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**"CUSTOMER ENGAGEMENT THROUGH GAMIFICATION
MARKETING IN CHINA: A FOCUS ON THE LUXURY MARKET"**

RELATORE:

CH.MO PROF. PIERGIORGIO DAL SANTO

LAUREANDO: GIANLUCA FALCO

MATRICOLA N. 1190482

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INTRODUCTION

What do companies like Louis Vuitton and Burberry have in common with the apparently opposite worlds of videogames and online gaming? The key words that bridge them are “*Gamification Marketing*”, a term that is not simply describing a new marketing phenomenon but includes a new perspective of the entire topic of Customer Engagement. Gamification Marketing consists in using game elements as marketing tools to engage and motivate customers, exploiting game-based aesthetics, mechanics and thinking. In other words managers can develop gamified experiences or contests, especially through mobile apps, to entertain customers and create a direct communication channel with them. For example, in 2019 Fendi launched a WeChat mini game in China called “*Fendi Ways to Rome*”. Players had to jump and run through the streets of Rome, discovering the wonders of the city. The aim of this campaign was to create a bond with younger generations and at the same time convey the DNA of the brand in an unconventional way. In general, Luxury companies have been among the first to understand the potential benefits of this innovative tactics and, as in the case of Fendi, started to exploit it in a very precise and profitable market: China. But why exactly this country?

The Chinese market appears as a unique scenario, characterized by the intense use of digital technologies, social networks and e-commerce that are a crucial part of the everyday people’s life. In particular, this digitization phenomenon has been pushed by the Millennial generation (people born between 1981 and 1996) and by the Generation Z (people born between 1996 and 2010) that also represent the leading portions of the population in Luxury spending. This specific digital-focused and dynamic environment have challenged Luxury companies to find alternative and innovative digital marketing strategies to attract and retain this new type of customers. These strategies include the creation of Brand owned websites, partnerships with e-commerce platforms such as Tmall.com or JD.com, a large presence on Chinese social networks like WeChat and Weibo, and collaborations with famous KOLs. Gamification Marketing campaigns, in this context, should not be considered as magical instruments to unravel the situation, but as integral parts of broader marketing plans that engage the customer 360 degrees.

The aim of this thesis is to understand how companies develop Customer Engagement strategies exploiting the benefits of Gamification Marketing, and especially how to implement those strategies in the Chinese market. A specific focus on how Luxury brands are leveraging these marketing tools, provides a strategic framework for a better comprehension.

In the first chapter the concepts of Customer Engagement and Customer Journey are introduced, investigating the strategies, motivations and benefits that drive companies to focus their attention on these aspects. With the current pandemic situation, an analysis of how Customer Engagement tactics are evolving to adapt to customers' needs is also performed.

The second chapter provides a full picture of the Gamification Marketing context and how it can be used as an engagement tool. It highlights all the elements, both physical and psychological, that are behind the phenomenon and the benefits and limitations connected with these types of projects.

The third chapter further analyzes the aspects and peculiarities of the Chinese market. It offers a roadmap of the country, underlining the most relevant social, political, technological, and economical aspects. A focus on Chinese customer behaviors, and the most relevant Customer Engagement trends are also provided. Finally, an overview of the gaming phenomenon in China and a synthesis of the related consequences close this part.

The fourth chapter offers an in-depth overview of the Chinese Luxury market, analyzing the evolution and the latest trends behind this sector. An analysis of real case studies explores how Luxury brands compete to engage Chinese young customers using Gamification Marketing strategies. This part points out how to effectively build these campaigns in the country, the reasons that has driven Luxury companies, and the successful elements that has characterized these marketing approaches.

Finally, the conclusions summarize the main findings and suggestions for companies interested in engaging customers in China through Gamification Marketing. The methodology of this research is based on real case studies analysis and interviews with experts from the Luxury and the Gaming industries. Interviewees include:

- *Thomas Rosenthal*, General Manager Asia-Pacific at 505 games (Digital Bros Group) and former Board Member at “Fondazione Italia Cina”, based in Hong Kong [see Appendix A].
- *Iris Chan*, Partner, International Client Development at DLG (Digital Luxury Group), leading digital marketing agency for Luxury and lifestyle brands, based in New York, USA [see Appendix B].
- *Denis Coan*, President at Fendi China, based in Shanghai [see Appendix C].

CHAPTER 1. CUSTOMER ENGAGEMENT

1.1 What is Customer Engagement?

en•gage /ɪnˈɡeɪdʒ/ verb,

to attract and keep the interest and attention of someone (Longman Dictionary of English Language and Culture, 2005).

There is no better term to portray the new cultural paradigm developed in the last years than “engaged”. Our lives have drastically changed with the advent of digital technologies, streaming platforms, and social networks and with them also marketing strategies have adapted. Digital marketing experts estimate that we are exposed to approximately 4.000 to 10.000 ads each day and, as a consequence, we continuously filter those in which we have a personal interest in and those in which we do not. All the brands we interact with face many challenges each day: remaining consistent, differentiating versus the competition, and keeping on top of customers minds (Simpson, 2017). For all these reasons the so called “*Customer Engagement*” has become an important factor for all the companies that want to succeed and create a loyal (and profitable) customer basis. But how do we define “*Customer Engagement*”?

There are many definitions and interpretations of this term (*see Figure 1*), but the most holistic is the one provided by Pansari and Kumar in 2017, which describes Customer Engagement as:

“The mechanics of a customer’s value addition to the firm, either through direct or/and indirect contribution” (Pansari, et al., 2017).

The direct contribution corresponds to customer purchases while the indirect ones consist of incentivized referrals provided by customers, social media interactions with the brand and customer feedback given to the company. When a customer is satisfied with his/her relationship with the Brand and has an emotional bond with it, then it can be said that the customer is engaged (Palmatier, et al., 2018).

Customer Engagement usually derives from positive customer experiences and helps brands to build and strengthen a “human-to-human” network, adding value beyond just transactional relationships. This customer-centric approach needs to be applied across all companies’ touchpoints and throughout all their lifecycles. These interaction points usually include both an online and an offline presence through social media, websites, brick-and-mortar stores, and promotional events. In particular, creating unique and outstanding experiences in these different channels allows managers to increase their number of engaged customers.

<i>Study</i>	<i>Type of firm</i>	<i>Type of variables</i>	<i>Conceptual/ Empirical</i>	<i>Definition</i>
Bowden (2009)	B2C	Attitude and behavior-based	Conceptual	A psychological process that models underlying mechanisms by which customer loyalty is formed for new customers as well as the mechanisms by which loyalty may be maintained for repeat-purchase customers of a service brand
Van Doorn et al (2010)	B2C	Behavior-based	Conceptual	Customers' behavioral manifestation toward a brand or firm, beyond purchase, resulting from motivational drivers such as word-of-mouth activity, recommendations, helping other customers, blogging, writing reviews
Brodie et al. (2011)	B2C	Attitude-based	Conceptual	A psychological state that occurs by virtue of interactive, co-creative customer experiences with a focal agent/object (e.g., a brand) in focal service relationships
Vivek et al. (2012)	B2C	Attitude and behavior-based	Conceptual	The intensity of an individual's participation and connection with the organization's offerings and activities initiated by either the customer or organization
Hollebeek (2011)	B2C	Attitude and behavior-based	Conceptual	The level of customers' motivational, brand-related, and context-dependent state of mind characterized by specific levels of cognitive, emotional, and behavioral activity in brand interactions
Kumar et al. (2010)	B2B and B2C	Attitude and behavior-based	Conceptual	(1) Customer purchasing behavior, whether it be repeat purchases or additional purchases through upselling and cross-selling [CLV]; (2) Customer referral behavior as it relates to the acquisition of new customers through a firm-initiated and incentivized formal referral programs [CRV]; (3) Customer influencer behavior through customers' influence on other acquired customers as well as on prospects [CIV]; (4) Customer knowledge behavior via feedback provided to the firm for ideas for innovations and improvements and contributing to knowledge development [CKV]
Kumar and Pansari (2016)	B2B and B2C	Behavior-based	Empirical	Same as Kumar et al. (2010)
Pansari and Kumar (2017)	B2B and B2C	Attitude and behavior-based	Conceptual	The mechanics of a customer's value addition to the firm, either through direct or/and indirect contribution

Figure 1: Customer Engagement definitions (Palmatier, et al., 2018)

Having highly engaged customers means having people that buy more, promote more, and demonstrate more loyalty to the Brand. According to research performed by Aberdeen Group, companies that succeed in engaging customers across the channels cited before have better performances with respect of competitors in different critical metrics (Digitalcommerce360, 2013):

- Retain an average of 89% of their customers compared with 33% for companies with weaker cross-channel customer care strategies.
- Show, on average, a 9.5% year-on-year increase in annual revenues compared with 3.4% for competitors
- Show, on average, a 7.5% year-on-year decrease in cost per customer contact compared with 0.2% for competitors

Developing Customer Engagement strategies to reach these outstanding results is neither easy nor inexpensive as someone could think. It requires a full understanding of the own customer base, the long-term strategy, and customer needs. Businesses are shifting Customer Engagement to the core of their strategies and are focusing on a day-to-day improvement of these aspects. This situation suggests that the emotional aspects of customer relationships will increasingly play a central role in the future competitive context.

1.1.1 Customer Engagement Framework

The needs and responses of people have drastically changed in recent times. As a result we have shifted from a marketplace where we simply carried out transactions to one where the most important aspect is the creation of relationships, both with brands and other customers. For instance, one of the current needs of people is to always stay connected through different media channels such as Instagram, Facebook, and Twitter, exchanging opinions and feedbacks on products with other purchasers. Many customers even create free review videos and blogs, contributing to increase the awareness and reputation of products and services. Managers are considering these new behaviors, encouraging content generation, and investing in the development of strong networks. These types of relationships evolve only if customers are satisfied with their existing connections with the company and exist an emotional link with the Brand. *Figure 2* summarizes in detail the process and the consequences of this relationship-creation framework.

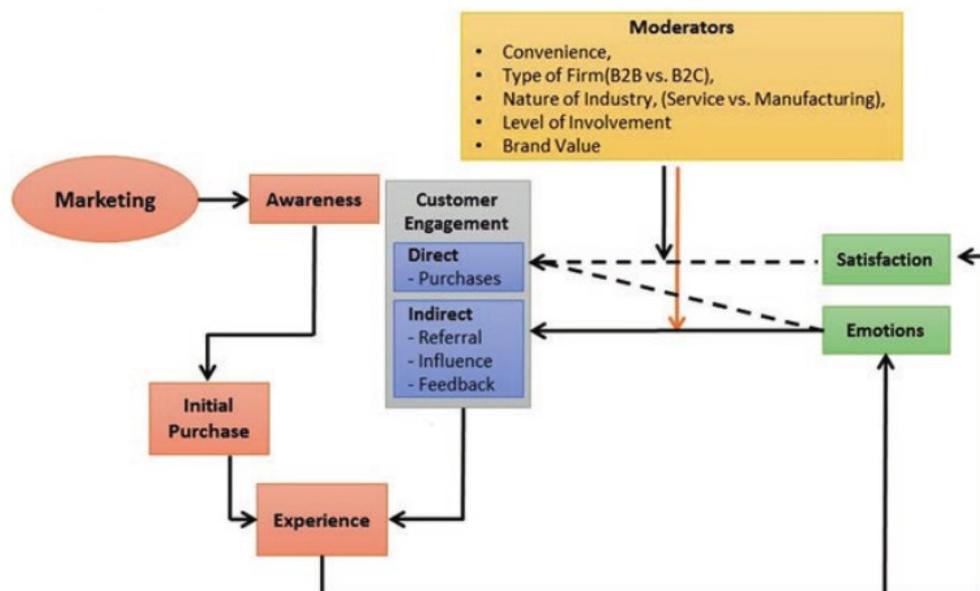


Figure 2: Customer Engagement framework (Palmatier, et al., 2018)

As highlighted from the image, managers invest in marketing activities to push awareness. This awareness assists customers to understand if the company's products and services satisfy their needs. After this initial identification phase, the customer performs the purchase which creates an experience for him/her. Then if the company meets or exceeds customer's expectations about the product or service, the experience will lead to positive emotions and the customer will be satisfied. This satisfaction and the emotional attachment create the engagement with the firm in the forms of purchases (direct contribution), referrals, influence, and feedback (indirect contribution). However, these contributions can vary due to many factors such as convenience, nature of business (B2B vs. B2C), nature of industry (Service vs Manufacturing) level of involvement and Brand value (Palmatier, et al., 2018).

This engagement-creation process underlines once again the importance for Brands to create active marketing campaign, leveraging on customers' emotions and experiences. In this new Digital Era, the competition to attract and retain customers is being played at 360 degrees and is crucial to be prepared to fight in each marketing channel and with all the available tools.

1.1.2 Psychological Drivers

After having analyzed what Customer Engagement is, it is useful to provide a framework to understand the psychological reasons that guide people's engagement with Brands. A deep comprehension of these forces allows to develop correct and powerful engagement strategies, creating true and lasting bonds between customers and Brands. For decades only three Core Value Propositions (CVPs) have differentiated brands from one another and guided all marketing strategies: price, performance, and service. Core Value Propositions refer to the value managers promise to deliver to customers and are part of a company's overall marketing strategy. CVPs can be defined as easy-to-understand reasons why people should buy a product or a service from that particular business, telling them what the company stands for and how it operates (Twin, 2020).

In the past marketing strategies were studied to create alignment, perception, and affinity around those CVPs. Most campaigns usually focused only on a single driver, using from time to time price, performance, or service as principal differentiator. Over years the increasing competition and fragmentation have led to a commoditization of these CVPs and almost every company have started to offer better prices, excellent performances, and quality services. This situation has increased the importance of a new dimension to differentiate one company from another: relationships (Smith, et al., 2016).

As underlined in the previous part, relationships with customers have become the core of companies' attentions but what are the psychological inputs behind these relations?

Smith and Hanover have identified four main drivers through a survey of more than 5000 customers spanning 10 years (see Figure 3). The characteristics of these Brand Relationship Drivers are:

- Driver 1: Customers identified with the brand.
- Driver 2: The brand helped customers to solve a problem.
- Driver 3: The brand had specific meaning to customers.
- Driver 4: Customers felt better about themselves when they used the brand.

To create successful long-term relationships is necessary a full comprehension of how an experience scientifically affect a relation. Understanding how the minds elaborate emotions and information within this framework, is useful to develop ad-hoc marketing campaigns, building engagement around a specific behavioral outcome.

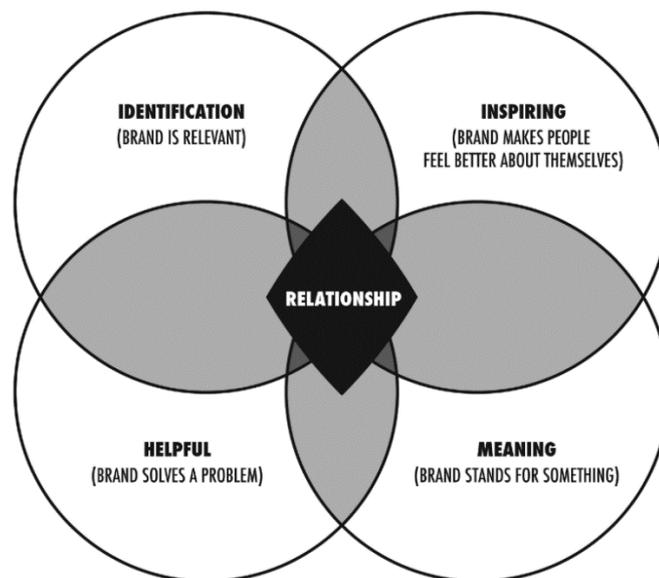


Figure 3: Brand relationship drivers (Smith, et al., 2016)

To develop successful engagement strategies is crucial to consider these drivers, shaping strategies accordingly and adopting customer-centric approaches. Ignoring what really customers are searching for can have extremely negative consequences, corroding the actual competitive advantage and damaging the ability of the company to create value in the long-term period. Given this framework, to improve the effectiveness of marketing strategies and

create stronger relationships there are some takeaways. According to Smith and Hanover these suggestions are:

- Design experiences that provoke *Transfer* (“the ability to take what one has learned in one context and use it in a new instance”). The way in which people feel about something affect their interest in it and their willingness to interact and accumulate information.
- Use and communicate meaning and identification to affect emotions. In this way the engagement is more probable to be processed, stored, and remembered.
- Try to design specific experiences to evoke the right emotions or behaviors, tailoring these experiences based on customer learning profiles.
- Develop longer experiences to increase the chances of long-term memory associations between your audience and your brand.

Recognizing that there is a science behind the mechanisms that link experiences and emotions is the first step to develop strong engagement strategies, reaching both the minds and the hearts of customers. A psychological approach to the topic also provides a deeper analysis of the forces behind customers’ decisions and preferences. The next paragraphs will analyze more in detail the steps to build effective Customer Engagement strategies and how to measure the benefits deriving from these tactics.

1.2 The Customer Journey

Another important concept related to Customer Engagement is the so called “*Customer Journey*”. This notion encloses a customer viewpoint on the engagement process, from the pre-purchase to the post-purchase phase, including also external influencing factors (Lemon, et al., 2016). Mapping this flow of behaviors and information can be very useful for companies that want to have a clear understanding of where to intervene when they implement marketing strategies and is the first step for a thorough understanding of Customer Engagement.

1.2.1 Purchase Phases

Lemon and Verhoef conceptualized the Customer Journey in three main phases: pre-purchase, purchase, and post-purchase. Other works have considered more holistic views of this theme, but this simplification makes the process clearer and more manageable, offering an immediate and easy interpretation of customers’ needs and behaviors.

As you can see from *Figure 4*, the three phases are:

1. *Pre-purchase*: the first step includes all the aspects of the customer’s interaction with the Brand and the whole environment before the transaction happens. It conceptualizes the customer’s experience from the recognition of the need to the consideration of satisfying that need with a purchase.
2. *Purchase*: this second step describes all the customer interactions during the purchase event. It depicts the typical behaviors such as choice, ordering and payment. Even this stage is usually the most compressed one, it requires a special attention given its relevance in the purchase decision.
3. *Post-purchase*: the last step summarizes all the interactions following the actual purchase. This stage includes behaviors such as usage and consumption, post-purchase engagement, and service requests. Recent research has included in this part also the “loyalty loop”, underlining as a trigger may occur, leading to customer loyalty, repurchase and further engagement.

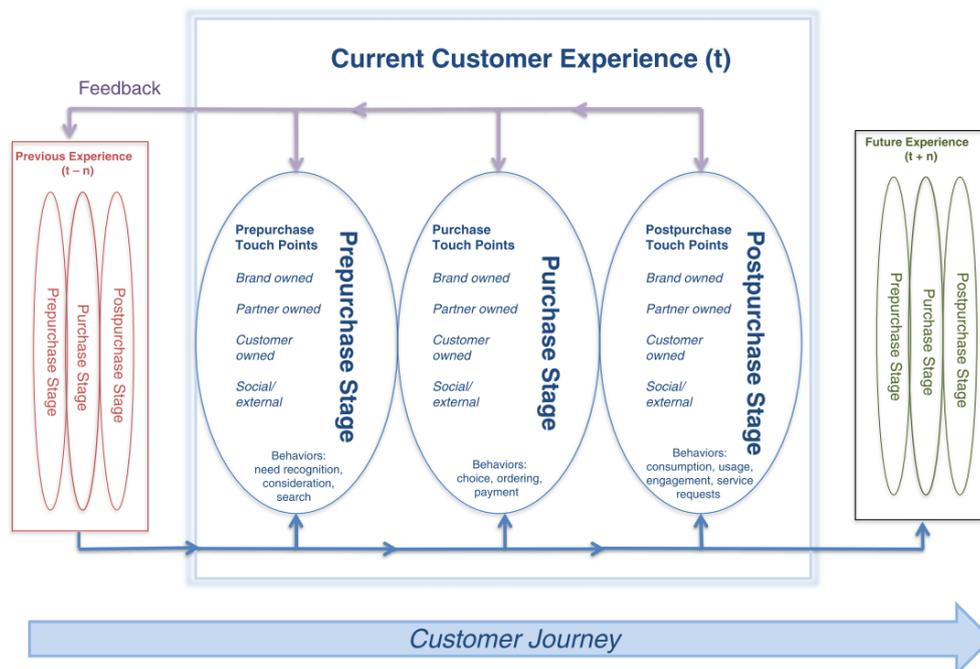


Figure 4: Customer Journey’s purchase phases (Lemon, et al., 2016)

This framework emphasizes the importance to pay attention not only on the firm’s perspective of the process but also on the customer’s one, recognizing what the critical aspects in each stage are. Companies in this way can identify all the touchpoints that occur during the journey, knowing where the value creation occurs and where some improvements can be performed.

1.2.2 Mapping the Customer Journey

As underlined in the previous part, the identification of all the touchpoints during the purchase process is a key step for a wider comprehension of the customer approach to the business. To facilitate this recognition-phase companies can benefit from Customer Journey Maps. These maps are quite simple tools that are used from managers to chart the steps customers go through in engaging with the company, whether it be a product, a service, an online experience, or a retail experience. The higher the number of touchpoints, the more complex such a map becomes (Richardson, 2010).

In particular, according to the American market research company Forrester, the Customer Journey Map can be defined as: “*Documents that visually illustrate customers’ processes, needs, and perceptions throughout their relationships with a company*” (Temkin, 2010).

Always according to Forrester, the Customer Journey Mapping process requires 5 steps:

Step 1: Collect internal insight. The process begins taking the inventory of the customers’ knowledge companies already have. This phase allows to have a clear idea about customers and their experiences, detecting the sources of customer data.

Step 2: Develop initial hypotheses. In this phase is important to analyze and synthesize the data and observation collected. In particular “assumption” journey maps are developed to document internal insights and provide a framework to build research-based maps.

Step 3: Research customer processes, needs, and perceptions. Even if companies have a lot of information about their customers it is difficult to understand what customers care about most, or the differences in customers’ thinking and behaviors. Firms need to enlarge their research, including methods to also catch the customers’ perspectives.

Step 4: Analyze customer research. After the research phase it is necessary to filter useful findings about how customers interact with the company, what they want from each interaction, and how they feel about each interaction.

Step 5: Map the Customer Journey. At this point companies translate their findings into a simple visual representation of customer processes, needs, and perceptions. This final representation summarizes all the important elements, highlighted in the precedent phases.

In the following image (see Figure 5) is provided a good example of a Customer Journey Map for a potential Lancôme's customer. As you can see, in this map are summarized all the potential behaviors and emotions related to each touchpoint a purchaser faces when he/she approaches the Brand. This map highlights also the issues and problems along the purchase experience, suggesting solutions and recommendations for company's marketers.

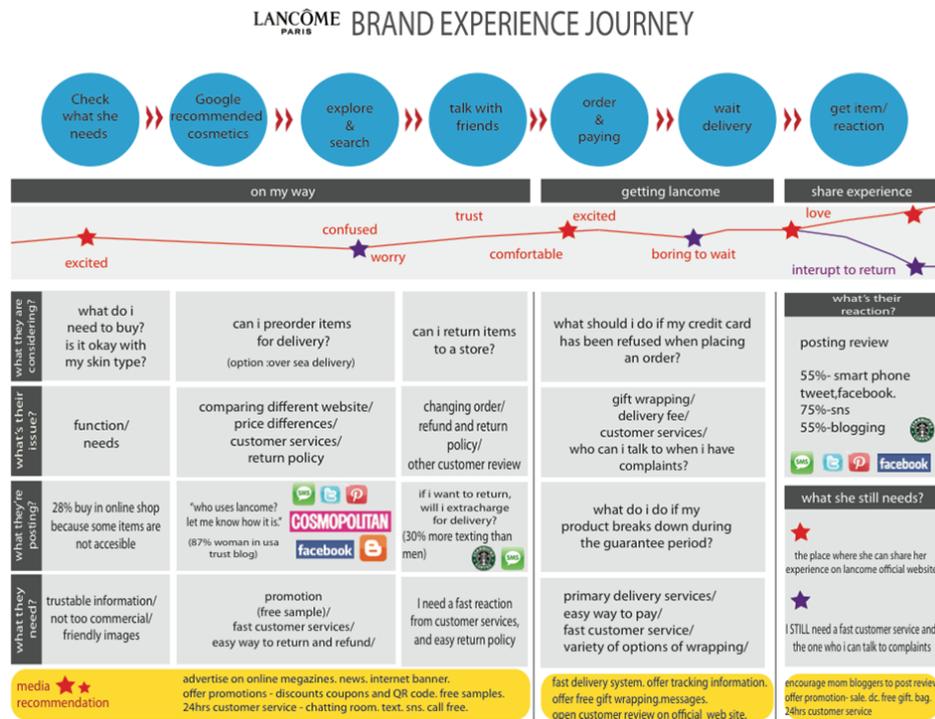


Figure 5: Lancôme's Customer Journey map (Wójcicka, 2015)

Realistic Customer Journey Map do not include all the possible touchpoints, but only the most relevant ones. This reduces the complexity and increase the clarity of the visual representation. It is also recommended to integrate in the analysis all the cross-functional strategic initiatives that connect marketing to human resources, operations, and information technology at each touchpoint. This approach will lead to a 360 degrees perspective of how to manage the Customer Journey, highlighting the critical areas that require improvements (Rosenbaum, et al., 2016).

