and individuals are filed through the court system. This solution is still limited in the common use of intellectual property conflict resolutions. The main reason is linked to its high costs and length, and low trust over a court system deeply interconnected with the political environment.
Once we understood what can be done in China to defend each own intellectual property rights, it is time to investigate which methods do scammers practice to enter their counterfeited products in the market. Evolution of trends, perceptions and sophistication of Chinese consumers shaped the path of the counterfeit industry: scammers understood how, to be able to acquire a higher mark-up, they needed to confer on their fake productions not only the same physical characteristics of real goods, but also those intangible values that made the products really desirable. To go through the purchasing path of a popular store stimulates sensations and feelings that contributes to constitute the idea around what the person is buying. For this reason, most forerunner scammers realized that to be able to sell more and to sell it better, they should counterfeit not just products, but also of the entire retail format.

First documented cases of such a phenomena date back to 2011 and this gives an idea of how recent the trend is and of how hard it is to find any kind of data that could explain somehow what is happening. For this reason I spent 6 month in China, visiting several cities to directly investigate the phenomena of fake points of sale, reporting pictures and experiences of what is the reality of these structures and how they affect the local market.

During my trip I could state how the differences that affect Chinese society reflect on the diverse typologies of shop I found. For this reason I decided to classify the real cases I found in four macro categories:

1) Fake shops which sell real goods: these shops present themselves as a perfect copy of real stores, with great attention to detail. Their most important feature is the fact that they sell real products, coming from robbed trucks or overproduction of local suppliers. One example is fake Apple Stores spread all around the country. The furniture, the design, the product display, the internal layout, even the classical personnel blue t-shirt is the same used in authorized resellers. Only most acute visitors and Apple maniac would note that real Apple stores never writes “Apple store” on their signboard, but the shop is indicated only by the renewed logo. An average consumer, who does not visit hundreds of apple stores, does not know which are the distinguish characteristic of this chain; unaware consumers will believe they are inside a real Apple store, which sells real Apple products, and the suspect of being part of a black market won’t even touch their mind.

2) Fake shops which sell fake goods: here shops present themselves as 100% fake, both in the store environment and in the products sold. Indeed they display goods that, even though might recall original ones, show characteristics that create suspects about their originality. Moreover these points of sale are located in positions that are not consistent with the
commercial strategy of the brand that they imitate. An example is given by the multitude of sportive shoes retailers that sell multi-brand shoes on the model of Foot Lockers. At first sight they might look as most popular shops that sells everyday shoes; sometimes the impression is that of a point of sales created as an outlet for higher stores, but then details reveal that products are fake imitations. Chinese consumer, still too naïve to get the difference, might be convinced of the authenticity of these points of sale and confuse them for real ones. The implications concern a reputational damage due to the fact that fake products sold here have a lower quality and ruin much faster than original ones, creating unsatisfied customers.

3) Original shops of a Chinese brand who copied the distribution strategy of a western brand and try to fool oblivious consumers: they are points of sale of original Chinese brands, with an identity and their own production line, that creates knockoffs of the original ones, but do not counterfeit them. Implications here concern the fact that, as long as there is a real brand, rather than a ghost one, it means that there is a company that is responsible for its actions, with a legal position, documents, balances, and all the typical features of a company that belongs to the normal business and is not hidden in the branches of the black market. Anmani and 11 Furniture are two great example that best represent this category. Companies that exploited the replication of western commercial techniques to gain success in the local market, by substituting themselves to foreign firms in the supply of furniture and high-end clothes that meet the international taste of modern Chinese.

4) Original shops of Chinese brands that do not even try to fool the consumer, but use similar distribution formats to present themselves as a local alternative to western brands: many Chinese mega-companies are growing both in the domestic and foreign market, not trying to counterfeit others products, but promoting their own goods by observing and replicating what other successful firms do. Li-Ning or Xiaomi have built their success by exploiting the same techniques used by most renewed global brands, but they does not try to confuse the consumer pretending to be one of them. Their ability stands on the capacity of matching the commercial strategy of western companies that obtained great results in the global arena with the domestic environment of China, made of millions of people that are today willing to spend their money on new and modern products, goods that directly or indirectly link them with the rest of the world and that for this reason must recall an international atmosphere on their inner features and on the way they are distributed through retailers.
This categorization drove us to produce a theoretical model that classifies distribution systems on the base of their level of authenticity. A model that does not have to be considered as tailor-made on the characteristics of the Chinese market, but can be adapted to all regions and all countries, in consideration of the fact that none of the variables we utilized are linked to a specific socio-demographic area.

The graph develops around two variables: the X axis identify the techniques used by the store to distribute its goods, to focus the attention over those aspects of the selling environment that could, in one way or another, recall to consumers’ minds some notorious elements seen in others stores of different companies. The Y axis instead relates to the origin of the products sold, intended as the nature of the goods displayed in the considered shop, that can be original, knockoffs or counterfeited.

The model might be a useful tool for those firms that wish to investigate the situation of their competitors, not only on the Chinese market, but wherever they intend to set some businesses, utilizing it as a means to implement the analysis of those antagonists that operate an unfair competition based on counterfeit.

Of course the model lacks of some important aspects: the fact that it has been developed relying on my personal observation and not on numerical or empirical data; the fact that it relates only to the Chinese market and does not offer a worldwide overview of this phenomena; and the fact that it considers only real stores and did not took in particular consideration what is happening on the online side of distribution, but all these aspects might be considered as starting points for further researches. All literary contributions that will be developed around such a theme can only improve the knowledge on a subject that, in the next years, might acquire a significant relevance in the analysis of the competition for global companies.
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127


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