Today this mapping activity have become crucial to shape better marketing strategies because, due to digital developments, customer journeys are more complex, including multiple channels and touchpoints and often lasting days or weeks. According to a Harvard Business Review study of 43,000 shoppers, 73% of customers usually exploit more than one channel during their shopping journey (smartphones, tablets, in-store interactive catalogs, price-checkers, etc.) while only 7% are online-only purchasers and 20% are store-only purchasers. These “omnichannel

customers” are also the most valuable for the company because, on average, they spend 4% more on every in-store shopping occasion and 10% more online than single-channel shoppers (Sopadjieva, et al., 2017).

This background underlines the need to shift from an approach based on the management of the single touchpoint to a more comprehensive one, including all the possible marketing channels. Failing to track in the right way these holistic paths and to manage customer experiences creates negative consequences in terms of customers attraction, lost sales, and lower employee morale. On the other hand, mapping the best experience from start to finish increases customer satisfaction, sales volumes, customer retention, service cost and employee motivation (Maechler, et al., 2016).

1.3 Building Customer Engagement Strategies

The preceding paragraphs have provided the instruments to understand and analyze customers behaviors and preferences but how can companies materially create effective Customer Engagement strategies?

Before starting to create such strategies, some preliminary actions to prepare the battleground and smooth the process are required. First managers identify who are their VIP customers, for example tracking how much they spend with the firm over a given timeframe. This type of top customers is the one that creates more value for the company and a right segmentation allows to maintain a profitable relationship with them, also obtaining some insights on how to convert more customers into VIP. Another important move is to understand what makes these top customers so loyal, in order to be able to replicate these strengths, growing top customer lists and improving the business (Wertz, 2018). After having understood who the VIP customers are, companies are ready to implement Customer Engagement strategies. According to McKinsey an ideal strategy can be summarized in a five-steps process (French, et al., 2012):

1. Hold a Customer Engagement Summit

This first step brings senior managers from different departments together to discuss the strategies and goals, improving the coordination of all the activities. During this meeting managers debate about what relationships the company wants with the customers, how to coordinate the activities necessary to approach and engage customers across the different touchpoints and, finally, agree on the elements of the engagement ecosystem that can be undertaken in-house and those that will involve external counterparties.

2. Create a Customer Engagement Council

One of the first results of the previous summit is the institution of a forum to focus management's attention on engagement. This council coordinates all the tactics across the various touchpoints bringing together all the different point of views in the company such as marketing, communications, service, and sales. This council is an operational and efficient decision-making entity, able to convert the results of the previous summit into specific actions. This board plays a crucial role in breaking the company "silo" mind-set, acting as a mediator and a filter between functions conflicts.

3. Appoint a Chief Content Officer

This figure provides all the on-brand, topical and entertaining contents required to engage shoppers, collaborating with all the other several key business areas. Companies need to appoint A CCO Officer to deal with the today increasingly sophisticated and interactive contents, coping with the growing volume and speed of information necessary to use effectively all the digital channels.

4. Create a Listening Center

A listening center monitors what is being said about company's business, products, and services on social media, blogs, and other digital channels. This step is crucial to establish a conversation with customers, pushing interactions and mobilizing Brand supporters.

5. Challenge the Total Customer Engagement Budget

Today is crucial to communicate with customers in a more productive way, using digital and social media channels that are radically cheaper and more effective than the traditional ones. Customers have moved their presence online and exchange their opinions mainly on these interconnected platforms. In the allocation of budget is necessary to consider this trade-off, prioritizing the expenses based on a customer-centric approach.

This five-steps process allows to move in the right direction in terms of Customer Engagement creating a relevant competitive advantage with respect of competitors. Understanding the importance of a structured strategy to manage the relationships with customers is important and budgets should be adapted consequently. Companies that have not changed their traditional mentality have lost ground, slowly disappearing from the competitive arena.

1.3.1 Tactics to Boost Customer Engagement

The process described previously represents a structured approach to Customer Engagement and is useful to converge company's efforts in the right direction. After having developed this infrastructure, managers usually put in place some simple but effective tactics to attract and engage customers more effectively. The most important ones are:

1. *Humanize the Brand*. According to a study conducted by Accenture, 83% of US customers prefer dealing with human beings when they get in touch with companies (Accenture, 2016). This statistic highlights the importance of a better communication across all the different channels, trying to give a "human voice" to the brand. For example, a possible tactic is to define a certain style of storytelling and a unique "voice" to connect with the audience. This creates more empathy and strikes the right emotional chords. To give a humanized appearance is also important to choose wisely the influencers that put a face to the Brand and to sign all the social media posts. In this way managers give people a better idea of whom they are talking with. Another strategy consists in moving the spotlight on employees, revealing people that are behind the Brand and sharing their personal stories (*see Figure 6*). The last suggestion is to acknowledge customers about possible issues and mistakes, staying as unfiltered and transparent as possible (Barker, 2018).

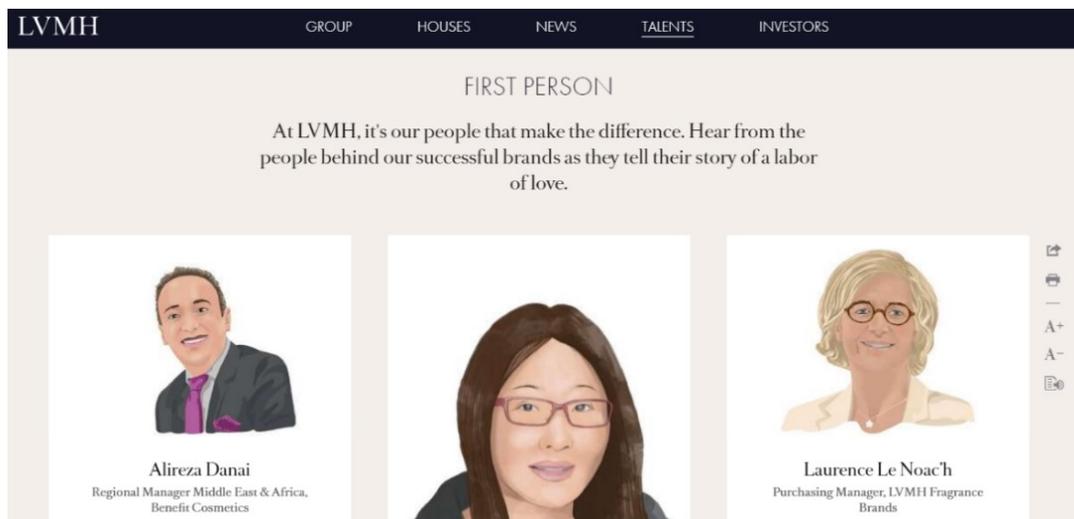


Figure 6: Example of brand humanization strategy at LVMH (www.lvmh.com)

2. *Create tailored and exclusive experiences.* As highlighted from a study released by Oracle, 68% of customers believe it is crucial for a company to personalize its experience (Oracle, 2019). This data shows the importance of providing tailored experiences to customers, communicating them that they mean more than just a sale. For example, is possible to create personalized messages and products based on customers' preferences, demographic factors, and interests (VWO, n.d.). A perfect example is Spotify that, in addition to offering personalized playlists to customers, it also tailors its marketing campaigns thanks to the incredible amounts of data it collects from them (*see Figure 7*).



Figure 7: Spotify's "Thanks 2016, it's been weird" campaign (www.businessinsider.com)

3. *Gamify the digital experience.* If you offer enjoyable experiences, especially through digital and social media, customers are going to be more loyal and more willing to purchase again from the company. For example, managers organize contests with peculiar rewards on the company's website, app, or social networks, inviting users to collect points, take pictures of products, participate to quizzes, or play treasure hunts. These competitions are more effective if conducted during special events, such as anniversary, popular festivals, or product launches (VWO, n.d.). Starbucks, for example, offers a digital rewards program based on collecting stars (two stars every 1\$) to get free food and beverages (*see Figure 8*).

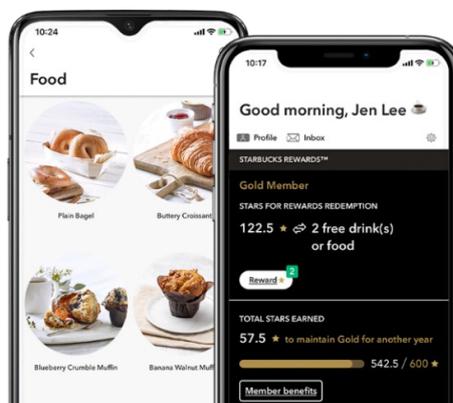


Figure 8: Starbucks Rewards Program (www.insideretail.asia)

4. *Continuously collect and incorporate customer feedback.* Another useful suggestion is to always collect feedback from customers about what works and what does not. In this way it is possible to gain relevant information to improve the service, realigning customers' expectations with company's offer (see Figure 9). This tactic makes customers feel important, valued, and heard, ensuring them that their points of view are being considered. Some of the tactics managers can use are: email feedback forms, incentives to participate to surveys, live chats or in-store feedback panels (VWO, n.d.).

	Not at all Satisfied 1	2	3	4	5	6	Extremely Satisfied 7	Not Applicable
Selection of Netflix Original movies (produced by Netflix)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Selection of Netflix Original TV shows (produced by Netflix)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Selection of movies and TV shows for children available	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Selection of locally produced movies and TV shows	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Selection of movies available	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Selection of TV shows available	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Figure 9: Netflix feedback form (blog.hubspot.com)

These strategies make the difference in the competition to attract and retain customers but an important thing to remember is that companies cannot force customers to engage with them. Even following these best practices, only customers are the ones that decide how to interact and with whom. Managers create only the opportunities, preparing the most appropriate environment to interact with as many customers as possible and facilitating the relationships with them.

1.4 Benefits and Risks of Customer Engagement

As we have seen before, in today digital and hyper competitive markets Customer Engagement can be the only key to differentiate a business from the others, ensuring long-term benefits to those who can exploit engagement opportunities. This paragraph will analyze more in detail these benefits but also the risks deriving from disorganized engagement strategies. This framework allows to understand why is useful to prioritize Customer Engagement with a structured and programmatic approach.

The first thing to consider (and the most important one for managers) is that Customer Engagement directly affects companies' profitability, but how?

Customer Engagement is about creating long-term relationship, increasing customers' loyalty and, consequently, customer retention. Customer retention is a critical indicator for companies and, according to Bain & Company, a 5% increase in this metric produces more than a 25% increase in profits. Engaged customers, in fact, tend to buy more from a company over time and they are often willing to pay a price premium to continue to do business with the company rather than switch to a competitor with whom they are neither familiar nor comfortable (Reichheld, 2001).

Another analysis, elaborated from Gallup, emphasizes better these aspects (Sorenson, et al., 2014):

- In the consumer electronics industry, fully engaged shoppers make 44% more visits per year and spend \$84 more than a disengaged customer.
- In the hospitality sector, fully engaged hotel guests spend 46% more per year.
- In casual and fast food restaurants, fully engaged customers make 56% and 28% more visits per month respectively, as compared to disengaged customers.
- Fully engaged shoppers make 44% more visits per year to their preferred retailer than actively disengaged shoppers.
- In the retail banking industry, customers who are fully engaged bring 37% more annual revenue to their primary bank.
- In the insurance sector, fully engaged policy owners purchase 22% more types of insurances.

Regarding other positive effects of Customer Engagement, a recent survey (see Figure 6) highlights that the highest ranked benefits according to managers are “increased customer satisfaction” and “acquisition of new customers” (respectively 87% and 86% of managers agree that these are the Customer Engagement advantages in their companies). Other highly ranked benefits managers affirm to observe are “increased market share” (73%), and “increased customer retention” (72%). In other areas such as “decrease the risk of new product introductions” (52%) there seems to be disagreement (Żyminkowska, 2019).

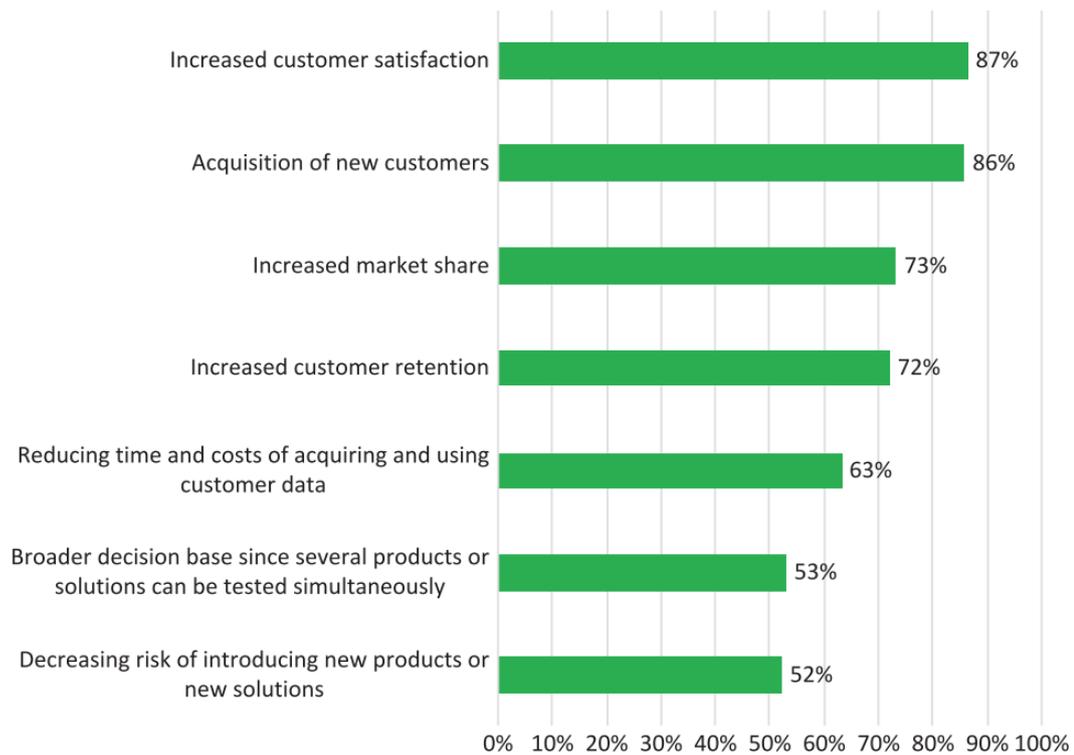


Figure 10: Customer Engagement benefits (Żyminkowska, 2019)

All the benefits that are mentioned before are the result of careful and accurate engagement strategies and their achievement is not as easy as someone might think. Companies that take this path without setting clear objectives and without mobilizing the correct resources can face some risks that could undermine their current businesses (see Figure 11). Always according to managers’ perspective, the most relevant risk when implementing wrong Customer Engagement tactics is to “obtain useless ideas due to the lack of customer knowledge” (56% agree on this point). Other risks observed by a significant number of them include: “information overload” (54%), “loss of secrecy of information or know-how” (51%), and “additional costs of integrating customers’ ideas in business processes and coordinating those processes” (46%). On the other hand, only a small part thinks that the “lack of target market orientation” (32%)

and the “diminishing control of business process” (33%) represent a risk for their companies (Żyminkowska, 2019).

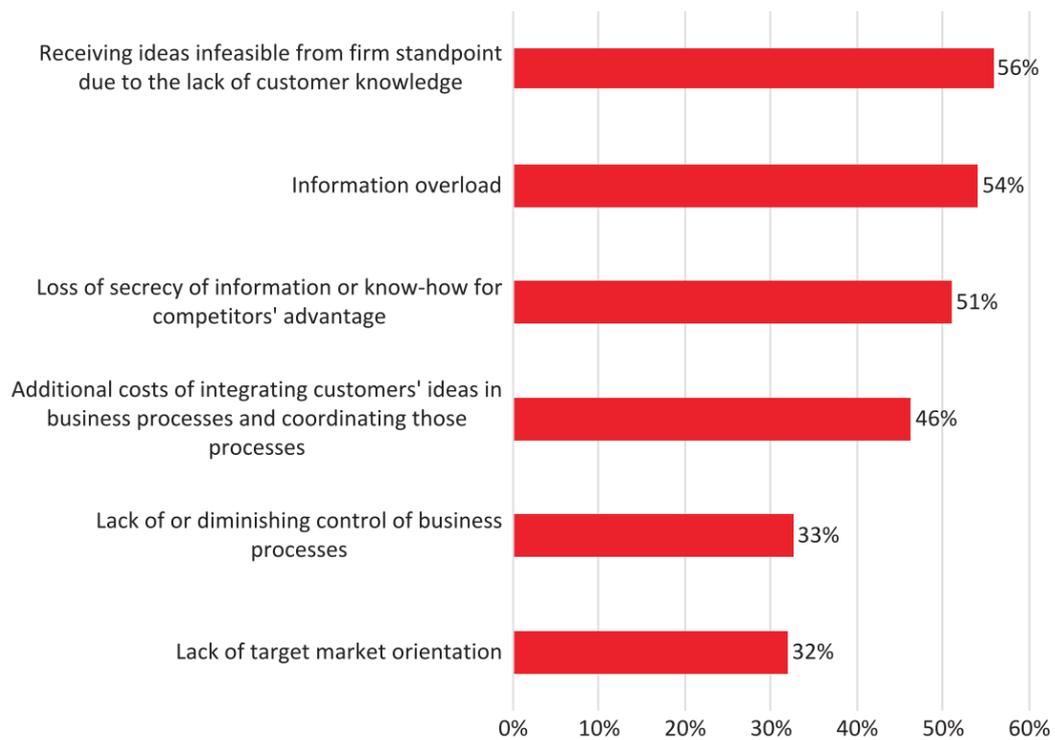


Figure 11: Customer Engagement risks (Żyminkowska, 2019)

This scenario emphasizes the importance of a balanced and smart approach. If Customer Engagement strategies are not structured in the correct way they can hide some pitfalls, increase total costs, and delay operations. Despite these difficulties, these types of methods are still the most effective way to improve a company’s market position, create long-term relationships, boost sales, and win the competition.

1.5 Key Indicators

The previous paragraphs highlighted how important is Customer Engagement to achieve better results and create a sustainable competitive advantage. Similarly, is also crucial to provide an operating framework to measure how well managers are engaging customers and how these customers are creating value for the company. To identify and evaluate the contribution in value of successfully engaged customers is useful to introduce the concept of Customer Engagement Value (CEV). According to V. Kumar CEV can be defined as: “*a set of metrics provided by customers who value the brand and contribute to the firm through (a) their purchase transactions, (b) ability to refer other customers to the firm, (c) power to positively influence other customers about the firm’s offerings, and (d) knowledge about the firm’s product/service offerings in providing a feedback to the firm*”. Going into details, Customer Engagement Value can be divided in 5 secondary indicators:

- Customer Brand Value (CBV)
- Customer Lifetime Value (CLV)
- Customer Referral Value (CRV)
- Customer Influence Value (CIV)
- Customer Knowledge Value (CKV)

CEV is not merely an aggregate of these components and a deeper comprehension of the interactions that occur within the framework can help managers in any business to evaluate customers contributions in the Customer Engagement process. The following sections will briefly explain the importance of each of these components (Kumar, 2013):

Customer Brand Value (CBV)

CBV is defined by Kumar as “the total value a customer attaches to a brand through his or her experiences with the brand over time”. These experiences are built through different marketing initiatives that companies implement to engage customers. This metric measures in detail the attitudinal value of customers and refers on how they perceive the Brand in their minds. It is a dynamic, multi-dimensional indicator that try to incorporate all the feelings, thoughts, perceptions, images, and experiences that are linked to the Brand in customers’ minds. To get the value of this CBV a customer can be surveyed with specific demands in eight different areas: Brand Awareness, Brand Image, Brand Trust, Brand Affect, Brand Purchase Intention, Brand Loyalty, Premium Price Behavior, and Brand Advocacy. CBV will be the sum of all the averages of these individual components rated on a 10-point scale.

Customer Lifetime Value (CLV)

CLV is a forward-looking metric that accounts on the profit contribution of customers, based both on customers' past purchase behaviors and future value of current and prospective customers. It helps managers to estimate a dollar value for long-term relationships with any given customer and to choose the best marketing strategies today to boost profitability tomorrow. Conceptually, it can be measured as the net present value of the monetary contribution on the profits related with customers' future purchases minus the net present value of future marketing costs.

Customer Referral Value (CRV)

As seen in the previous paragraphs, customers not only contribute with direct purchase, but also contribute through indirect behaviors, one of which are referrals. CRV is defined by Kumar as "the quantifiable measure of the type, quantity, and effectiveness of referrals or recommendations that an individual customer provides to others with regard to a particular product". Companies incentivize referrals offering tangible compensations to customers for their efforts in attracting new ones. This indicator is computed through the present value of future profits given by each referred prospect. For the computation is important to realize that not all the referrals generate the same value and different referrals can be successful or unsuccessful. Therefore, depending on these different impacts, CRV can be negative, positive, or zero in case of null impact on profits.

Customer Influence Value (CIV)

Referrals are not the only indirect way to influence customers' behaviors. Customers, in fact, can be also influenced by WOM activities, especially through social networks, that persuade and convert prospects into customers. Conceptually CIV is defined by Kumar as "the monetary gain or loss realized by a firm that is attributable to a customer (influence), through his/her spread of positive or negative WOM". Differently from referrals, customers are intrinsically motivated to share WOM and is not necessary to monetarily compensate them. The CIV can be calculated considering the degree to which WOM affects receivers to make purchases and the contribution margin of each receiver when making the purchase.

Customer Knowledge Value (CKV)

CKV provides a metric to measure customer knowledge and feedback about products and services, linking it to the company's profits. Conceptually, CKV is defined by Kumar as "the monetary value associated with the profits generated by a customer's feedback, suggestion or an idea to the firm over a period of time". Customers leave numerous traces of opinions, both intentionally and unintentionally, which can be observed to improve the existing offering of a firm. To get more useful feedbacks is important to establish fast and simple communication tools, creating an interactive and effortless process. A good strategy to incentivize customers to leave comments and provide new ideas is to share part of the profits generated from these useful suggestions, keeping track of this value creation process.

The sum of all these metrics can give a comprehensive picture of the state of Customer Engagement in the company and allows to understand the drivers for creating successful strategies. Another advantage of the CEV framework is that it highlights all the different facets behind the engagement creation process. It allows to optimally allocate marketing resources and, consequently, maximize the profitability. The quantification of Customer Engagement is the last step for a schematic and meticulous approach to this topic and concludes the process started with the mapping of the Customer Journey.

1.6 Customer Engagement During COVID-19

COVID-19 has literally shaken our lives in a very short period, altering attitudes and behaviors and revolutionizing our lifestyles. This sudden and unexpected change has forced a rethinking of what customers need and an urgent revision of customer journeys and engagement metrics. In this particular time of crisis, the customer's interaction with a firm can immediately affect his or her sense of trust and loyalty. The competition has moved to how companies are able to deliver experiences and services that satisfy customers' new needs with empathy, care, and concern. A crucial factor is how rapidly companies adapt to this new scenario. For example redesigning experiences to reach customers where they are, building new agile capabilities and reimagining a new post COVID-19 world (Diebner, et al., 2020).

Even if Coronavirus has drastically decreased face-to-face business interactions it has not removed the need for companies to engage customers. In fact, Customer Engagement is crucial during these difficult times because it can help companies to develop alternative revenue streams and will offer significant advantages when the economy will restart to grow. An

important thing to consider is that customers remember those Brands that have been coherent, trustful and have helped them to meet their emotional needs during the pandemic. To reach these results and increase the engagement with customers, companies have experimented some interesting solutions. First, some businesses have served as reliable resources for their customers and their communities. People in fact, needed a guidance and a support and wanted someone they can trust and make them feel safe when everything seemed uncertain. For example Gusto, a payroll startup, developed a small business resource hub focused on COVID-19. The aim was to help small businesses to get the most updated news, information, and advice during that difficult time (Wingard, 2020). The way in which companies like Gusto played this crucial role have left lasting memories in customers' minds. Companies have not only helped customers but also their employees. A good example in this sense has been the one of Luxottica who decided to provide a 100% integration of the monthly net salary of all employees in layoff and a welfare bonus of 500€ net per month for everyone who have worked during the quarantine period (Carrà, 2020). These efforts help to create empathy with final customers and make them feel that their spending matters. Another important aspect to consider is that during this period customers have searched for more entertaining contents, as underlined from the increase in traffic in some websites such as Facebook (+27%), Netflix (+16%), and YouTube (+15.3%). Companies that have exploited these expanded digital interactions have also provided new and innovative contents to entertain and inspire customers (Wingard, 2020). Nike for example have launched a marketing initiative through its athletes' social networks accounts called "Nike Living Room Cup", in which normal people have competed, on a weekly basis, with sport stars as Cristiano Ronaldo in digital workout series and home fitness challenges (*see Figure 12*).



Figure 12: Cristiano Ronaldo's challenge for the Nike Living Room Cup (news.nike.com)

As all the other crisis, also this one has presented some opportunities for innovation and companies have understood how to adapt their businesses to these occasions. To boost engagement, managers are helping customers in new ways, offering them new products and services to deal with their new needs (Waldron, et al., 2020). For example, numerous Luxury companies as Armani, Prada, Gucci, and Bulgari (*see Figure 13*) have reconverted their plants to produce sanitizers and masks, combating the shortages of these products. This type of initiatives inject hope in the hearts of customers, as they see how firms are working to improve their lives, increasing Brand loyalty and reputation.



Figure 13: Bulgari's sanitizer produced during the COVID-19 emergency (www.bulgari.com)

The pandemic situation has certainly undermined the world economy but companies with the right customer-centric approach continue to cultivate long lasting relationships with their customers, emerging sooner than competitors from the crisis. Best companies are learning very important lessons from this experience, improving their approaches and operations, and coming out stronger from the storm. The temporary strategies to meet customers' needs are becoming permanent improvements and are pushing post-pandemic profitability and engagement. The key is to communicate that the company is actively tackling the situation rather than passively suffering the downturn, being at the mercy of circumstances.

CHAPTER 2. GAMIFICATION MARKETING

The first chapter highlighted how important is to engage customers and what are the main strategies and suggestions to do it right. As underlined, one of the most effective tactics to create strong and profitable bonds is exactly through gamified experiences. These experiences exploit the elements of game to create unique and challenging situations, bringing relationships to an upper level. All these strategies can be summarized in the term “*Gamification Marketing*” and are becoming more and more a useful resource for an increasing number of companies.

This phenomenon is not something disrupting and Gamification techniques have been largely used also in the past in the most disparate sectors. The theme has acquired an increasing importance due to the advent of social networks, digital technologies, and online gaming. These revolutionary touchpoints have reshaped the entire way in which we intend relationships, offering a totally new and different perspective. Companies cannot ignore this new scenario and must challenge themselves, asking why millions of people are willing to spend their free time playing videogames, why they need digital avatar, why they always want to compete, and why they share the results of this competition on their social media.

Gamification marketing is not a magic elixir to exploit these new trends and the road for building this type of campaigns is not free from obstacles. The truth, in fact, is that Gamification is only one of many possible ways to engage customers and it is always integrated in most comprehensive marketing strategies. Understanding the psychological drivers behind effective campaigns is also crucial because customers actively avoid poorly designed solutions. This chapter tries to answer these questions and these doubts, highlighting what Gamification really is, which are the secrets behind the phenomenon, and how companies can build successful marketing strategies based on gamified experiences.

2.1 What is Gamification?

2.1.1 Origins of the term

Gamification is not a recent phenomenon and this word has quite a long history. The term was coined in 2002 by the British Consultant Nick Pelling, who created a “*deliberately ugly word*” to describe his activity of “*applying game-like accelerated user interface design to make electronic transactions both enjoyable and fast*” (Pelling, 2011). In his view, this term describes the act of building physical things, making them fun and effective to use. In particular, it refers to the services provided by Pelling’s consultancy start-up Conundra Ltd, specialized in this type of service. Despite this first experience was not a success, the word Gamification survived and slowly started to describe something completely different.

Another early adopter of the term was Bret Terrill, the first in 2008 to report this concept in a blog article during the Social Gaming Summit, an annual meeting that focuses on strategies for building, monetize and grow social games. In his article Terrill used the term “*Gameification*”, a slightly different spelling, that identified as “*the use and application of game mechanics on other web properties to increase engagement*” (Terrill, 2008).

The Gamification phenomenon, as we intend today, was instead analyzed for the first time only in 2010, when Jesse Schell, a video games designer and eclectic professor at the Carnegie Mellon University, invited everyone to reflect on the unexpected revolution that was happening. Schell provided a picture of a near future characterized by an increasingly and pervasive penetration of some typical video games dynamics in daily life. In his speech he never mentioned the word “Gamification” but, de facto, he theorized and defined for the first time this phenomenon. He described how gaming would have been destined to go beyond the traditional borders of consoles and PCs, influencing every moment of human life (Petruzzi, 2015).

In the same year also Jane McGonigal, American game designer, prophesied a game-based paradise during her innovative TED Talk, “*Gaming Can Make a Better World*”. In her speech she affirmed: “*When I look forward to the next decade, I know two things for sure: that we can make any future we can imagine, and we can play any games we want, so I say: Let the world-changing games begin*” (McGonigal, 2010). This talk marked a turning point for Gamification, fixing a milestone in the union between game and reality.

Despite parallel terms have continued being used and new ones were introduced, such as “productivity games”, “surveillance entertainment”, “serious games”, “applied gaming”, “funware”, “behavioral games”, “social games”, or “playful design”, Gamification have established itself as the most used one. From 2010 onwards this word went viral and became trend topic, arousing the interest of professionals and not. As highlighted from the interest shown for this term on Google searches (*Figure 14*) this word has continued to grow in popularity. It has reached a peak in 2019 and shows no sign of stopping.

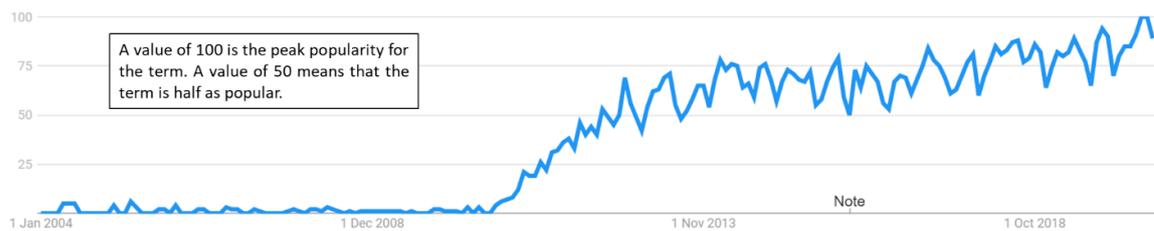


Figure 14: Interest over time of the search term "Gamification" on Google (trends.google.it)

According to projections also the market size of Gamification is expected to increase from USD 9.1 billion in 2020, to USD 30.7 billion in 2025, at a Compound Annual Growth Rate (CAGR) of 27.4% during this forecast period (MarketsandMarkets, 2020).

This data suggest how revolutionary is the scope of this phenomenon and how it is slowly becoming part of our daily lives. Gamification is everywhere and we are surrounded by situations where the game plays a central role. Even if we cannot recognize it.

2.1.2 Gamification Defined

The increasing popularity of Gamification has attracted the interest of academics and researchers that have tried to theorize a formal framework for this topic. While the first theoretical definitions of the term were proposed by professionals from the field of game design and video games, its use in the marketing context seems confusing and limited in the conceptualization. The meaning of Gamification is regularly questioned and criticized and it does not exist a clear explanation that reconciles all the different perspectives. This section points out the main definitions, finding the differences between the various visions. It tries to provide a holistic frame of what Gamification is, especially from a marketing point of view.

Chronologically speaking one of the first definitions was theorized in 2011 by Sebastian Deterding who proposes the following meaning:

“Gamification” is an informal umbrella term for the use of video game elements in non-gaming systems to improve user experience (UX) and user engagement” (Deterding, et al., 2011)

This first definition indissolubly links the concept of Gamification with the application of video game mechanics in contexts different from game. Its ultimate purpose is to improve user experience and user engagement. Always according to Deterding another possible explanation of the term is:

“Gamification is the use of game design elements in non-game contexts” (Deterding, et al., 2011)

Both the definitions share the idea that the core of Gamification are game mechanics that are used in non-gaming scenarios for other purposes than their normal expected use. In this perspective what distinguishes Gamification from a generic "playful" design is that Gamification tries to recreate the same set of emotions typical of video games. It does so through scoring systems, missions, and leaderboards with a purpose that goes far beyond the simple entertainment.

A following definition from Huotari and Hamari underlines the limits of Deterding's one giving a service marketing perspective of the theme. From their point of view player's voluntary commitment and participation are critical determinants of a game. For this reason, the value of this service is determined only by customer's subjective experience. Also the emotions related to the game are always stimulated by individual's perceptions. In other terms, is possible that the same gamification context can be perceived as a gameful experience from one user but does not do so for another. Based on these premises, they define Gamification as:

“A process of enhancing a service with affordances for gameful experiences in order to support user's overall value creation” (Huotari, et al., 2012)

Huotari and Hamari emphasize more the experiences of engagement that Gamification tries to create, rather than the methods. Differently from Deterding's definitions that are based only on the use of certain game elements and are limited to non-game contexts, this one provides a broader vision of the phenomenon, enclosing all the experiences that are perceived as a game from a user. What matters are not a set of standard game mechanics but the process that leads to the creation of a gameful experience. Independently from the success or not of the Gamification campaign.

A more holistic definition that tries to put together the first two is the one provided by Gabe Zichermann and Christopher Cunningham, that define Gamification as:

“The process of game-thinking and game mechanics to engage users and solve problems” (Zichermann, et al., 2011).

This framework for understanding Gamification is more powerful and more flexible than the previous ones. It can be easily applied to any problem that can be solved through influencing human motivation and behavior. It brings together all the disparate discussions that have been theorized merging them into a cohesive definition. From this perspective is not sufficient to use only game mechanics but is necessary to develop a coherent process of game-thinking. Also in this case the main goal of Gamification is to create engagement with potential users but without specific restrictions in terms of services and contexts.

Lastly, an updated version of the term was provided in 2014 by the research and advisory company Gartner, that defines Gamification as:

“The use of game mechanics and experience design to digitally engage and motivate people to achieve their goals” (Burke, 2014).

This definition is similar to the one provided by Zichermann and Cunningham, both in meaning and contents, but offers a slightly different point of view. Indeed it focuses more on the digital side of the Gamification process. According to this conceptualization the key elements are:

- *Game mechanics* related to the use of elements such as points, badges, and leaderboards, usual in many games.
- *Experience design* that describes the journey players take with elements such as game play, play space and story line.
- *Digitally engage*, meaning that players interact with computers, smartphones, wearable technologies, or other digital devices, that generate engagement.
- *Motivate people*, meaning that this process can modify behaviors, develop skills, or drive innovation.
- *Achieve their goals*, meaning that when business goals are aligned with those of the players, the organization achieves its purpose because of players achieving theirs.

All these different definitions provide unique facets of the same phenomenon, and only analyzing each of them is possible to have a thorough comprehension of what Gamification is.

Despite the differences, what emerges to be relevant is the final goal of Gamification: engage customers. This purpose is achieved through a process that involves not only game mechanics and elements, but everything that can be perceived from the customer as entertaining and gameful. Videogames and online games are important tools to build Gamification strategies but represent only a small portion of this broad phenomenon. From a marketing perspective, Gamification emerges to be a customer-centric approach that is intended to exploit all the emotions typical of game contexts, creating stronger and lasting relationships for marketing purposes. The following paragraphs offer an in-depth classification of these mechanics, and of the psychological drivers involved in the process.

2.1.3 Gamification Categories

From the company's perspective, Gamification strategies can be useful not only for marketing purposes but also to improve other critical aspects of the business. According to Werbach and Hunter, two of the most important Gamification experts in the world, the main Gamification categories are: *internal*, *external*, and *behavior change* (Werbach, et al., 2012). These categories differ both on the basis of the target (individuals or employees/communities) and on the type of benefit created (organizational benefit or personal benefit).

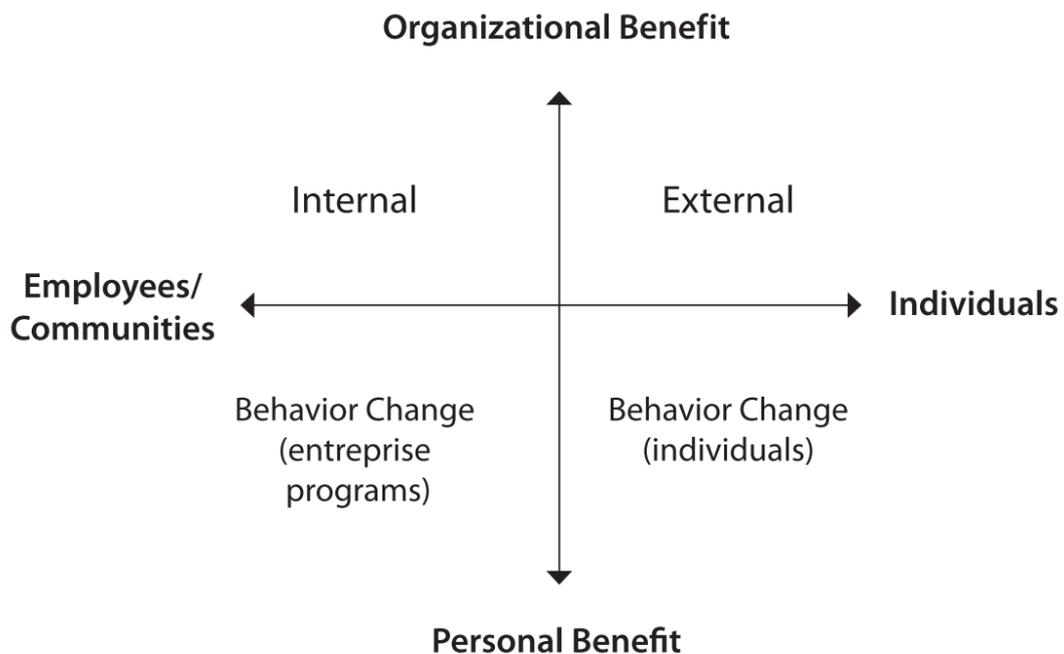


Figure 15: Relationship between different Gamification categories (Werbach, et al., 2012)

Internal Gamification

This type of Gamification is addressed to actual and potential employees and other internal members of the organization. Companies can use it to foster productivity, promote innovation, support corporate culture, and improve business results. An example is the use for Human Resources purposes, such as recruiting or training. Marriott International has developed a Facebook game to recruit potential candidates called “My Marriott Hotel” (see Figure 16). It allows the applicants to manage their own virtual hotel in which they design their own restaurant, purchase inventory, train employees and serve guests. This simulation is based on points, assigned according to the quality of the customer service provided and the virtual customer satisfaction (Marriott International, 2011).



Figure 16: My Marriott Hotel game simulation (Marriott International, 2011)

External Gamification

This category is addressed to customers or prospective customers and, generally, is driven by marketing objectives. In this context Gamification is a way to create relationships between companies and customers, increasing engagement, identification with products, loyalty, and finally revenues. The scope of this research is based on this precise category that is further analyzed in the following paragraphs.

Behavior Change Gamification

This form of Gamification seeks to generate beneficial new habits among a population and can be applied both on the single individual or on the entire community. Through Gamification techniques is possible to encourage people to make better health choices such as eating better or working out more, make kids learn more, or develop systems that help people save money for retirement. The goal of this types of programs is to produce desirable societal outcomes: less obesity, more effective educational system, lower medical expenses, or better financial decisions. The main sponsors of these campaigns are usually nonprofits or governments but they can also create private benefits. Recyclebank, for example, uses game mechanics to reward people for taking daily green actions with discounts and deals from local and national businesses. Members, whose cities have partnered with Recyclebank, earn points for recycling, and collect them online or on the bank's application (see Figure 17). Finally, they can transform these points into local deals, donations, or exclusive savings on sustainably made goods (Recyclebank). In this example the use of a very simple game system based on points and rewards can stimulate a desirable outcome for the whole society.

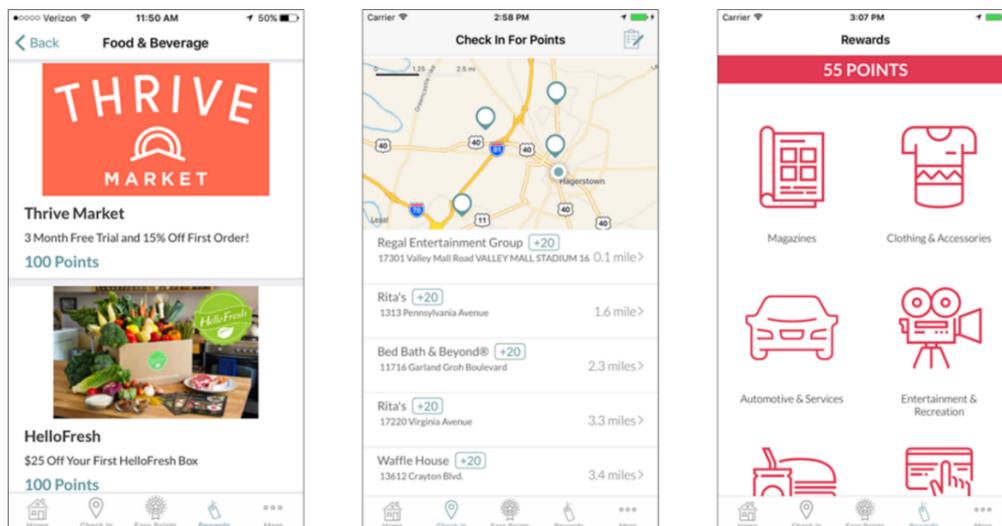


Figure 17: Recyclebank rewards system on its iOS app (apps.apple.com)

2.2 The Elements of Gaming

As mentioned before, the Gamification process is a combination of different game elements that create engaging and entertaining experiences. But which are these elements?

To answer this question is necessary to analyze and decompose games into their core mechanics, understanding what makes a game, a game. Werbach and Hunter have developed a relevant framework for Gamification, defined “*The Game Element Hierarchy*”. This pyramidal scheme is composed by three categories of game elements: *dynamics*, *mechanics*, and *components* (Werbach, et al., 2012).

Each mechanic is tied to one or more dynamics, and each component is tied to different higher-level elements. All these elements can be represented through a pyramid and are organized in decreasing order of abstraction (see Figure 18).

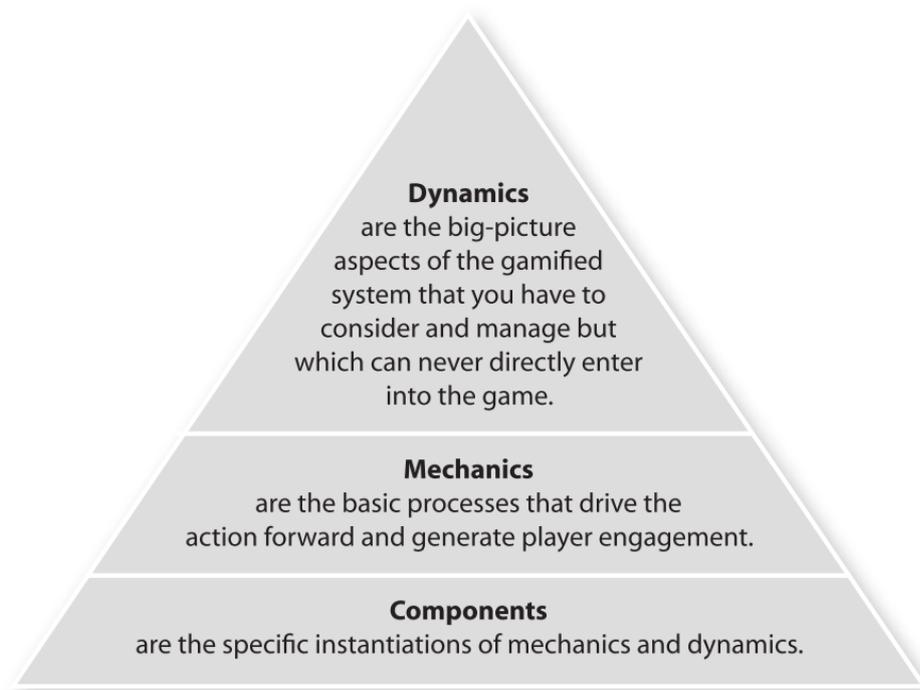


Figure 18: *The Game Element Hierarchy* (Werbach, et al., 2012)

To create the perfect Gamification experience is crucial to mix these elements together in the right way, creating a game context that is entertaining and engaging. Having a full knowledge of how these elements interact with each other is also the only way to make a Gamification project winning. The last important thing to consider is that is not necessary to include all the elements for a compelling design but only the most appropriate ones.

2.2.1 Dynamics

Dynamics occupy the highest level of abstraction in the Game Elements Hierarchy. According to Werbach and Hunter, the most important game dynamics are:

1. *Relationships* (social interactions generating feelings of camaraderie, status, altruism)
2. *Emotions* (curiosity, competitiveness, frustration, happiness)
3. *Progression* (the player's growth and development)
4. *Constraints* (limitations or forced trade-offs)
5. *Narrative* (a consistent, ongoing storyline)

Dynamics represent the macro aspects of the gamified system and they never directly enter into the game. Managers can build their gamified experiences to generate the desired dynamics, giving a different shade on the basis of their goals.

2.2.2 Mechanics

Mechanics are the basic processes that drive the action forward and generate player engagement. Werbach and Hunter identifies ten critical game mechanics:

1. *Challenges* (puzzles or other tasks that require effort to solve)
2. *Feedback* (information about how the player is doing)
3. *Chance* (elements of randomness)
4. *Rewards* (benefits for some action or achievement)
5. *Win States* (objectives that makes one player or group the winner—draw and loss states are related concepts)
6. *Turns* (sequential participation by alternating players)
7. *Competition* (one player or group wins, and the other loses)
8. *Transactions* (trading between players, directly or through intermediaries)
9. *Cooperation* (players must work together to achieve a shared goal)
10. *Resource Acquisition* (obtaining useful or collectible items)

Through different combinations of these mechanics is possible to achieve one or more of the dynamics previously listed. A random event, such as a prize that appear without warning, may increase players' curiosity and interest. It might also be a way to attract new participants or keep existing players involved.

2.2.3 Components

Components are more-specific forms that mechanics or dynamics can take. The important game components indicated by Werbach and Hunter are:

1. *Achievements* (defined objectives)
2. *Combat* (a defined battle, typically short-lived)
3. *Quests* (predefined challenges with objectives and rewards)
4. *Social Graphs* (representation of players' social network within the game)
5. *Avatars* (visual representations of a player's character)
6. *Levels* (defined steps in player progression)
7. *Teams* (defined groups of players working together for a common goal)
8. *Boss Fights* (especially hard challenges at the culmination of a level)
9. *Content Unlocking* (aspects available only when players reach objectives)
10. *Gifting* (opportunities to share resources with others)
11. *Virtual Goods* (game assets with perceived or real-money value)
12. *Collections* (sets of items or badges to accumulate)
13. *Points* (numerical representations of game progression)
14. *Badges* (visual representations of achievements)
15. *Leaderboards* (visual displays of player progression and achievement)

Each of these component ties to one or more higher-level elements, exactly as each mechanic ties to one or more dynamics. Mixing these different elements is possible to create every possible game. Despite all these components represent important parts of gamified experiences, three of them deserve special attention: *points*, *badges*, and *leaderboards*. Gamification systems heavily rely on them due to their power, practicality, and relevance.

Points are used to motivate people to act in a certain way by collecting them. They can be used in Gamification contexts to effectively keep the score, determine the winning conditions of the gamified process, create a connection between progression in the game and extrinsic rewards, provide feedback, mark a status with respect of other players, and provide data for game designers. Points have some limitations by nature because they are abstract, uniform, and interchangeable. Each additional point simply signals a greater magnitude and nothing more. For these reasons point systems are usually linked with badges.

A *badge* is a visual representation of some achievement within the gamified experience and some badges simply indicates a certain level of points. Antin and Churchill identifies five primary motivations for badge systems (Antin, et al., 2011):

- Badges act as goal setting mechanisms, challenging players to achieve determined results.
- Badges provide instruction about what is considered possible in a given context. They embody social norms, illustrating the types of interactions and activities that are highly valued.
- Badges are signals of players' reputation in a given system. They provide information about interests, expertise, and past interactions, facilitating the assessment of player's reliability.
- Badges performs as virtual status symbols and affirmations of the player's personal journey through the Gamification system.
- Badges supports group identification, binding a group of players together around a set of shared experiences. The achievement of certain objectives increases the sense of solidarity within the group.

The most important characteristic of badges is their flexibility. Gamification designers can create many different types of badges for every possible activity. The range of badges is only limited by the imagination and this allows the gamified system to engage the most disparate group of players on the basis of their singular interests.

Leaderboards are ranked lists of participants in a game, with the highest scores on top. In this way players know exactly where they are with respect of other players. On one hand Leaderboards make performances public for all, incentivizing comparisons, and motivating players to improve their results. On the other hand, they can be powerfully demotivating for low ranked players, inducing them to stop trying. To mitigate this problem Leaderboards need to be designed as dynamic scoreboards, tracking multiple attributes at the same time. Game designers can emphasize different features and incentivize players to compete on various aspects of the game. Leaderboards can also be linked with social networks, creating a bridge between the game and the player's social life (Werbach, et al., 2012).

For example Fitbit, popular company producing wearable solutions for fitness, offers an application that exploits all these elements with the intent to encourage its customers in daily sports activities (*see Figure 19*). This gamified software allows users to collect points on the basis of their steps, stimulating running and healthy activities.

Thanks to a leaderboard, users can compare their results with friends, using their points to climb the ranking. Fitbit application includes also more than 100 badges to recognize a variety of achievements. These virtual awards are designed to help people to celebrate even the smallest victories as steps taken, floors climbed or weight loss. This case represents a perfect example of how to use in the right way points, badges and leaderboards as engagement and motivational tools.

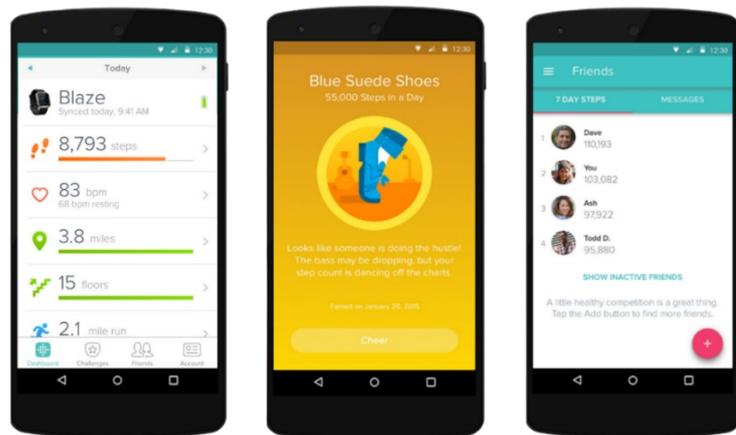


Figure 19: Use of points, badges, and leaderboards in the Fitbit application (www.fitbit.com)

As the previous case suggests, to create engagement with players, is necessary to develop coherent gamified experiences, choosing the most suitable combination of game elements and integrating them with a clear goal. Inserting points, badges, or leaderboards, without a precise idea, generates only ineffective projects, with low value for users, and poor results. The terms that describe these types of errors are *pointsification* and *badgeification* which are defined as the drift and degeneration of Gamification (Petrucci, 2015).

The development of a successful design is first of all connected with the understanding of customers' needs, and game elements are useful tools to reach this goal. Therefore, adopting the Gamification thinking only distributing points and creating rankings without a clear focus, means misrepresenting the sense and the potential of this approach, applying it superficially.

2.3 Types of Players

Knowing the target audience of the Gamification process is critical to drive customer behavior in the desired way. The more a company knows about current and potential customers, the easier it is to design a successful experience, effectively engaging players. A good understanding of players' traits provides crucial inputs into the type of game mechanics and elements that are more appropriate to engage final users. For example, the first clear distinction that can be noted is the target predominant gender. Traditional and competitive games, in fact, tend to attract mainly males, while social and mobile games tend to attract mostly females. Some research shows also significant differences in attitudes between different generations. Generation X, those born between the early 1960s and the early 1980s, tend to be hierarchy oriented and do not tolerate failure. On the other hand Millennials, those born from the early 1980s to the early 2000s, expect immediate feedback and are more willing to take risks and endure failures. For Gamification purposes, this knowledge provides crucial clues of the receptiveness of players to game mechanics. These indications are crucial to understand how to structure the process when gamifying a product or service (Kumar, 2013).

A first useful distinction between players is provided by Bartle, according to whom, players can be classified in four main categories: *Killers*, *Achievers*, *Socializers* and *Explorers* (Bartle, 1996).



Figure 20: Bartle's player types (Kumar, 2013)

2.3.1 Achievers

Achievers are those players interested in doing things during the game, i.e. in acting on the world. They are interested in collecting points and gaining status, showing their friends how they are progressing. The problem with this type of players is that it is difficult to design a system where everyone can win and achieve. And for achievers, losing at the game will likely cause them to lose interest in playing it. About 10% of players can be classified as achievers.

2.3.2 Explorers

Explorers want to discover new aspects of the gameplay, continuously interacting with the game world. The experience itself and the sense of wonder created by the virtual universe are their objectives. Other players add depth to the game but are not essential parts of it. The best strategy to attract them is to add surprises to the gamified experience, giving some sort of freedom to players to discover the game. About 10% of players shows this type of traits.

2.3.3 Socializers

Socializers need to interact with other players and play games for the benefit of a social contact. These players are willing to collaborate in order to achieve bigger and better results than they could on their own. The game world is just a setting and are the other players that make it interesting. Socializers are also very proud of their friendships, their contacts, and their influence. About 80% of total players can be classified as Socializers, making it the largest group.

2.3.4 Killers

Killers are interested in doing things to people, i.e. in acting on other players. What sets them apart from Achievers is that Killers want to see other people lose, showing their superiority. They are highly competitive, and the victory is what motivates them, aiming to be always the best in the game. This category is the smallest one and only a small portion of players, less than 1%, shows killers traits.

Everyone shows elements of all four-player types to some degree and Bartle's scheme allows only to understand which is the predominant nature. As mentioned before, understanding the type of players that interact with the Gamification experience helps companies to select the game mechanics that are more suitable for the target audience.

For example, a prominent display of leaderboards may be a useful idea to motivate Killers and Achievers player types. On the other hand, to attract Socializers, game designers include game elements that enable community, collaboration, and socialization. Bartle's analysis underlines in particular the huge importance of this last social dimension, being Socializers the largest player category. When developing Gamification marketing campaigns, it is crucial to pay attention to the social part of the experience. This allows players to interact and cooperate with others and share their results with friends. A careful research on potential players is always necessary to be able to address their special needs, creating successful and engaging experiences.

2.4 Psychology Behind the Phenomenon

To understand how to build the most effective Gamification experience it is important to explore the hidden reasons that drive people to play. Games are one of the most powerful forces in all of humanity and are able to motivate people to behave in very precise ways. From a psychological point of view playing is an activity that involves a series of interesting dynamics to study. These activities include how to attract players, keep them active, increase engagement, nurture loyalty, or activate a relationship with a Brand. Despite the numerous psychological theories that can be linked with games and gaming in this section are presented only the most relevant ones for Gamification purposes.

2.4.1 The Flow Experience

At the heart of the success of games there is an idea called *flow*. This idea derives from the studies of Mihaly Csikszentmihalyi, a psychologist and professor, famous for his research on happiness and creativity. According to his theory what makes an experience genuinely satisfying is a state of consciousness he calls *flow*, a state of concentration between anxiety and boredom that makes the person completely absorbed in his activities (*see Figure 21*). The flow experience is therefore characterized by total involvement, loss of sense of time, high concentration, intrinsic motivation, focus on the goal, and satisfaction in carrying out the activity. It can be encountered in different situations even in everyday life but the activity that is more capable of inducing flow, according to the psychologist, is the game. Occasionally flow may occur by chance, because of a fortunate coincidence of external and internal conditions. But it is much more likely that this status results either from a structured activity or from an individual's ability to make flow occur.

The basic common criteria of activities to induce a flow experience are:

- Precise objectives
- Balance between perceived challenge and perceived ability (boredom/anxiety)
- Clear and immediate feedback

An interesting observation of Csikszentmihalyi is that many dimensions of society do not induce flow and are thus not very satisfying (classic examples are school, or work). In this scenario Gamification is seen as a possible solution to induce the state of flow even in activities different from games, increasing participation and engagement (Csikszentmihalyi, 1990). From this psychological point of view a game is much more than a simple entertaining way to spend free time and involves people on a much more intimate and profound level. The need to generate flow experiences is one of the possible reasons why Gamification is becoming an important part of companies' marketing strategies.

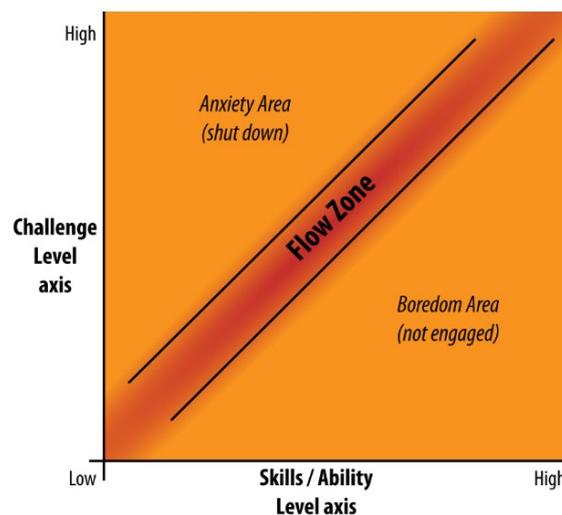


Figure 21: Flow Zone (Csikszentmihalyi, 1990)

2.4.2 The Octalysis Framework

Yu-kai Chou, a pioneer in the industry of Gamification, provides us with one of the most important frameworks to understand the motivational reasons behind this phenomenon. The tool he theorizes, called the *Octalysis Framework*, derives its name from an octagonal figure with eight *Core Drives*, each one representing a side of the shape (see Figure 22). This frame explains the various systems that make a game engaging and the drivers that motivate people to play. According to Chou, different types of game techniques influence people differently; some through inspiration and empowerment, some through manipulation and obsession. Every

action we take depends on the presence of at least one of the eight *Core Drives*. This is important to consider because it underlines that if there are none of these elements behind a desired action, there is no motivation, and no related behavior (Yu-kai Chou, 2014). The position of the different Core Drives is not random. Those located in the upper part, named by the author *White Hat Gamification*, generates positive motivations, and make the player feel happy, satisfied, and respected. On the opposite, those located in the bottom part, are defined as *Black Hat Gamification*, and are considered to be more negative motivations. Differently from the first category, this type of drivers creates a sense of urgency and makes the player anxious, obsessed, and addicted to the game. *Ownership* and *Social Influence* belong simultaneously to both the categories. They have in fact both negative and positive aspects and can be used alternatively to generate opposite reactions.

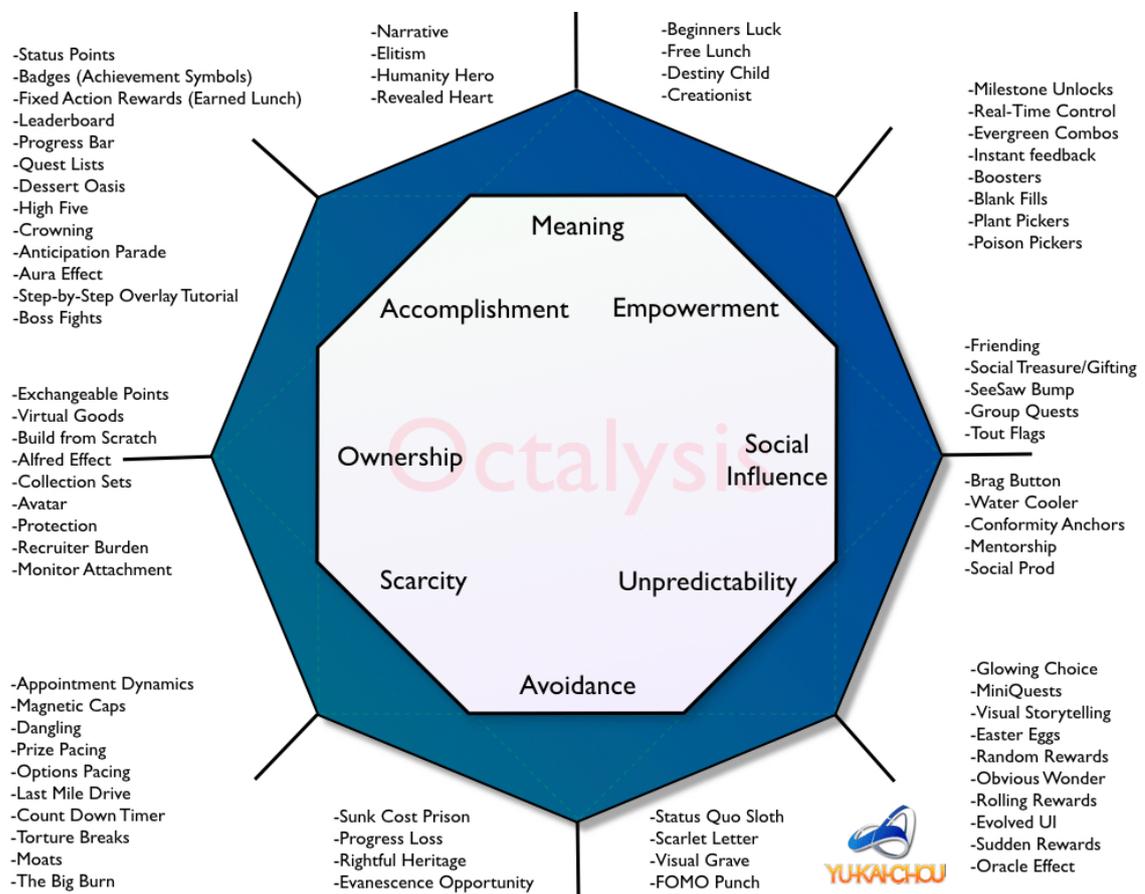


Figure 22: Octalysis Framework (Yu-kai Chou, 2014)

Epic Meaning & Calling

Epic Meaning & Calling represents the desire to participate in something much greater than us, to contribute to the creation of a collective good, to be chosen, predestined, and called to a mission, to a destiny. A clear example of this drive is given by people devoting their time in

free projects as Wikipedia, contributing because they believe they are protecting humanity's knowledge, something much bigger than themselves. Gamification designers can take advantage of this driver through the epic narrative, including missions as save a princess, defeat an invader, or free a hostage.

Development & Accomplishment

Development & Accomplishment is defined as the internal drive for making progress, developing skills, achieving mastery, and eventually overcoming challenges. Our daily life is constantly characterized by progressions, competitions, tests to be faced and goals to be achieved. This core drive is the easiest to design and include in the Gamification experience, through points, badges, and leaderboards.

Empowerment of Creativity & Feedback

Empowerment of Creativity & Feedback occurs when users are engaged in a creative experience where they repeatedly figure new things out and try different combinations. People need to see the results of their creativity, receiving feedback and adjusting in turn. Clear examples are the timeless success of LEGO bricks and the possibility of customizing avatars, one of the typical game mechanics in gamified experiences. In this case a game designer no longer needs to continuously develop additional content to keep the activity fresh and engaging. The brain simply entertains itself.

Ownership & Possession

Ownership & Possession occurs when users are motivated because they feel like they own or control something. When people feel ownership over something, they innately want to increase and improve what they own. Virtual goods and virtual currencies are typical examples of how game designers have exploited the natural desire to possess of individuals.

Social Influence & Relatedness

Social Influence & Relatedness includes all the social elements that motivate people, as mentorship, social acceptance, social feedback, companionship, and even competition and envy. This principle is the basis of cooperative and competitive mechanics in games. In this type of experiences it is possible to invite friends, challenge them, or ask them for help. This element of community is among those that certainly characterize the success and diffusion of the Gamification phenomenon.

Scarcity & Impatience

Scarcity & Impatience is defined as wanting something simply because it is extremely rare, exclusive, or immediately unattainable. This concept is typical also of the economic thought: the more a resource is scarce, the more this resource increase in value. Typical game mechanics that exploits this core drive are appointment dynamics (“come back 2 hours later to get your reward”), and countdowns (“you have only 30 minutes to complete this activity”).

Unpredictability & Curiosity

Unpredictability & Curiosity occurs when someone is constantly engaged due to the unpredictability of what is going to happen next. Examples of this type of motivation is given by lottery programs, betting systems, or contests. Game designers take advantage of this core drive through mechanisms such as random bonuses or "*Easter Eggs*": special elements that developers hide in the game, letting the user find them gradually, generating a surprise effect.

Loss & Avoidance

Loss & Avoidance is defined as the motivation to avoid something negative from happening. Applied to game mechanics, an example is given by negative reinforcements or malus: if a certain action is not taken, or a specific objective is not achieved, a negative event occurs. In these cases the player risks to lose something he have worked hard to gain and is motivated to avoid this loss with all his resources.

This framework underlines the importance of considering the broad spectrum of human emotions and motivations when developing a gamified experience. Chou defines this approach "*Human Focused Design*", proposing a different method to interpret the Gamification phenomenon. From a marketing perspective is crucial to deeply understand customers behaviors and their intrinsic motivations before developing a Gamification initiative. This framework provides useful suggestions to select the most appropriate game elements to induce the desired reactions and create engagement with customers. In general the psychological side of the experience plays a crucial role for the success of this type of strategies. If this force is channeled in the correct way it can provide huge benefits to companies developing Gamification marketing campaigns.

2.5 Gamification as a Marketing Tool

As previously mentioned, Gamification mechanisms has proven to be powerful means to motivate and engage people. Due to these characteristics, this phenomenon has therefore aroused the interest of marketers. The application of Gamification techniques is in fact becoming an important part of companies' strategies to attract new customers and retain the existing ones. However, the development of this type of campaigns is harder than it looks. Gamification needs a delicate fusion of art and science. On one hand, it requires emotional concepts such as fun, play, and user experiences. On the other hand, it is related to measurable and sustainable systems that serve concrete business objectives. A perfect design process merges creativity and structure to match customers' needs with technical feasibility and business realities (Werbach, et al., 2012).

2.5.1 How to Implement Gamification Marketing Strategies

The development of Gamification marketing strategies requires an adequate allocation of resources, as well as a structured approach. According to Gamify, a leading company in providing Gamification marketing solutions, the cost for these initiatives can range from \$4k-\$8k for the game alone, while the recommended timeframe sits around the 6 weeks of work. Obviously, there are a lot of different factors that can influence both time and budget, depending on additional promotional elements, customizable components, special needs, and total length of the campaign. However, in order to be successful, some good practices are required (Gamify, n.d.):

1. Set Goals Beforehand

Set one clear priority, giving a direction to the Gamification campaign, is a crucial step to ensure the success of the strategy. The main priorities usually include the purpose of educating clients on a new product, create hype around the Brand, sell more units of an item, or simply generate awareness. Managers often forget this simple takeaway, developing campaigns that makes only noise in the hope of staying at the front of customers minds. Understanding what the company is trying to achieve help to decide the correct content and elements to include in the experience. Starting with a goal in mind, allows to work backward and create games, quizzes, and contests that operate toward that goal instead of creating a game and hoping it benefits the organization.

2. Know the Audience

The success or failure of companies' marketing campaigns depends on how strongly they target the audience. To attract new customers and bring them on the company's website is crucial to create tailored and specific contents. An analysis of the customer base helps to understand customer needs and to appeal directly to those the company would like to engage. Age, gender, interests, and location all matter when choosing a game. Knowing who the audience is, allows to select the right kind of game in order to reach that demographic.

3. Keep It Simple

Since the primary goal of Gamification is to achieve Customer Engagement through a defined strategy, game mechanics need to be simple and straightforward. Good practices include avoiding intricate point dynamics or leaderboards that involve a complex set of rules and criteria. Customers always compare risks and rewards when they face a challenge. If the game requires too much effort than most people will move on, leaving engagement levels low. Gamification does not need to be complicated to work and basic mechanics are more effective and even cheaper. An example of a very simple Gamification Marketing experience is provided by the M&M's "Eye Spy Pretzel" campaign. The aim was to push the sales of a new product of the brand, the "mini-pretzels". The game consisted in a simple cost-effective image in which players had to find one small pretzel hidden among many M&M's candies (*see Figure 23*). This puzzle, conveyed through social media, generated 25.000 new likes for the company on Facebook and around 6.000 total shares (Shannon, 2020).

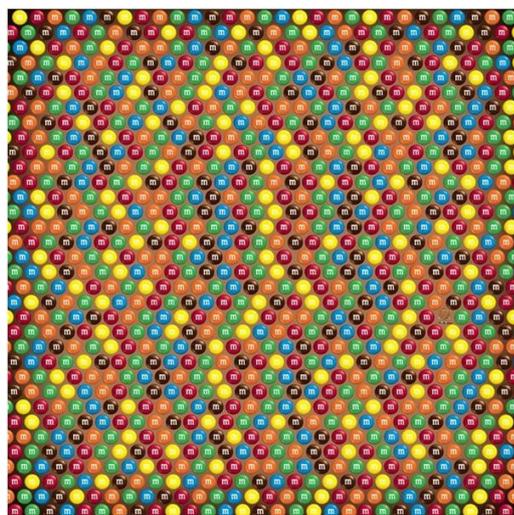


Figure 23: M&M's "Eye Spy Pretzel" Gamification marketing campaign (www.gamify.com)

4. Campaign Duration

The length of a campaign and when it is launched are two other important factors. The recommended timeframe for most campaigns sits around the six weeks, allowing enough time to promote a following but not enough time to become out of fashion. Managers want customers to feel a sense of urgency when participating in the campaign. If they feel that they have all the time in the world, they may continue to postpone, losing the opportunity to participate.

5. In-Store Gamification

Another important suggestion is to use Gamification also in brick-and-mortar stores, actively involving customers when they are purchasing a product or a service. Gamification is a fun way to get customers engaged with company's business, convince them to spend more time in the stores, and form deep Brand Loyalty. It also allows to collect valuable customer data which will help managers to learn more about their shoppers and clients. These games can be played on smartphones, interactive touchscreens, or in-store mounted tablets positioned in line. Having in-store leaderboards stimulate the competition amongst customers and is an immediate way to incorporate a social element to a customer's visit. In-store Gamification is also an effective way to distribute coupons or discounts to customers that they are more likely to redeem. For example Milka used some interactive panels positioned inside the stores to engage customers. Shoppers were invited to interlock fingers with a friend to make a Milka chocolate bar and then share a picture through their social channels (see Figure 24). The reward was a chance for a free trip in the Alps. This campaign was a success, achieving 299 million Milka Brand exposures and engaging 12.4 million shoppers in only one month (Ksubaka, n.d.).



Figure 24: Milka's in-store Gamification marketing campaign (www.ksubaka.com)

6. Promotion Across Relevant Media

Gamification marketing is not a one-size-fits-all process. When a company launches a Gamification initiative, usually it pays attention to where the target customers are and what kind of content they respond to. To launch a successful campaign is critical to link it to social media platforms such as Facebook or Instagram. Without understanding which the most suitable media channels are, it is very difficult to attract the right audience. The channels a company selects are different depending on the business, target customers and final goals.

7. Content Calendar

After having decided where to promote the campaign is important to define a content calendar to be sure to stay on the right track. If managers fall behind, miss a post, or forget about a platform completely, it could ruin the entire plan. Sporadic posts and inconsistent messages may also make customers think that the company do not really care about the online presence or the campaign at all. If a game exists on the company's website but no one is being informed through appropriate messages, the whole strategy is likely to fail. A content calendar helps to stay organized and ensures to post the right information at the right time, allowing to see the big picture of the process.

8. Key Performance Indicators (KPIs)

The last step when developing a Gamification marketing campaign is to define an integrated set of indicators. Setting correct KPIs before the start of the Gamification campaign, outlines a direction for the whole project and offers important benchmarks to understand the course of action. These indicators are the only way to know whether the plan is working or not and identify strategic occasions for improvement. The data collected during the campaign helps to understand what kind of content the audience likes, what ads are the most effective, and whether the company is reaching the right customers.

These simple takeaways make the difference between successful and unsuccessful Gamification strategies. Before starting to invest managers usually consider if a game fits perfectly into their wider marketing plan or not. They define in advance what they want to get from that game in relation to the strategy, allocating the total budget accordingly. Another crucial role is played by *Storytelling*. Narratives are an integral part of people's way of perceiving the world. For this reason, intriguing stories are often the fulcrum of games and are

useful to support their ability to engage and thrill players. *Storytelling* contributes to Gamification marketing under five fundamental aspects (Maestri, 2017):

- *Sense*: stories add a meaning to gamified projects, increasing their attractiveness.
- *Interest*: an intriguing narrative, combined with a set of points, badges and leaderboards, increases the interest of players.
- *Identification*: storytelling offers users the opportunity to become protagonists of the experience.
- *Engagement*: a natural consequence of Storytelling is to create engagement with players.
- *Progression*: the sense of progression can be more compelling if linked with the different phases of a story.

Storytelling have a significant impact when developing a game for marketing purposes. If used correctly it can increase the participation of customers. Designing a gamified experience without including a good story can undermine all the efforts, generating poor and inconclusive results. Summing up, all the following suggestions are crucial points to consider when developing this type of marketing strategies and can be easily overlooked in the excitement of creating a new campaign. Whether to have success or not depends entirely on how well managers know the audience and how much they prepare. Taking the right time to understand what the target customers need, what they are looking for, and how the company can help them, allows to create a Gamification marketing experience that grabs the attention and consistently attract new customers. Lastly, a careful integration with social networks and a coherent storytelling create the perfect mix to attract and retain customers, generating consistent benefits for the whole organization. Effective Gamification flourishes under the possibilities of social sharing, chatrooms, social media groups and so on. If customers do not have the possibility to display their achievements, communicate or be a part of a community they will begin to lose interest and motivation, undermining the entire campaign.

2.5.2 Benefits and Limitations of Gamification Marketing Strategies

If the steps explained in the previous paragraph are respected, Gamification marketing can create enormous advantages for companies. In detail, the main benefits deriving from this type of campaign can be summarized in few points (Gamify, n.d.):

1. *Fun*: games bring fun and enjoyment to users, and fun is marketable.
2. *Measurable engagement*: gamified solutions allow to create measurable engagement, capturing data about how many unique players interact, who is sharing on socials, and who is redeeming the earned rewards.
3. *Affordability*: this type of marketing campaigns is relatively inexpensive and in terms of cost-performance ratio offers better results than traditional ones.
4. *Data collection*: Through this type of initiatives is possible to accumulate information regarding the users, respecting all the privacy norms. Managers usually exploit these information for future marketing strategies and business purposes.
5. *Wide market reach*: games are multi-generational and appeal to young and old alike.
6. *Positive association*: the psychology behind Gamification marketing is relatively simple; customers play a game and earn a reward, generating positive emotions that can be directly linked with the Brand in question.
7. *Brand awareness*: customers are repeatedly exposed to company's Brand when they play. As a consequence, they are more likely to purchase the marketed products due to Brand recall.
8. *Community creation*: gamified applications can be easily shared across various social media channels with simple links and embedded play buttons, creating a wide and active community.

Despite these positive aspects, Gamification marketing hides some pitfalls. If managers are not well prepared they can run into unpleasant surprises. First of all, the myth that Gamification can solve any brand-related problem must be debunked. When companies find that their standard practices are not delivering the results that they hoped for, they often decide to try new marketing strategies to see if results change. This great expectation for Gamification to eliminate company's preexisting problems, combined with a lack of knowledge on how to develop gamified solutions, almost always leads to disappointment. Managers expect to see the results happen instantly and forget that Gamification is only a tool. Nothing more. Like any tool it needs a context to function and someone to handle it. Another error to avoid is to include too

many rewards. The reward structure of any game plays a crucial role in its success and must be carefully balanced. On one hand, rewards are positive motivators that induce players to play more and more. On the other hand, if users are being rewarded for every little action, the clarity and weight of rewards is lost, making the whole system null and meaningless. If managers constantly use points, badges, and rewards for any promotional event, customers will also lose interest, beginning to no longer take them seriously. Also inspiring too much competition can be dangerous for Gamification marketing projects. When developing this type of strategies balance is the key. If the game inspires too much or not enough competition, the desired results will not be achieved. Friendly competition can motivate players to perform at their best, but if the limits are pushed too far, customers will start to feel uncomfortable or alienated. Obviously, competition plays a huge part in Gamification, but to really engage the audience, the purpose should not be competition alone. If everyone is only focused to reach the top of the leaderboard, the main content will be ignored and with it the purpose of the campaign will not be fulfilled. The last limitation of Gamification is connected to poor designed solutions. Even if game mechanics and objectives are all well planned, the campaign can suffer from a scarce aesthetic appeal. Every gamified experience needs to grab the players' attention, reflecting the company's Brand image. Templates, themes, sounds, icons, and other designs elements, all need to be designed with the utmost care. Details really make the difference in this field (Denton, n.d.). An example of a poorly structured Gamification Marketing campaign includes the Google's introduction of "*Google News Badges*" in 2011. The idea was to create a gamified system, based on badges, through which engage readers by showing them their progression in reading articles. The more they read, the higher level badge they received. Google offered more than 500 different badges to cover different topics, with the possibility of sharing them with friends. However, this project seemed bad managed since the beginning. The connection of rewards and real-life benefits was unclear and badges could only be used to brag to those who were already using the service. Even Google soon realized the failure of this initiative. The company in fact announced the interruption of the service just 15 months after its launch (Burke, 2014).

In conclusion, the limitations related to Gamification Marketing strategies are connected with poor planning and lack of experience in this field. Unclear campaign goals and scarce attention to details, prevent companies to reach desired outcomes and burns considerable resources. To avoid running into these situations, companies need to firstly clarify what they want to achieve, understanding if they have all the capabilities to start this type of campaigns. Otherwise, outsourcing the entire activity to external professionals can ensure the development of a successful strategy.

2.5.3 Examples of Gamification Marketing

In recent years, more and more businesses have decided to implement Gamification marketing strategies for the most different reasons. Companies used this type of creative campaigns to spread their messages and promote their brands. Gaming elements, such as ranking lists, competition processes, scoring schemes, and incentives are in fact incredibly powerful systems to build loyalty, engage customers and create connections with them. In particular *fidelity cards* and *frequent flyers programs* can be considered as primordial examples of Gamification marketing mechanisms based on points and rewards. The first company to use these strategies was American Airlines which in 1981 introduced “*AAdvantage*”, the world’s first frequent flier program. The initiative aimed to encourage customer loyalty by offering rewards for repeated purchases. Also McDonalds can be considered as a pioneer of these tactics. In 1987, well before the term Gamification was coined, the fast food company created a promotional game inspired by the famous Monopoly. The mechanic was very easy. Customers received tickets buying a certain number of products from McDonald’s. The goal was to collect all the pieces of the same color to be eligible for a prize. This campaign can also be considered one of the longest-running in marketing history, given that it is still used today in several countries (see Figure 25).

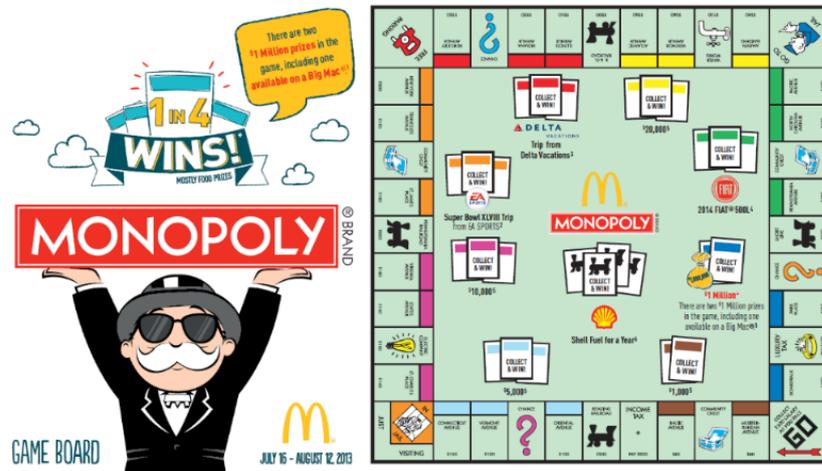


Figure 25: McDonald's 2013 Monopoly game in the US (news.mcdonalds.com)

Nowadays technologies offer also unprecedented possibilities through the use of video games, mobile devices, and social networks. The applications of Gamification to marketing have become potentially infinite and take extremely different forms depending on the brand and the target audience. In particular, according to Gamify, it is possible to identify 5 different forms of Gamification marketing campaigns (Mospanyuk, 2020):

1. Transmedia Gamification

Transmedia is the practice of taking a media property and extending it into a different medium to either expand the material or support it. For example, in 1997 Nintendo exploited a transmedia campaign releasing the game “007: GoldenEye” for its N64 platform. This was a triple-A game, created to bring more attention to the 1995 movie of the same title and for its following “007: Tomorrow Never Dies”. However, the video game version ended up making more money than the film itself. It is no surprise then that two decades later the video games industry is four times larger than the film one, and games are replacing movies as most popular form of entertainment.

2. Brandification

In its simplest form Brandification consists of in-game advertising for real world products. This includes messages, images and videos promoting a brand, product or service within the video games' universe. One of the most recent and successful examples of Brandification comes from Tesla. The Elon Musk’s company last July partnered with Tencent’s video game “*Player Unknown's Battlegrounds*” (PUBG) to promote its cars in an innovative way. This choice comes not as a surprise, given that PUBG is one of the most played and viewed competitive titles in the world, with more than 100 million active users each month. Tesla is exploiting the game’s world placing its vehicles as drivable ones for players, increasing in this way both customer engagement and brand awareness. The launch of this initiative has been also promoted through a real world event. A mysterious container, similar to those used in PUBG, was in fact placed in front of the Shanghai’s shopping mall “*Taikoo Hui Center*”, creating curiosity and clamor (see Figure 26). Two theme characters then unveiled the new Model 3 and Model X cars, available simultaneously both in the physical and in the game world.



Figure 26: Tesla Model 3 unboxed in front of Shanghai’s “*Taikoo Hui Center*” (www.gamify.com)

3. Experiential Gamification

Experiential Gamification can be defined as providing a fully immersive and interactive event that is linked to a brand campaign. This marketing practice mostly takes place in physical locations and exploits Advanced Reality and Virtual Reality formats.

For example in 2013, Samsung launched an experiential Gamification initiative to promote its new Galaxy S4 model. The Korean company installed an interactive kiosk in the middle of the Zurich Main Station, inviting people to take part in a creative contest. The aim was to stare at the screen of a Galaxy S4 model for 60 minutes, without looking away, in exchange for a reward (see Figure 27). Samsung made it hard for participants to conclude the challenge, hiring actors and stunt performers to distract people during their attempts. This marketing campaign was designed to promote the features of the Samsung device and in particular the new built-in eye sensor. Samsung also created a funny video of this experience, posting it on its different social channels. This strategy was a success for the Korean company, generating interest and curiosity in customers all over the world, with more than 4 million of views for the YouTube video (Segatto, 2019). Analyzing this well-developed case of experiential Gamification we can see how it has been particularly engaging due to some powerful motivational schemes. The goal, the set of rules, and the system of feedbacks were clear and easy to understand, and the player could immediately figure out how the initiative works. Participants could also control at any time their progress through a screen and were alerted by a sound if they looked away from the device. Another crucial factor to consider was the unpredictability of the distractions that gave a sense of curiosity and excitement to the whole experience. Lastly, the social influence of the crowd, observing and cheering for the players, added a powerful emotional charge.

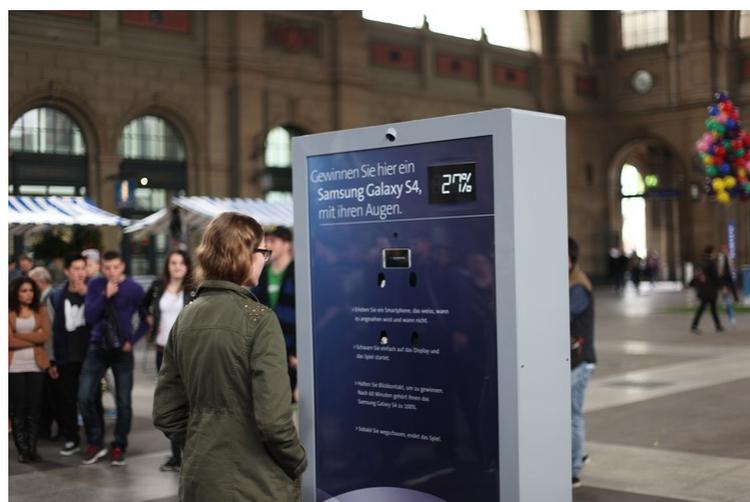


Figure 27: “All Eyes on Samsung Galaxy S4” marketing campaign (www.raphael-hermann.com)

4. Advergames

An advergame is a Gamification technique that promote a particular brand, product, or marketing message by integrating them with a video game template, created expressly for promotional purposes. Advergames today are often developed for mobile devices given their wide diffusion and ease of use.

For example KFC, one of the world largest fast food chains, created an advergame campaign in Japan to incentivize customers trying its different line of products. To reach this result the American company developed a mobile game with the help of Gamify. The game concept was based on a fictitious war between KFC and an army of shrimps. The player had to protect the KFC castle from the enemies, saving chickens from the defeat (see Figure 28). This simple game mechanic was integrated by a score system that kept track of records, giving the possibility to share results with friends on social media.

After the game, some discount vouchers for *Ebi Shrimps*, redeemable in-store, were release to players. KFC Japan created a lot of noise around its products, and in turn, generated an overwhelming amount of sales. This marketing campaign was so successful that KFC had considerable difficulties to serve all the customers, cutting the campaign to stabilize the supply and demand of its products. About 200.000 people used the game, and the 22% of them redeemed their vouchers within a store. Despite these initial difficulties, KFC increased its sales by 106% compared to the previous year (Gamify, n.d.).

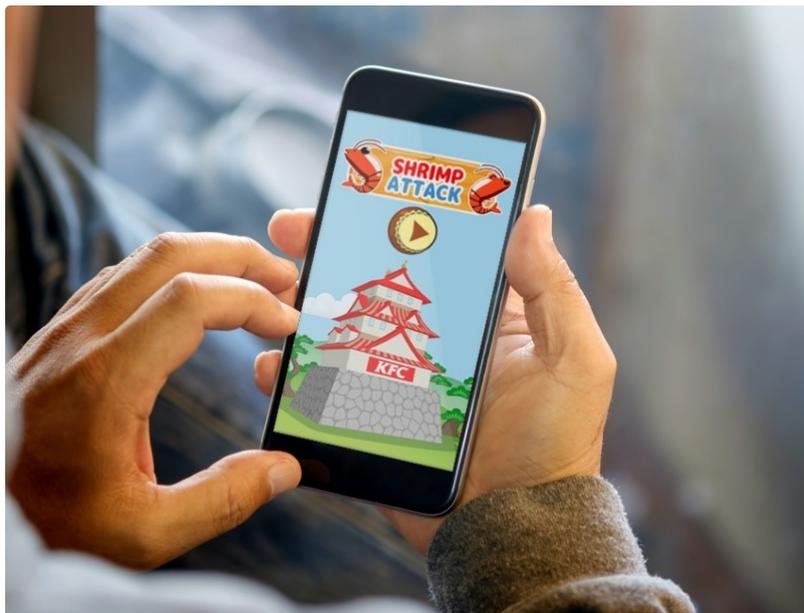


Figure 28: “KFC Shrimp Attack” Advergame (www.gamify.com)

5. Alternate Reality Games (ARGs)

Alternate reality games (ARGs) are online experiences that use the real world to build a story through user's actions. Typically these campaigns leverage both social media and technologies to some degree to provide information to participants. While traditional gaming is designed to help people escape from reality, ARGs are actually designed to make reality more engaging.

An example of this integration between physical and digital is the Jimmy Choo's marketing campaign "*Catch a Choo*", one of the first Gamification experiences in the Luxury world. The British brand in 2010 launched in fact an ARGs initiative to sponsor its new shoes line. The goal was to boost social media interactions, stimulate press interest and increase communication around the new product and the company itself. The campaign was structured as an interactive O2O (online-to-offline) treasure hunt around the city of London, perfectly mixing the real world with social media and geolocation technologies. The participants needed to check the Jimmy Choo's Foursquare, Twitter, and Facebook accounts to get some digital clues that would have led them to different parts of the city. The first to reach the correct final location within a certain period of time was rewarded with a new Jimmy Choo's pair of shoes. This marketing plan was a success for the company and around 4000 people participated in the treasure hunt. The social media coverage was extremely positive with 250 blogs and 6% of London Foursquare accounts that followed the initiative. On Twitter the related hashtag was mentioned over 4000 times. These results led to a 33% increase in sales of the sponsored model. This example represented a very innovative strategy at that time and opened the way for similar initiatives in the Luxury industry (Viola, 2015).



Figure 29: "*Catch a Choo*" marketing campaign (www.gameification.com)

All the previous examples highlight how Gamification is becoming a crucial element for companies to reach both their short and long-term goals. If applied correctly, it can generate impressive results, bringing marketing competition to a new frontier. There are no secrets or shortcuts to plan this type of strategies, only professionalism, competence, and foresight.

To correctly develop these strategies it is important to understand all the different forces behind Gamification. On one hand, the psychological side plays a crucial role and can be considered as the hidden engine of the whole process. Knowing which are the main motivators and the related behaviors, allows to design the experience in a successful way, creating engaging loops that can be easily monetized. On the other hand, a fair amount of creativity and originality, lay the groundwork for success. There are no fixed schemes to project this type of marketing campaigns, and the multitude of technologies developed in the last years offers an infinite number of opportunities to be seized.

Despite this amazing scenario it is always important to remember that this type of marketing campaigns is not free from problems and limitations. Gamification cannot solve all the company's problems and without a suitable context it generates more confusion than benefits. Having in mind these simple and clear concepts, Gamification should not be considered as a taboo and results will not be long in coming.

CHAPTER 3. CUSTOMER ENGAGEMENT IN CHINA: THE IMPORTANCE OF DIGITAL AND GAMING

The Chinese market is completely different from the Western nations and has some peculiarities that makes it unique. For example it is characterized by the wide adoption of digital technologies and social networks that affect every aspect of people's life. This digital context is driven by new generations of consumers as Millennials (people born between 1981 and 1996) and Generation Z (people born between 1996 and 2010), who also represent the leading portion in Chinese spending growth. In particular three giant internet corporations Baidu, Alibaba, and Tencent are creating a multifaceted and integrated digital ecosystem that monopolizes people's online experiences. Also the Government is playing a crucial role in this digitization phenomenon, acting as regulator, investor, developer, and consumer of these new technologies. It is actively encouraging digital innovation and entrepreneurship, offering support to local companies and giving them room to experiment. China's innovative transformation is positively impacting its own economy influencing also the worldwide digital landscape.

Companies that are doing business in this country have adapted their Customer Engagement strategies to this environment. Almost all the brands have their own websites, sell their products online and actively exploit social media. Although the Gamification Marketing phenomenon is globally spread, the Chinese context seems to be the most fertile ground for these type of campaigns. This fast-changing scenario in fact forces managers to continuously find new and creative ways to attract and retain customers. Gamification Marketing is one of the many strategies that they have found to keep pace with this constant evolution and win the increasing competition. This type of campaigns is a viable mean to exploit digital channels and can be easily conveyed through social media, attracting in this way younger generations. Particular attention is given to WeChat, a multi-purpose messaging platform developed by Tencent that represents one of the most effective tools to engage people. It offers a multitude of different digital services both to companies and users, including the possibility to develop "*WeChat Mini Programs*". These programs are mini-applications built within the platform and are perfect incubators for gamified experiences.

In addition, games in China are more than simple entertainment means and are reshaping the entire engagement context. They have become part of the Chinese culture and cannot be ignored to attract especially Millennials and Gen Zers. Although young males still represent the largest portion of the market, women and older generations are becoming increasingly involved, suggesting how this phenomenon is widespread and transversal.

This chapter aims to analyze more in detail how to engage Chinese customers and why Gamification techniques have become relevant in this country. An overview of the Chinese market introduces the topic, followed by an analysis of the Chinese digital ecosystem and of the Chinese games market. Moreover, the effects of the COVID-19 pandemic, the typical Chinese customer journey, and the latest digital engagement trends in China are further highlighted.

3.1 Overview of the Chinese Market

In the last years China, whose official name is the People's Republic of China (PRC), has established itself as one of the leading global economies attracting companies and investors from all over the world. To approach this country in the right way it is very important to know the socio-cultural context as well as the economic aspects that gave rise to this flourishing market. One of the main characteristics of China is its large and relatively young population that has driven an incredible economic growth in the last decades. This population lives mainly in the Eastern part of the country, where major cities such as Shanghai, Beijing, Hong Kong, and Guangzhou are located (*see Figure 30*). These cities also represent China's economic engine and the Government has created key industrial clusters around these areas. The following sections give a market overview of this country to better comprehend why China has become one the main global players, how it is internally organized and how it is adapting to recent events as the COVID-19 pandemic.



Figure 30: Map of China (www.progettoforma.eu)

3.1.1 Demographics

The People's Republic of China (PRC) is the country with the largest population in the world with around 1.4 billion of people in 2019. The International Monetary Fund forecasts that the Chinese population will grow to 1.41 billion until 2022 and then will begin to decline for the first time in decades. Due to strict birth control measures, as well as changing family and work situations, population growth has generally decreased over the past decades (*see Figure 31*). In the last ten years, the annual population growth ranged at around 0.5%. From 2014 on, the gradual abolition of the one-child policy has led to temporarily higher births but in 2016 the rate started again to decrease until reaching 0.33% in 2019 (Textor, 2020).

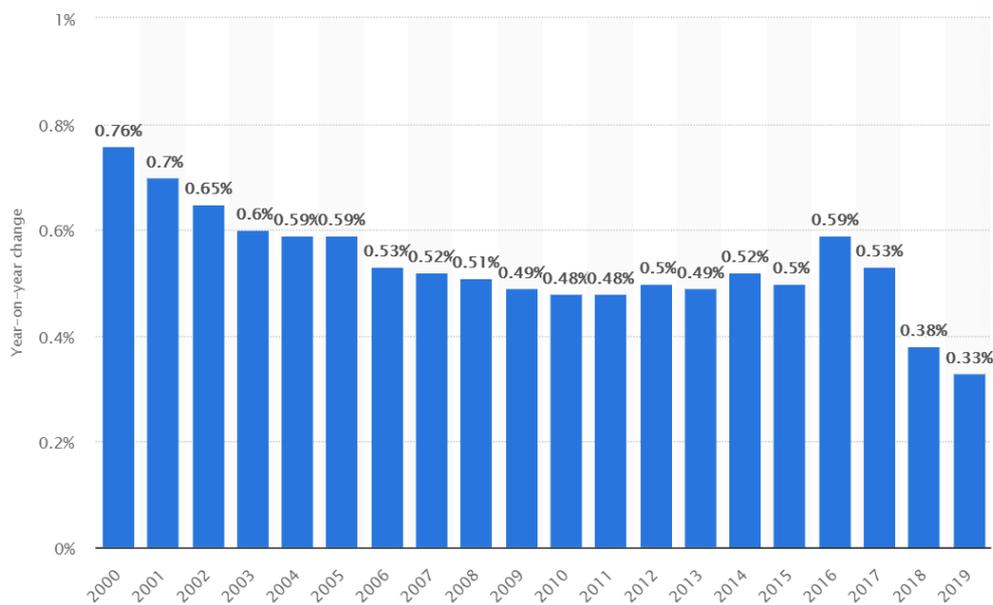


Figure 31: Population growth in China from 2000 to 2019 (www.statista.com)

Although the Chinese population is relatively young when compared with other developed countries, since 1970 the median age has continued to increase from 19 years to around 37 years in 2015. According to forecast from the United Nations, this increasing tendency will slow down only when the median age will get close to 50 years in the middle of the 21st century (*see Figure 32*). The consequences of a rapidly aging population have already become a concern for the country's future. This older population is going to become a burden for the Chinese social welfare system and could change the whole economic situation. The main reason behind this trend is an improvement in healthcare and living standards that have led to an improvement in life expectancy.

In addition, the previously mentioned one-child policy decreased the fertility rate, increasing the share of older people in the society. High costs of raising a child, career pressures and the pursuit of freedom are other factors that are refraining young people from having children (Textor, 2020).

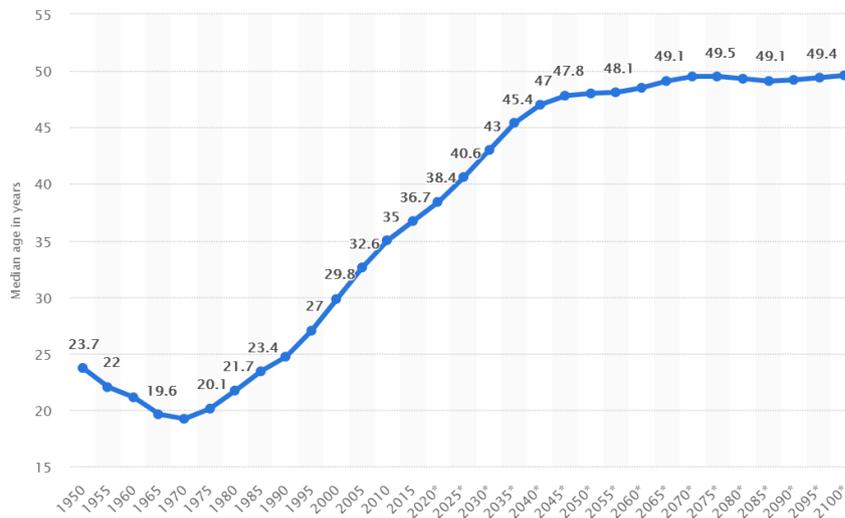


Figure 32: Median age of the population in China from 1950 to 2100 (www.statista.com)

With approximately 9.6 million square kilometers China is also one of the largest country by area in the world. The Government legally recognizes 56 distinct ethnic groups in its territory. The largest one is the "Han" ethnicity who constitutes approximately 92% of China’s total population. Despite the minorities represent only about 8% of the national total population, they inhabit about 60% of the Chinese territory (Veeck, et al., 2011). The official national language is Standard Mandarin, a variety of Mandarin based on the Beijing dialect. It is used as common language between people of different linguistic backgrounds. Mongolian, Uyghur, Tibetan, Zhuang, and various other languages are also regionally recognized throughout the country (Lin, n.d.).

3.1.2 Politics

China is governed by the Chinese Communist Party (CCP) that exercises jurisdiction over 22 provinces, five autonomous regions, four direct controlled municipalities (Beijing, Tianjin, Shanghai, and Chongqing), and the special administrative regions of Hong Kong and Macau. The People's Republic of China was founded in 1949 after the Communist Party overcame the nationalist Kuomintang faction (KMT). After this defeat the KMT decided to retreat in Taiwan, founding on this island the Republic on China while the Communist Party’s leader Mao Zedong definitely took the control of Mainland China. After stagnant decades under rigid totalitarian

socialism, China reformed partially its economy adopting a more capitalist line. This move made it one of the world's fastest growing country in the world, as well as a leader in exports. China is now a major overseas investor and is pursuing an increasingly resolute foreign and defense policy. This economic change has not been matched with political reforms, and the Communist Party still retains a tight control on the political life as well as on society. The current president is Xi Jinping who came to power in 2012 and is expected to lead China for the next decade. Since he came to power he has tried to present a modern face of China to the rest of world. The main themes of his leadership have been economic reforms to boost the Chinese economy, as well as an anti-corruption campaigns (BBC News, 2018).

3.1.3 Economy

Thanks to an extraordinary economic growth, in the last decades China has established itself among the leading nations in the world. Since this country began to reform its economy in 1978, its Gross Domestic Product (GDP) has grown at an average rate of 10% per year, and more than 850 million people came out of poverty. Today, China is the second largest global economy, the largest exporter, and has the largest exchange reserves in the world. According to the International Monetary Fund (IMF), as of October 2020, China's current GDP is around \$14.860 billion and it is projected to grow to \$23.030 billion in 2025 (see Figure 33). Despite these exceptional results its per capita income is still lower than other developed countries, and about 373 million of people are living below the income poverty line of 5.50 U.S. dollars a day (The World Bank, n.d.).

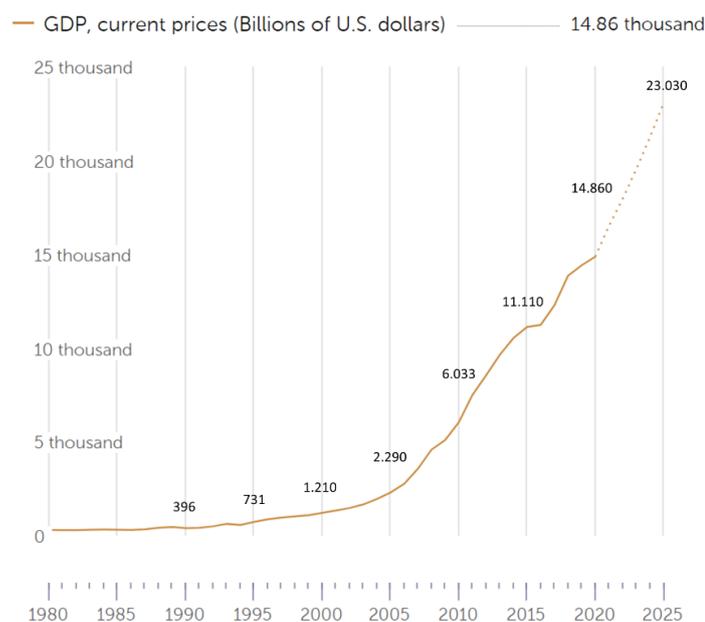


Figure 33: GDP at current prices in China from 1980 to 2025 (www.imf.org)

China's GDP growth is strictly linked with its status as the “*World's Factory*”. Today the industry sector contributes in fact to approximately 39% of China's GDP and employs 28.2% of the total population (see Figure 34). China is one of the most preferred targets for the outsourcing of global manufacturing, despite an increase in labor costs in recent times.

Also the primary sector plays an important role in China's economy. Agriculture is estimated to employ 26.5% of the active population and accounts for 7.1% of GDP, although only 15% of the Chinese soil is arable. When compared with other developed countries the weight of agriculture is significantly higher despite its proportion on GDP has decreased during the last years.

The services' share on GDP is 53.9% and it employs around 45.1% of the workforce. Even though its GDP portion has been growing in recent years, this area as a whole has been constrained by public monopolies, restrictive regulations, and China's particular attention on manufacturing industry. However, the Chinese government is focusing more and more on this area, investing in sub-sectors such as finance, logistics, education, and healthcare. It is also aiming to rank among the top exporters for transport, tourism, and construction (Nordea Trade, 2020).

The official currency of China is the *renminbi* (abbreviated RMB) that corresponds to 0.12€ and 0.15\$. The yuan is the basic unit of the renminbi, but this word is also used to refer to the Chinese currency generally, especially in international contexts.

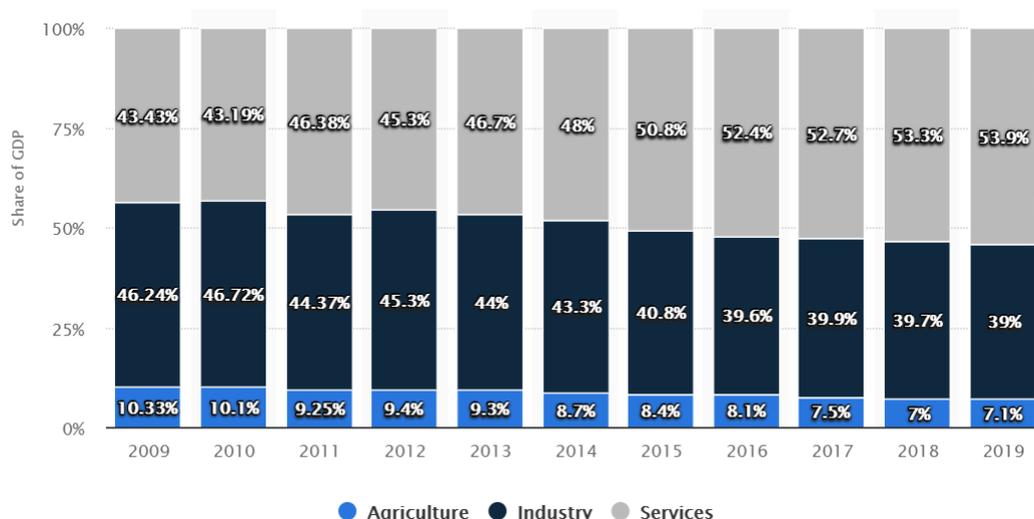


Figure 34: China distribution of GDP across economic sectors from 2009 to 2019 (www.statista.com)

Chinese economy in recent years has been affected by a trade war with United States. This conflict started in 2018 when US president Donald Trump accused China of unfair trading practices and intellectual property theft. Over the months that have followed the two countries have introduced foreign technology restrictions and tariffs on products. So far, the US tariffs account on \$550 billion worth of Chinese goods while China has set tariffs on \$185 billion worth of US products. Recently a new chapter of this trade war has involved also Chinese digital companies as Huawei, TikTok and WeChat that have been permanently banned from US (Wong, et al., 2020). Especially the ban of the two most important Chinese social media platforms has influenced business strategies that are looking to reach Millennials and Gen-Z customers in US. Companies heavily relying on these digital means have been left particularly vulnerable.

In 2020 also the COVID-19 pandemic has shaken the Chinese growth framework. According to a report released by the *National Bureau of Statistics of China*, in the first two months of 2020 industrial output declined by 13.5%. For retail sales, an even larger 20.5% decline was reported for the months of January and February while construction activities cope with a 24.5% decrease. The main reasons behind this unprecedented drop are the mass quarantine and social distancing measures taken by the Government to prevent the coronavirus spread (Roper, 2020). These drastic measures have also led to a general 6.8% decline in GDP in the first 2020 quarter. This is the first time China has seen its economy decrease in the first three months of the year since quarterly GDP records began in 1992. Despite this difficult situation, China has been able to react and has returned to grow at 3.2% during the second quarter (*see Figure 35*). In this way China has avoided two consecutive periods of negative growth, preventing a technical recession (BBC News, 2020).

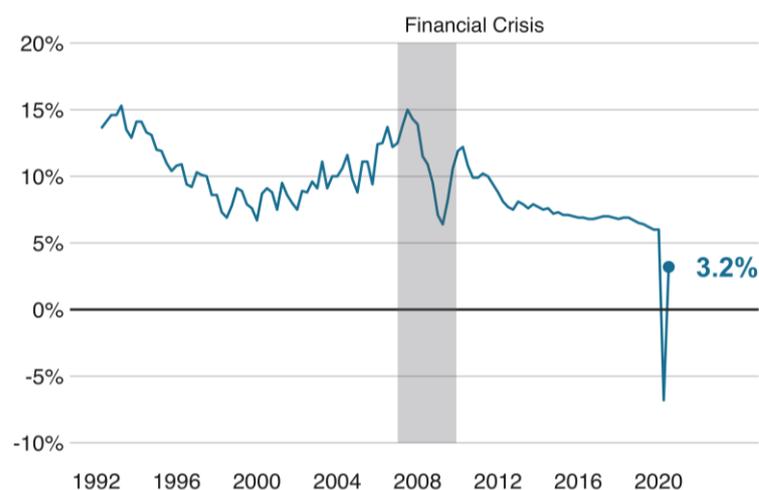


Figure 35: Quarterly real GDP growth of China (BBC News, 2020)

3.1.4 Urbanization

In the last 40 years China has seen a process of migration from rural to urban areas, during which numerous towns and cities have increased in size. The main causes behind this trend are the industrialization and the modernization of the country that have accelerated this shift. The degree of urbanization in China has increased from 19% in 1980 to around 51% in 2011, first time in the history in which the urban population surpassed the number of rural residents. In 2019 this percentage reached about 60.6%, with 842 million of people living in urban regions. In addition, the Communist Party aims at reaching 70% urbanization by 2030, increasing city residents by 350 million.

Some of the largest metropolis in the world are also located In China. Among these cities, 27 have more than 4 million people, 34 between 2 and 4 million and more than 100 between 1 and 2 million. The urbanization phenomenon varies between different parts of China. For example it is lesser advanced in western or central China, while in the eastern coastal regions of the country more than two-thirds of the population lives already in urban areas. (Textor, 2020).

Consequently to this shift, the purchasing power and the consumption capacity of consumers have spread all over the country. It is estimated that if in 2005 it was necessary to be present only in 60 cities to potentially reach 80% of the middle class, in 2010 it was necessary to be in about 155 cities, and in 2020 it will be necessary to be in 212 cities. This trend has challenged companies to innovate their marketing and sales strategies in order not to lose market shares and new potential customers (Fondazione Italia Cina, 2020).

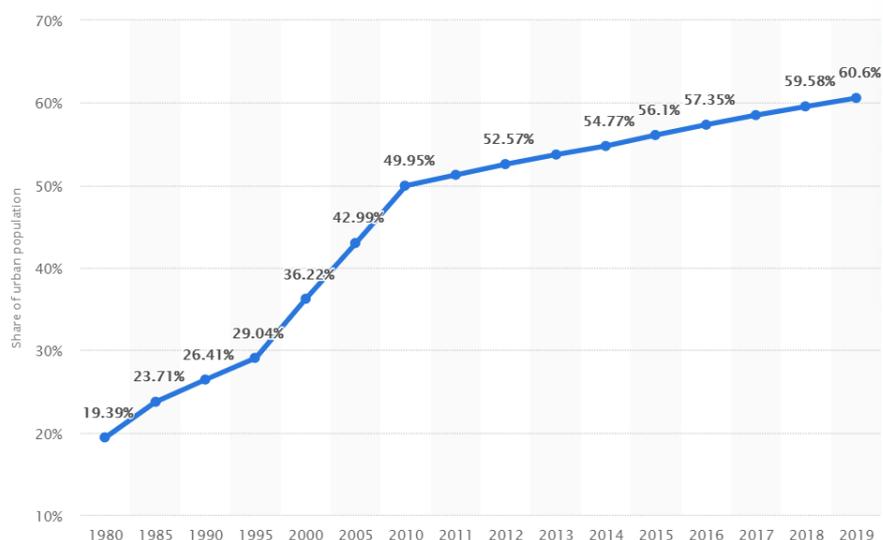


Figure 36: Degree of urbanization in China from 1980 to 2019 (www.statista.com)

3.1.5 City Clusters

One of the reasons why the Government has supported the urbanization plan of the country is because this trend is strictly linked with China's economic growth. In detail, the ambitious project of Chinese politicians included the development of 19 mega city clusters to lead the nation into the next stage of economic expansion. The aim for these super-regions is to compete against other advanced areas around the world, as the *Tokyo Bay*, the *New York Tri-State Area*, and the *San Francisco Bay Area*.

Of the 19 city clusters, the Chinese Government has prioritized three of them to become among the most developed districts in the world (see Figure 37). These three world-class clusters are the *Pearl River Delta (PRD)*, the *Yangtze River Delta (YRD)*, and the *Beijing-Tianjin-Hebei (Jing-Jin-Ji)*. The other 16 clusters have relatively less economic influence but are still important to drive the regional economic development all over the country.

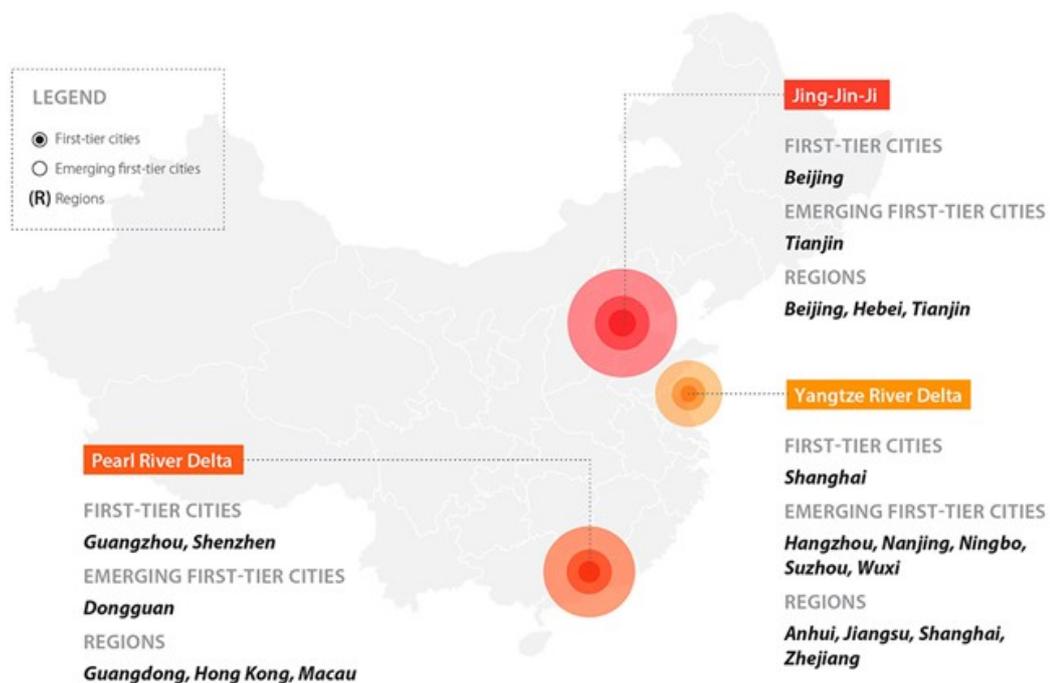


Figure 37: China's world-class City Clusters (www.china-briefing.com)

In 2018, the three regions mentioned before accounted for approximately 40% of China's GDP (see Figure 38). Individually they are comparable to whole countries in terms of GDP. For example, the YRD has a similar GDP to Germany, the PRD to Italy, and Jing-Jin-Ji to Mexico.

Each of China's world-class city clusters have their relative strengths and weaknesses in different areas. For example, the *Yangtze River Delta* has the strongest economic position and the most developed infrastructure. The *Pearl River Delta* is the one with the largest number of international relations, exploiting the openness of Hong Kong. Lastly, *Jing-Jin-Ji* takes advantage of the innovative strength of Beijing, center of the Government and home to many of the country's best universities and research centers. Investors usually consider all these information when deciding where to set up their businesses (Preen, 2018).

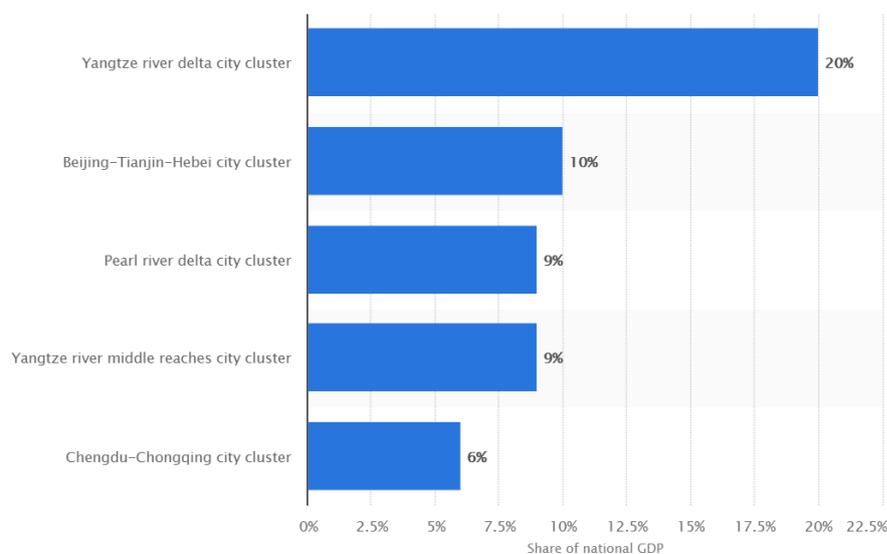


Figure 38: Contribution of City Clusters to China's GDP 2018 (www.statista.com)

3.1.6 City Tier Classification

A common error made by foreign companies entering China is to approach the country as a single, unified entity. In reality, the Chinese market is of enormous size, scale, and diversity. The City Tier classification is an unofficial division that helps businesses to guide their market entry strategies in China and navigate the 613 officially recorded cities. Companies use the tier categorization for example to track city development, market trends, tax policies and incentives, among other things.

According to South China Morning Post, the factors most used to define tier cities fall within three macroeconomic categories: GDP, politics, and population. These cities are then allocated to a different tier based on the average of these three indicators (see Figure 39). According to these criteria is possible to distinguish five Tier 1 cities, 30 Tier 2 cities, 138 Tier 3 cities and 480 Tier 4 cities (South China Morning Post, 2020).

City-tier classification	 Tier 1	 Tier 2	 Tier 3	 Tier 4
GDP	Over US\$300 billion	US\$68 – US\$299 billion	US \$18 – US\$ 67 billion	Below US\$17 billion
Political administration of the city*	Directly-controlled municipalities and leading provincial capital cities	Directly-controlled municipalities, provincial capital cities and economically important cities	Provincial capital cities and prefecture-level cities	Prefecture-level cities and county-level cities
Population	Over 15 million people	3 – 15 million people	150,000 to 3 million people	Less than 150,000 people
Examples	Beijing Guangzhou Shanghai Shenzhen	Changsha Chengdu Chongqing Dalian Hangzhou Nanjing Ningbo Qingdao Suzhou Tianjin Tsingdao Wuhan Xi'an	Changde Dongguan Foshan Guilin Guiyang Hohhot Lanzhou Lhasa Nangton Nanning Urumqi Wenzhou Wenzhou Zhuhai Zibo	Chanshu Chenzhou Hulin Linhai Taixing Xiangcheng Zaoyang

Figure 39: China's Tier City classification by GDP, politics, and population (www.china-briefing.com)

More recently *Yicai Global*, financial news group based in Shanghai, proposed its own formula in the report “2019 Ranking of Cities’ Business Attractiveness”. This classification ranks Chinese cities into six tiers using five different measures (Yicai Global, 2019):

- Concentration of Commercial Resources Index
- City as a Hub Index
- Urban Residents’ Activity Index
- Lifestyle Diversity Index
- Future Potential Index

However, indicators such as “*lifestyle diversity*” and “*flexibility in the future*” have been criticized as being vague and hard to quantify. Latest indicators have also included measuring the presence of relevant Western brands, as for example the number of Starbucks stores, to differentiate between a Tier 2 and a Tier 3 city (Fung, et al., 2014). This city-tier classification is a simple tool for foreign investors to gain a better comprehension of the myriad of markets that make up China. It helps companies to get a preliminary understanding of which cities best fit their business plans. For example companies may locate themselves in a lower tier city to capitalize affordable operational, land, and labor costs. As an alternative they may opt for a top-tier city due to the high quality of workers or for the local services that it has to offer (Wong, 2019).

3.2 Chinese Digital Ecosystem

Chinese people are adopting digital technologies at an extraordinary pace. The use of internet and mobile devices allows them to be engaged in a wide variety of situations without geographical and physical constraints. Remote working, reading, travel booking, socializing, and shopping have all become part of customers' digital experiences.

The Chinese Digital Ecosystem that incorporates all these activities is extremely big and articulated. To better understand how this area is important some data are provided (*see Figure 40*). In 2020 China has 904 million internet users which is larger than the inhabitants of US, Russia, Mexico, Germany, the UK, France, and Canada combined. From 2019 to 2020 they have grown at an incredible speed, with an increase of 75 million. However, if compared with the whole Chinese population, internet users represent only the 63% of the total. On one hand this data reveals an interesting opportunity for tech companies to increase their business. On the other hand it shows how much room for improvements there is still in this field. Particular importance is given to mobile technologies that are preferred by 897 million of people (99% of the total internet population). Many consumers skipped in fact the PC era entirely, starting to use only smartphones. The convenient cost of mobile data and the availability of budget smartphones from Chinese brands like Xiaomi and Huawei are the reasons behind this pervasive mobile adoption. Smartphones are not simply used to browse the internet but are widely exploited also for other functions and in particular for payments. Digital wallets like *WeChat Pay* and *Alipay* provide in fact quick contactless solutions to shop. Overall, Chinese people who use this type of transactions are 765 million in 2020 with an increase of 185 million (+31.9%) between 2019 and 2020. If we compare these data with the US market, where mobile payments are used by only 63 million people, it is possible to understand how deep the penetration of mobile technologies in China is (South China Morning Post Research, 2020).

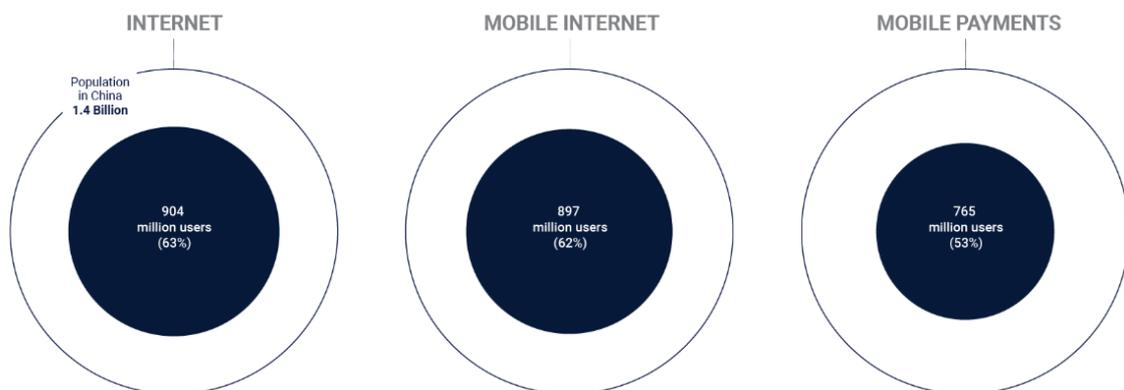


Figure 40: Overview of China's internet users (South China Morning Post Research, 2020)

The Chinese Digital Ecosystem is truly unique, with companies that are no longer just copycats. Multinationals like *Baidu* (owner of the main Chinese language internet search-engine), *Alibaba* (specialized in consumer-to-consumer (C2C), business-to-consumer (B2C), and business-to-business (B2B) online sales, as well as electronic payment services, and cloud computing) and *Tencent* (specialized in social media, digital entertainment, online payment solutions and other internet-related services) have developed innovative platforms that are increasingly becoming more valuable than their global equivalents (*see Figure 41*). These companies, collectively known as BAT, have built dominant positions in China by taking out inefficient, fragmented, and low-quality offline markets. They have also driven technical improvements, as computing efficiency, and set new world-class standards. Western digital players as Facebook and WhatsApp have been excluded from this environment due to a complex censorship system, commonly referred as the “*Great Firewall*”. On one hand this policy has helped local tech companies by cutting off competition, leading to the rapid growth of the Chinese tech giants mentioned before. On the other hand the Great Firewall has also limited innovation and creativity in the country (Shen, 2019). The only exception is represented by LinkedIn that is the only major Western social network available in China. It has been able to do so by strictly complying with Chinese internet regulations. For example, to maintain its servers in China it has eliminated the uploading or viewing of video content to comply with the strict licenses required (Duncan, et al., 2020).



Figure 41: Chinese Digital Ecosystem and Western equivalent platforms (South China Morning Post Research, 2020)

3.2.1 Adoption of 5G technologies

2020 is also the year of mass adoption of 5G in the ecosystem. 5G is the fifth generation of mobile technology which is expected to provide faster data speed and greater network capacity. It also offers the possibility to connect an unlimited number of machines to one another for day-to-day communication. This new wireless network will radically improve the digital landscape, opening new opportunities both for companies and users. For example with 5G it will be possible to connect a million devices per square kilometer, transmit a package of data with a delay of just 1 millisecond, and have peak download speed of up to 20 gigabits per second. In 2020 China's 5G market is expected to reach \$70-85 billion with an estimated 160-175 million of subscribers (see Figure 42). This market is also forecast to rapidly grow in the next few years. According to forecasts 5G will account for almost half of China's mobile connections by 2025 and by the same year China will have 40% share of the total 5G subscribers in the world.

Domestic smartphone companies, as Huawei, are driving the adoption of this new technology introducing moderately-priced 5G devices. Chinese telecommunications operators are also actively promoting cross-industry collaborations. Through the fusion of 5G technology with artificial intelligence, cloud, and computing, they are developing multiple innovative services, including augmented reality and cloud gaming. For example, several five-star hotels in China have announced strategic cooperation agreements to build 5G smart structures, deploying reception robots, 4k video streaming, cloud PCs, and 5G conference centers. China's three biggest telecoms carriers are also joining forces to introduce a 5G-based messaging system to replace traditional SMS messages. In their intention they are trying to directly compete with application as WeChat, changing the way of intending these services (South China Morning Post Research, 2020).

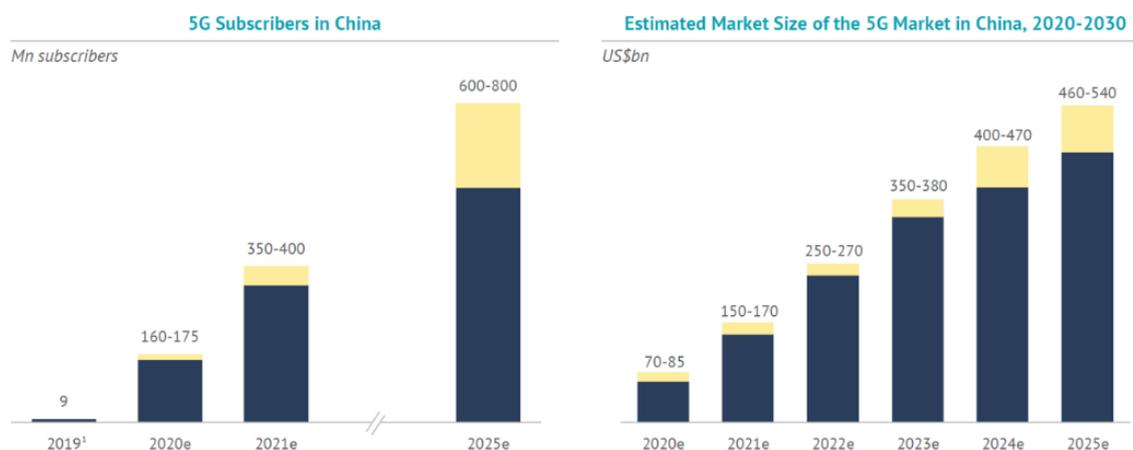


Figure 42: 5G subscribers and estimated market size in China (South China Morning Post Research, 2020)

3.2.2 Impact of COVID-19

Over the last months COVID-19 has spread all over the world, highlighting how vulnerable are our societies. China in particular has been the first country to face the pandemic, being on the frontline both of post-COVID-19 economic recovery and of societal changes occurred during this troubled period. As China is emerging from the crisis, several important shifts in its digital ecosystem have become more visible. In particular, the pandemic and the related lockdown have accelerated the digitization phenomenon that was already happening (Leung, et al., 2020).

The pandemic has significantly shifted media consumption behaviors across China, driving high internet and app usage. Pre-COVID, Chinese users spent an average of 5.6 hours per day on the internet. During the pandemic, this number increased to 7.2 hours. More importantly, the number of monthly active users for specific categories of apps has surged (*see Figure 43*). For example, work productivity platforms saw an increase of 308 million users (+242%) and short-form video applications grew by 123 million (+16%).

In addition, educational apps have played a crucial role increasing their number of active users by 79 million. This data is even more relevant if we consider that is larger than the entire student population in the United States, which counts 76 million scholars. In China more than 50 million students across 30 provinces attended virtual classes on DingTalk, allowing this leading messaging app to become the most downloaded in the country (*see Figure 54*). In this scenario China has also experimented new formats of instruction, exploiting the power of social media. For example, some prestigious schools as the *Tsinghua University* have offered online courses on the short video platform Douyin during the lockdown (South China Morning Post Research, 2020).

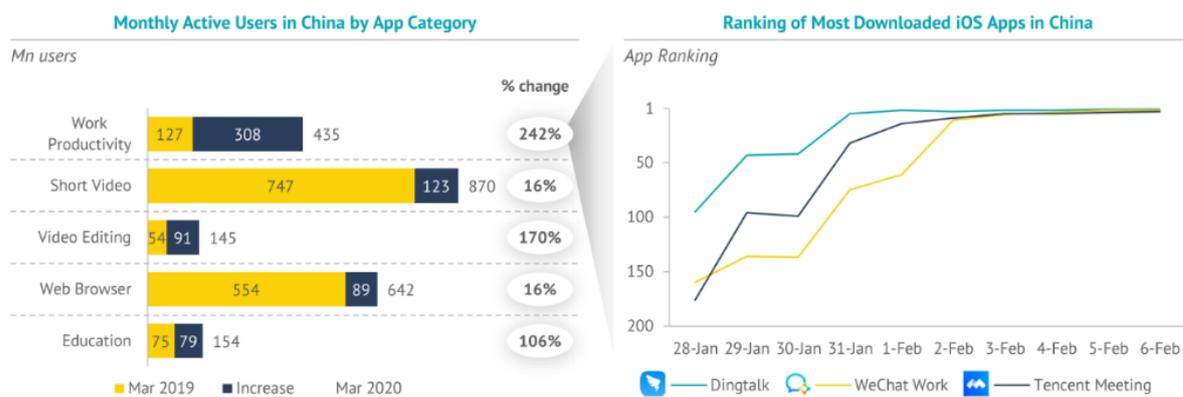


Figure 43: Monthly active users by app category and ranking of most downloaded iOS apps in China (South China Morning Post Research, 2020)

Several pioneering technologies have also played an important role in containing the virus, resulting in increased investments and application developments in this area. For example, Artificial Intelligence (AI) has been widely exploited to analyze computerized axial tomography scans used by hospitals to diagnose patients suspected of having the virus. Usually it takes a doctor 5 to 15 minutes to perform this task, while AI complete the recognition process in less than 20 seconds (South China Morning Post Research, 2020).

In this scenario the rapid response of the ecosystem was enabled by the big digital giants that have facilitated the development of such innovative solutions. Alibaba, Tencent, and Baidu, along with other companies inside their networks, were able to release specific COVID-19 offerings and interfaces in record time. For example, Alibaba launched free online health consultations, provided free insurance coverage for forefront medical staff, delivered remote-learning courses, and organized career events for unemployed and new graduates.

The digital ecosystem has also mitigated the economic damage by making it easier for offline and B2B companies to move online. E-commerce and social media platforms helped brick-and-mortar businesses to sell their products, solve supply chain bottlenecks, and redeploy hundreds of thousands of workers. An interesting example is the one of *Forest Cabin Cosmetics*. At the beginning of the pandemic the company had to close half of its 337 stores in China, seeing its revenues drop by 90%. After this initial crisis, its beauty consultants became true online influencers using their DingTalk and WeChat social media profiles to attract customers. *Forest Cabin* also launched streaming sales events through Alibaba's Taobao platform, one of which was followed by 60.000 people. The success of these strategies has allowed business revenues to increase by 120% compared to the same period last year (Chan, et al., 2020).

This omnichannel approach was largely used by companies even before the pandemic. The lockdown has simply accelerated this trend, forcing less developed companies to adopt advanced technologies and social media. The conversion to online sales channels has also constrained companies to increase their efforts in developing digital customer engagement strategies. In particular the attention of managers has shifted towards social commerce, live-streaming events, and mobile gaming. All these opportunities represent the new frontier where to win the engagement competition.

On the basis of the above mentioned digital macro trends the next sections decompose the Chinese Digital Ecosystem in its two most important areas: e-commerce and social media. These two areas and the related platforms are particularly relevant to engage Chinese customers and create successful digital marketing campaigns.

3.3 E-commerce

China is by far the biggest e-commerce market globally (see Figure 44). In 2019 e-commerce sales in the country reached \$826.6 billion, accounting for 45% of the total transactions in the world. In the next five years China is expected to grow by around 80%, compared with only 55% and 53%, respectively of Europe and United States. Markets outside these two countries seems to grow at a similar rate but will have still an enormous gap (Buchholz, 2020).

E-commerce is so popular in China because it is significantly easier for a lot of Chinese people to shop online rather than offline. For example consumers who live in small, third-tier cities use e-commerce to buy products unavailable in their towns. They can also escape crowded malls, receiving their products much faster than in the West due to an incredibly advanced and extensive delivery infrastructure. Another reason behind this phenomenon is that Chinese consumers pay particular attention to price comparisons and e-commerce easily allows this task.

The main B2C companies operating in this field are Tmall, JD.com, and Pinduoduo, accounting for nearly 85% of the total online retail sales in the country. Particularly important for the purpose of this analysis is also Little Red Book, a platform with a strong Luxury focus and an interesting growth in recent years.

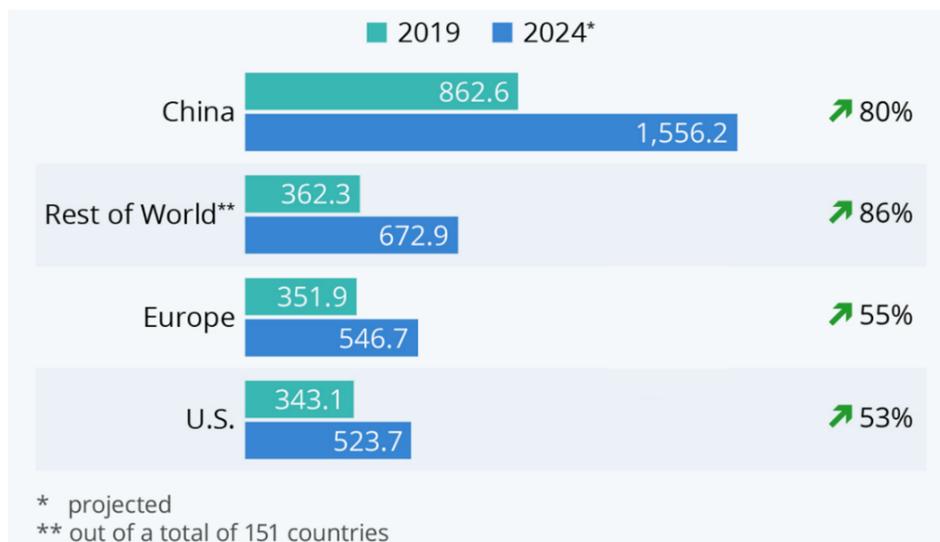


Figure 44: Projected increase in e-commerce sales in different countries between 2019 and 2024 (www.statista.com)

3.3.1 Tmall

Tmall is the leading Chinese e-commerce service, launched in 2008 by Alibaba Group. It is a multi-category platform that hosts many international brands and sells to customers in Mainland China, Hong Kong, Macau, and Taiwan. It is China's most visited B2C retail website with more than 700 million active users and around the 64% of the market share (Wu, 2020).



Figure 45: Tmall's official logo (www.tmall.com)

Unlike its rivals, Tmall is organized in several different segments, offering unique opportunities for brand-building, merchandising, and customer traffic:

Tmall Classic is the normal version of the platform and can be joined from brands that already sell their products in China or at least are present through a physical retail space in the country. Once the e-store is set up, brands are responsible for its operation, from design and visuals to customer care. One of the advantages of this platform is that it uses an algorithm to personalize customers' pages based on their previous shopping choices, while also comparing promotions and calculating the best discount prices. The strict requirements to be on this site guarantee the reliability of the platform and represent one of the reasons behind its success.

Another segment is *Tmall Global*, a cross-border marketplace that debuted in 2014. The platform allows brands to sell across borders without having to go through China's strict product registrations. This feature is useful for brands that do not meet China's testing criteria, as in the cosmetics sector, where companies are required to test on animals. For example *Fenty Beauty*, brand launched in 2017 by Rihanna, have used Tmall to overcome these barriers avoiding animal testing and other controversial regulations. Tmall Global can also be used as a testing ground for brands to understand how products might be received. It allows to see how the Chinese market works and to better understand the existing competition. Afterward, brands often switch to offline stores or to Tmall classic.

The last segment of Tmall is *Luxury Pavilion*, launched by Alibaba in 2017. It is an invite-only service that has partnered with more than 180 Luxury brands as Chanel, Valentino, Bottega Veneta, Burberry, and Giorgio Armani (see Figure 46). In 2019 when Richemont’s e-commerce platform Net-a-Porter joined Tmall, it also added brands like Balmain, Jimmy Choo, Chloé, and Montblanc to the website. Recently Alibaba has associated a new service called *Luxury Soho* to its Pavilion offering. This segment is focused on out-of-season items, underlining the commitment of the group to maximize the lifecycle of products on its platform. In particular this initiative targets newer Luxury customers from China’s lower-tier cities and Gen Z shoppers, with a lower willingness to pay but equally interested in this type of items (Williams, 2020).

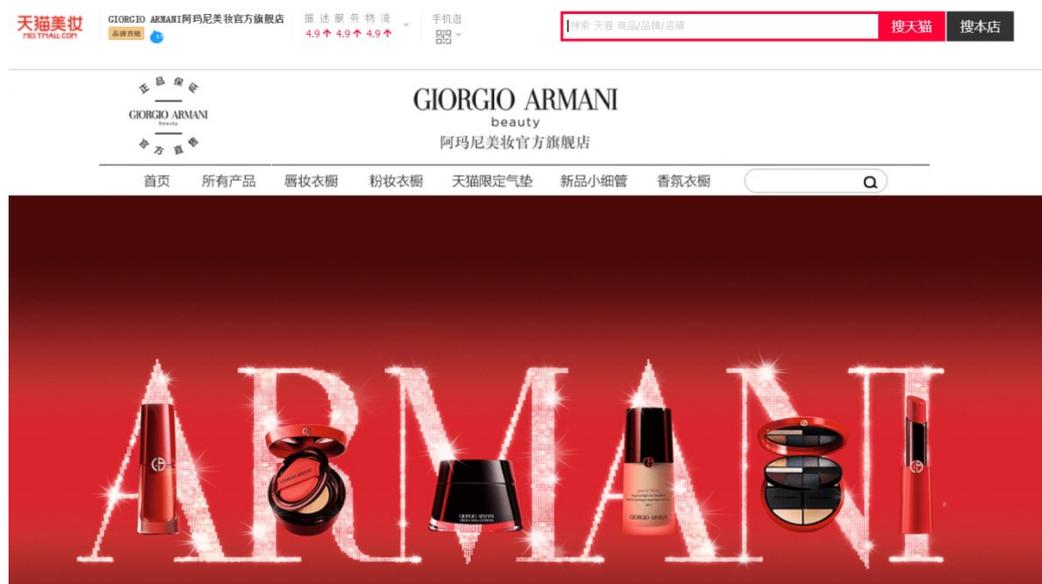


Figure 46: Giorgio Armani's e-store on Tmall (www.ecommerchinaagency.com)

3.3.2 JD.com

JD.com, also known as *Jingdong* and formerly called *360buy* is a Chinese e-commerce platform headquartered in Beijing and partly owned by Tencent, which has a 20% stake in the company. After Tmall, it is the second B2C online retailer in China by transaction volume and revenue. It has 362 million active users and about 25% of the market share (Wu, 2020). It started as an online magneto-optical store but soon diversified, becoming the world's leading company in consumer electronics, mobile phones, and computers



Figure 47: JD official logo (www.jd.com)

The main competitive advantage of JD.com is its high tech delivery infrastructure which allows an extremely fast service even in rural areas. The company in fact possess the largest drone delivery fleet in the world as well as an efficient system of autonomous trucks and robots. Another strength of JD.com is represented by its wide network of industry partnerships. Over the past several years the company has signed collaborations with international players such as Intel for smart retailing platforms, Rakuten for unmanned delivery solutions, and Tencent for expanding e-commerce into social channels like WeChat. These partnerships have allowed the website to increase its market share in both the home market and abroad (Chin, 2019).

Despite Luxury products are not the main business of JD.com, the platform has also stipulated some important agreements to increase its presence in this area. In 2017 for example the Chinese e-commerce has acquired a \$397 million stake in British Luxury shopping website Farfetch. This partnership leverages JD's logistics and social media know-how alongside Farfetch's global influence as a leading Luxury e-tailer (Rapp, 2017). Another move in this direction was made in 2017 launching *Toplife*, a new Luxury online platform similar to Tmall's Pavillion. In 2019 this website was sold for \$50 million to Farfetch, consolidating the partnership with the British company (Pan, 2019). In 2019 JD also opened its first Luxury experience center in Beijing. This center provides a range of services from leather goods cleaning, jewelry and watches repairing, tailoring and second-hand Luxury goods reselling. Customers can use JD.com's app to book an appointment before going to the store. The plan of the company is to open a large number of these experience centers in China, strengthening its position in the Luxury market (Pan, 2019).

3.3.3 Pinduoduo

Pinduoduo was founded in 2015 by Colin Huang in Shanghai and is the largest interactive e-commerce platform in China and in the world. In July 2018, the company was also listed on Nasdaq aiming to become a global and institutional technology platform. It is the second-largest online marketplace in the country by number of users and number of orders, challenging JD.com and Tmall. As of June 2020, Pinduoduo last-twelve-month Gross Merchandise Value was \$179.6 billion, connecting 683.2 million annual active buyers and more than 5.1 million merchants (Pinduoduo Inc., 2020).



Figure 48: Pinduoduo official logo (en.pinduoduo.com)

Pinduoduo has pioneered several new trends including social e-commerce, group purchase and *consumer-to-manufacturer* (C2M), revolutionizing online shopping in China. The success of the company has been its “*social shopping*” model that encourages users to share links to items they purchase with friends and participate in group buying. When a user selects a product on the platform, other people can choose to join in group buying. The more people participate, the lower the price of the item is. This encourages buyers to share links to the item they are buying with friends and family on social media. There is also an option to purchase items directly but the price in this case will be higher than buying it in group.

Pinduoduo is especially active in lower-tier cities and is also the biggest online marketplace in China for agricultural products. Currently 100% of its revenue derives from online services as commissions taken from sales and advertising. Despite this incredible success, Tmall and JD.com are trying to replicate Pinduoduo’s competitive advantages, launching similar services and challenging its leading position in group buying and C2M services (Kharpal, 2020).

3.3.4 Little Red Book

Little Red Book, also known as Xiaohongshu, is a social e-commerce app based in Shanghai. It was launched by Miranda Qu & Charlwin Mao in June 2013 and in the last years has grown at an impressive rate. This platform passed from 15 million users in 2015 to over 300 in 2019, with 70% of them born after 1990s (Ma, 2020).



Figure 49: Little Red Book official logo (www.xiaohongshu.com)

In particular, Little Red Book's target are young urban women between 18 and 35 year old with high purchasing power (about the 90% of users). This platform is aware of new trends and allows them to discover new products, share opinions and exchange ideas and tips. The app in fact is structured to post and share product reviews, travel blogs, and lifestyle stories via streaming videos or photos.

The secrets behind its success are an extensive use of the word-of-mouth effect, fostered by Key Opinion Leaders (KOLs), and a reliable Brand image of quality and authentic products. The platform does not require a registration and everyone can comment and view online posts, creating great engagement with the published content. This system heavily relies on mutual comparison, information sharing, and trust of product recommendations. The app is supported by both Tencent and Alibaba and allows payment through WeChat Pay and Alipay for in-app purchases. These characteristics has attracted in particular cosmetics, beauty, and Luxury brands that have become the main focus of the e-commerce platform.

Little Red Book has also expanded its experience to offline areas. Since 2018, it has opened some offline stores, called *Redhome*, in China's major cities. The aim was to deeply engage customers and take their brand experience to a next level. Offline stores have become new touch points for the company and its partners to promote their brand values (Kang, 2019).

3.4 Social Media

In 2019, there were around 882 million social media users in China and this number is expected to grow to 1.1 billion in 2025. Although Western platforms have been blocked in the country, local social websites have been attracting millions of users making China the biggest social media market in the world (Thomala, 2020).

Social networks play a crucial role especially among younger generations. These social media not only act as communications tools, but also as main news channels, sources of entertainment, shopping advisors, dating sites, and e-payments. On average each day Chinese people spend about 3hrs 10mins online on a mobile device and 2hrs 12mins using social media. In addition, the 76% of Chinese internet users affirm to post online frequently, compared to just 41% in the US (Duncan, et al., 2020).

WeChat is the most commonly used social media in the country, exploited for anything from texting and calling to photo and video sharing, financial services, game-playing, shopping, and ride sharing. However, the Chinese social media universe is quite diversified and dynamic. Microblogging site Sina Weibo, video sharing app Youku Tudou, short-form video applications Douyin (commonly known as TikTok) and Kuaishou are only some of the many platforms active in China. Despite these social media have not yet reached the same number of active users as their Western counterparts, they are rapidly growing and challenging the global leadership of Facebook, YouTube, and WhatsApp (see Figure 50).

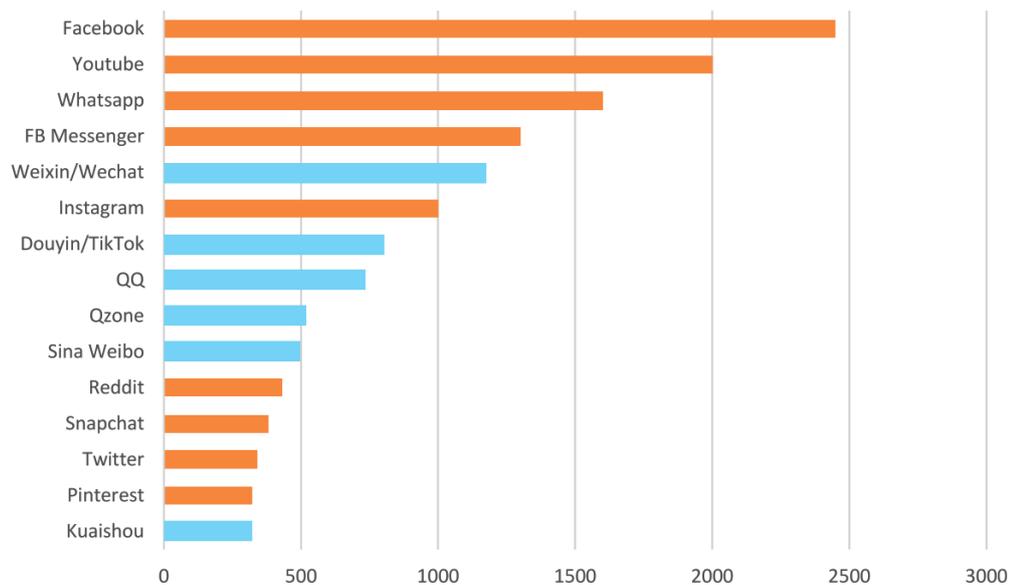


Figure 50: Most popular social networks worldwide ranked by millions of active users, in blue the Chinese ones (Fondazione Italia Cina, 2020)

3.4.1 WeChat

WeChat is a Chinese multi-purpose messaging, social media and mobile payment app launched in 2011 by Tencent. It is the most used application in the country, with 1.165 billion monthly active users, 45 billion messages sent every day, and 1.1 billion daily payment transactions on the app. Furthermore, users spend on average 66 minutes on this app every day bringing WeChat to be responsible for 34% of mobile traffic in China (Duncan, et al., 2020). This platform has been described as China's "*all-in-one super app*" because of its wide range of functions and features. In addition to the classic services of messaging and media sharing, this platform allows to pay utility bills, book airline tickets or reserve a table at the restaurant.



Figure 51: WeChat official logo (www.wechat.com)

Much of the immense success of WeChat can be attributed to the simplicity and effectiveness of QR codes. These codes provide a very low cost and low tech way to link the digital world to things, people, and places in the real world. In China QR codes are used to connect with other accounts, participate in group chats or open specific web pages as articles or even e-commerce platforms. QR codes are also used to make payments through *WeChat Pay*, allowing people to purchase via mobile. This service is the second most used digital payment system after *Alipay*. WeChat is also an incredible useful tool for companies. Brands in fact can create official and verified accounts, increasing their followers, and converting them into potential customers. These accounts also open the possibility for companies to cooperate with Key Opinion Leaders (KOLs), creating sponsored content.

Among the most interesting services of WeChat there are the so called *Mini Programs*. These programs are mini applications that offer additional functionalities to users, including for example games, transportation services, food ordering, or e-commerce programs. They are accessible from a panel located in a strategic position and represent an interesting opportunity to increase user engagement (see Figure 52). Due to their characteristics WeChat mini programs have been largely used to develop entertainment and gamified solutions.

For example, the first ever mini program was Tencent’s “*Jump Jump*”, launched in 2017. It was a game in which players had to tap and hold a chess piece to make it jump between colored blocks. This simple application immediately went viral with more than 100 million daily active users in just a month. According to *Questmobile*, Chinese business intelligence provider, 42% of mini programs with more than 5 million daily users are games (Wu, 2019). As mentioned before mini programs also integrates e-commerce stores. Brands can therefore push content and sell their product on the same platform. The two most important services are *Weidian* and *Youzan* that are becoming increasingly used in the online shopping scenario. Thanks to their attractive functions, mini applications faced a significant growth in recent years reaching 746 million active users in 2019, with an increase of 52% compared to the previous year (Duncan, et al., 2020). In the same year WeChat users spent \$115 billion through mini programs, convincing Tencent to focus even more on these services. In 2020 the company in fact announced the intention to add new services as the possibility for brands to sell their products through live-streaming events (Borak, 2020).

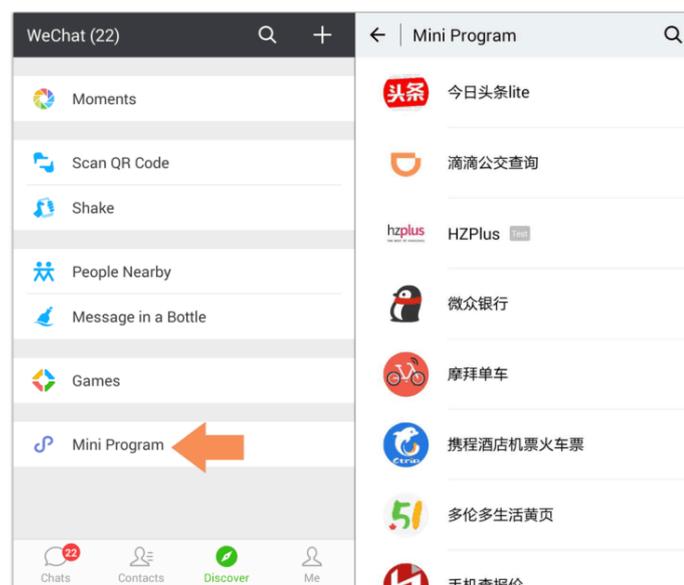


Figure 52: WeChat panel to access mini programs (www.marketingtochina.com)

Mini programs are central in the WeChat ecosystem in terms of turning traffic into real sales. In the Luxury world, they have already been used by Western giants such as Dior, Louis Vuitton, Fendi, Longchamp, Burberry, or Gucci to offer gift cards, sell personalized products, deliver promotions, and provide customer service. They are becoming an essential touchpoint for brands to connect with customers by offering tailored features. This applications open for example new integrated engagements and sales possibilities like the discovery of online pop-up stores, the digitization of offline stores, and online-to-offline (O2O) campaigns.

3.4.2 Sina Weibo

Sina Weibo is a Chinese microblogging website launched by Sina Corporation in 2009. It is one of the most used social media in China with 520 million monthly active users in 2020. With the 31% of shares, Alibaba partially owned a stake in the company.



Figure 53: Weibo official logo (www.weibo.com)

Weibo literally means “micro blog” and can be considered as the Chinese counterpart of Twitter. On one hand it allows traditional social activities such as the sharing of posts, photos, videos, external links, files, and instant messaging. On the other hand it also enables the following of certain topics via hashtag, the creation of surveys, the search for information and advices, gaming activities and promotional services.

The possibility of following brands and KOLs without having to register on the platform is also fundamental. The great popularity of Weibo in fact derives from its versatility and accessibility that allows companies to communicate quickly with many followers at the same time. Thanks to its characteristics Weibo has a strong ability to reach the general public and, compared to WeChat, facilitates "one to many" rather than "one to one" communication (Fondazione Italia Cina, 2020).

One of the first Luxury brands to exploit Weibo to engage customers was Fendi. In 2013, the Italian Brand launched an interactive campaign called “*Fendi Play with Colors*”, promoting their handbag collection “*Crayons*.” Fendi asked Weibo users to vote for their favorite color in the collection via the brand’s official profile and share their votes with friends. This strategy was a success, with an increase of 7,301 followers (+255%) in just three weeks (Gentlemen Marketing Agency, 2018)

In April 2020, Weibo has also expanded into social commerce, launching Weibo Stores. This functionality allows individuals and brands to promote products in their posts and then customers can complete the purchase directly within the platform (Pambianco News, 2020).

3.4.3 Douyin (TikTok)

Douyin, also known in the West as TikTok, is a Chinese video-sharing social network owned by ByteDance, an internet technology company founded in 2012 and headquartered in Beijing. This platform is the second most used social media in China, after WeChat, reaching 475 million active users in 2020 thanks to an exponential growth in recent years (see Figure 55).



Figure 54: Douyin official logo (www.douyin.com)

This application attracts in particular young Chinese people (80% of users are under 35 years) and is becoming a useful tool for digital marketing. The platform in fact allows companies to exploit KOLs, creating short videos and increasing awareness and visibility. In the official Douyin accounts is also possible to insert some links to external websites as Tmall or JD.com, encouraging online shopping (Fondazione Italia Cina, 2020). Despite this service has been appreciated from customers, recently Douyin has announced that it will gradually cut ties with this third-party platforms, to create a larger selling space for its own shop (Fu, 2020).

The user volume and particular demographic composition has attracted numerous Luxury brands that has created official accounts on the platform. Dior, Chanel, and Louis Vuitton have been among the first to join Douyin. In the first months of 2020 also Gucci announced its launch on the short video app platform (Williams, 2020).

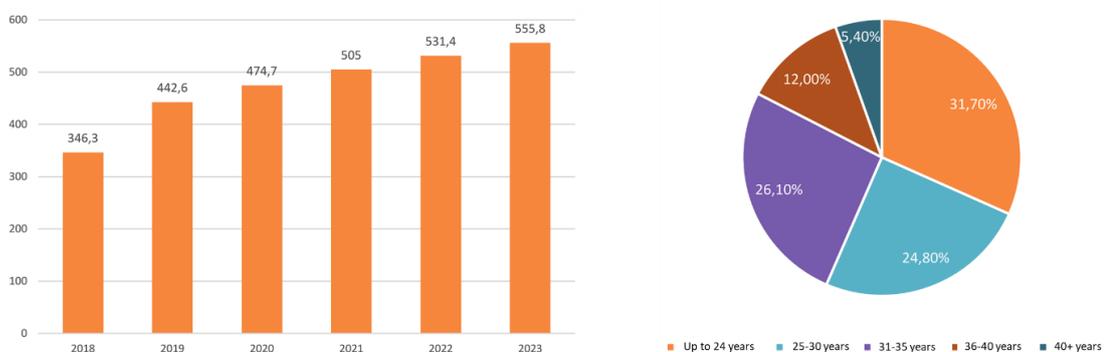


Figure 55: Douyin active users in China from 2018 to 2023 and age distribution (Fondazione Italia Cina, 2020)

3.5 Chinese Consumers

Chinese consumers represent one of the biggest opportunities for companies in the world. As mentioned before Chinese people are relatively young, use frequently digital technologies, and are becoming more and more savvy. Even before the pandemic the digital ecosystem influenced every aspect of their lives and customer behaviors have adapted consequently. Their shopping experiences are also completely different from the Western ones and include a multitude of digital touchpoints. E-commerce provides a richer alternative to the traditional shopping, that still remain important in customer choices. Customers like to spend time in a discovery-driven online path where shopping is an adventure. E-commerce players have optimized their platforms for Customer Engagement, merging entertainment and e-commerce as well as online and offline experiences. Shopping is also becoming a social event, instead of a solitary one. The following sections highlight the characteristics of the Chinese customer journey and provide a framework to point out where the opportunities to create engagement strategies are. In addition, an analysis of Millennials and Generation Z behaviors provide additional information to better understand new emerging consumer classes.

3.5.1 Chinese Customer Journey

E-commerce in China is widely adopted and is central in the purchasing decisions of customers. Despite the increasing importance of this channel, traditional stores still play a central role. To survive the recent evolution of the retail market they have started to integrate the use of internet and advanced technologies. Physical stores are no longer just places for the sale of goods, but combine artistic, cultural, social and entertainment elements. In addition, Online-to-offline (O2O) tactics are improving the shopping experience of customers and are now considered an essential element of retail strategies (Fondazione Italia Cina, 2020).

According to McKinsey, customers continue to jump the boundaries between online and physical channels. For apparel, China's largest e-commerce category, 2019 data confirm that 85% of shoppers engage with both online and offline touchpoints, rising from 80% in 2017. People who rely purely on online sources during both the evaluation and the purchase phase represent only the 8%, while purely offline shoppers accounts for 7% (*see Figure 56*).

For these reasons sellers and brands in China use an integrated omnichannel retail model that capitalizes both the strengths of online and offline commerce, delivering an engaging customer experience. The main omnichannel strategies include buying products online and then picking up in the store, scanning QR codes to access online information, and personalized delivery

services that allow customers to try multiple products. In addition, in-store digitization technologies as Augmented and Virtual Reality are becoming increasingly popular in innovative retail initiatives (Bu, et al., 2019).

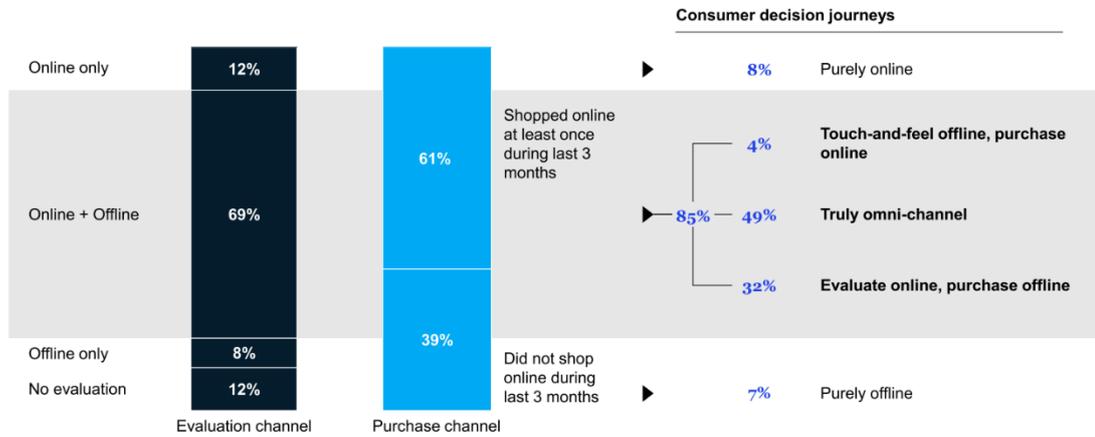


Figure 56: Omni-channel influence on purchasing decisions of apparel shoppers (Bu, et al., 2019)

In this scenario the Chinese customer journey is extremely more articulated than the Western one (see Figure 57). The Chinese market is characterized by a myriad of proposals and offers and the counterfeiting of products still remains a sensitive issue. In the pre-purchase phase Chinese people usually verify information from multiple sources and on different social networks. Instead of searching for specific items, Chinese customers explore online new products and new trends, getting inspiration for their purchases. One of the main reasons behind this behavior is the highly personalized and rapidly changing nature of the online shopping experience. This digital experience in fact not only enables product discovery but also helps customers make lifestyle choices.

Chinese shoppers discover new brands and products through different digital channels and content. For example, they may see an item they like on social media, in a music video, in an online fashion show, in a makeup tutorial, or on a news site. Social media as WeChat, Weibo, or Douyin serves as sources of inspiration and create Brand awareness. China's integrated digital ecosystem on one hand facilitates this content discovery process and on the other allows customers to immediately buy products they like through embedded purchase links. Consequently, it is not easy to distinguish the discovery phase from the real purchase. These instant "see now, buy now" opportunities take product placement and ease of purchasing to a next level.

In addition, the role of family, friends, Key Opinion Leaders (KOLs), and Key Opinion Consumers (KOCs) is particularly important in the typical customer journey. Shared reviews, opinions, and feedbacks in fact are increasingly decisive in the purchase decision, as highlighted by the explosion of the social commerce phenomenon. Perfect example of this new paradigm is the previously cited social e-commerce platform *Little Red Book*. This site allows customers to buy products suggested from other users directly on the integrated e-store (Biggs, 2017).

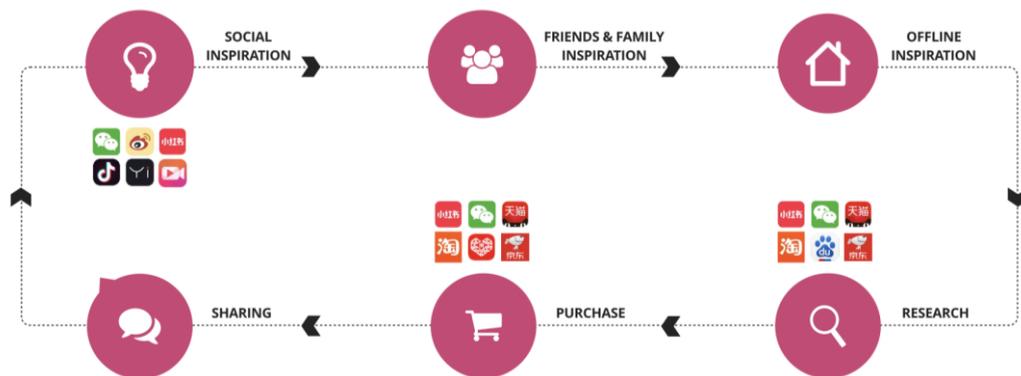


Figure 57: Chinese Customer Journey (www.jingdaily.com)

3.5.2 Chinese Millennials and Generation Z

McKinsey identified *Young Free Spenders* as one of the most important categories of customers in 2020 due to their role in keeping Chinese spending increasing. These customers are young digital natives who reside predominantly in tier 2, 3 or 4 cities, where living costs are lower. Thanks to their disposable income, they are optimistic about their futures and are more willing to spend their money, whether on a new tech device, an overseas travel, or Luxury goods. They have also a lot of free time, allowing them to eat out, follow the latest trends, and buy products that can enhance their lifestyle and social status. Young Free Spenders generally prefer expensive and quality products with respect of cheaper ones and they are not particularly concerned with saving for the future. These types of habits afford them considerable spending power. Despite these segments represent only a smaller part of the population, it was responsible for nearly 60% of total spending growth between 2017 and 2018 (Ho, et al., 2019).

These *Young Free Spenders* are largely composed by Millennials and Gen Z consumers and constitute an incredible opportunity for companies in China.

Chinese Millennials

Chinese Millennials, those born between 1981 and 1996, are about 350 million and account for the 25% of China's population. This generation have become the dominant force and the most influential consumer segment in the market. According to BCG, consumption by Millennials is growing at an annual rate of 11%, twice than that of older consumers. The share of total consumption by this young generation is projected to reach 69% by 2021 (*see figure 58*).

Political stability, rapid economic growth and increasing global connectivity have positively affected Chinese Millennials behaviors. The differences between them and their parents are also much stronger than those in the West due to China's radical transformation over the past 40 years. In addition, because of the “*one-child policy*”, most of the Millennials are the only child in their families. This situation has put them at the center of parents' attention, securing them an adequate financial support. Consequently, their spending attitude is much more generous than their older generation.

Chinese Millennials are also more educated and globally-aware than their parents. 25% of them hold a bachelor's degree or higher, compared to only 3% for their parents' generation. They are also tech-savvy and almost all of them use frequently e-commerce services as well as social media. This consumer class is also more willing to spend on premium products and services that could enhance a personal sense of well-being, as healthy foods, education, and travel. As basic needs are met, Chinese millennials demands for unique products which give them a sense of superiority. This products include Luxury brands, limited edition versions and customized items (Fung Business Intelligence, 2017).

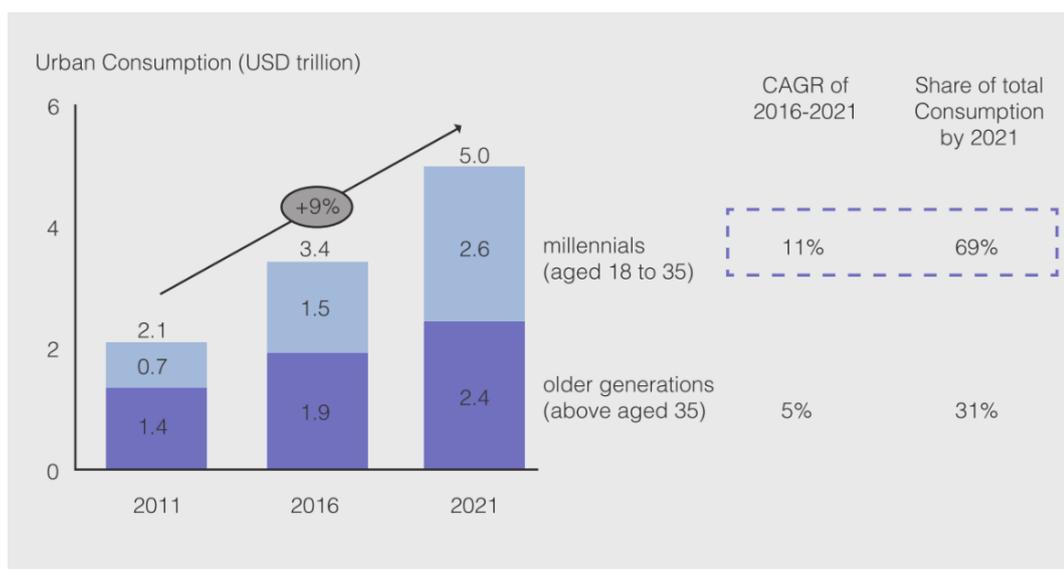


Figure 58: Chinese Millennials urban consumption compared to older generations (Fung Business Intelligence)

Millennials also value fun more than older generations, making this a key growth area for China consumption. In particular gaming plays a crucial role for this generation. Most Millennials in fact grew up socially isolated, without siblings, and often with few friends in the cities they live. In this context, the virtual universe associated to online gaming has become a key area for them to socialize and refuge from the real world (Goldman Sachs, 2015).

Chinese Generation Z

Although the definitive years are still to be agreed, it is generally accepted that Generation Z include those born between 1996 and 2010. They include nearly 170 million of people and have the potential to contribute in a decisive way to the Chinese economy in the next years. This generation is generally labelled as the “*stay-at-home generation*”. The rise of streaming platforms, online gaming communities and instant communication channels have affected their behaviors, inducing them to socialize less outside and more inside. Despite they spend more time at home, they represent a large share of total Chinese consumption. This group in fact already spends about 4 trillion RMB per year (about \$600 billion), accounting for 13% of the total household spending in China. This data is even more important if we consider that US Generation Z contribute only to 3% of total household spending (see Figure 59).

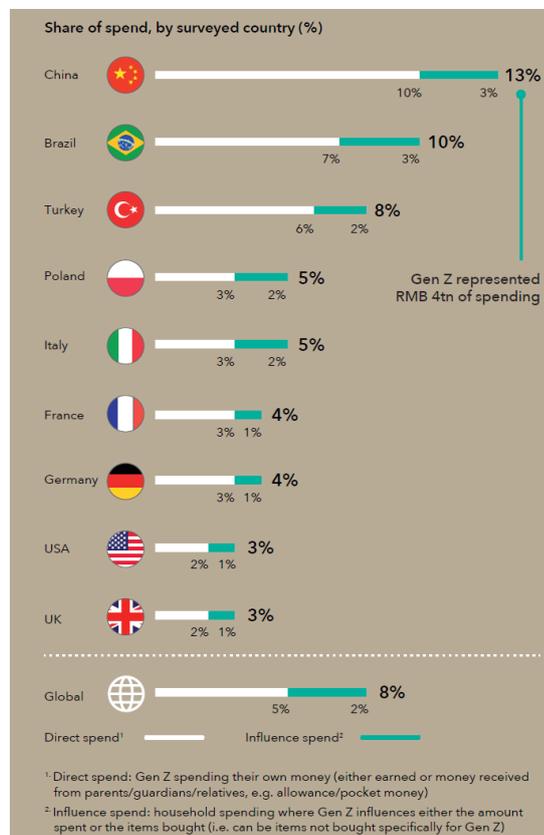


Figure 59: Generation Z share of household spending in select countries (OC&C Strategy Consultants, 2019)

Gen Zers have also different spending attitudes and behaviors than their global peers. They have a more optimistic attitude in future prospects and stronger family dependency, influencing their willingness to save. Overall, about only 76% of them are currently saving compared to 85% of Gen Zers across the world.

People belonging to this generation on one hand are particularly subject to the influence of friends and KOLs while on the other are eager to stand out from others. These two opposite forces are driven by the influence of social media. Platforms as Weibo, WeChat and Youku and more recently Douyin, Kuaishou and Bilibili, are playing a crucial role in their lives. It is no surprise that Generation Z are prolific social networks users and exploit these media to build influence, make money, discover brands, and collect new ideas. Compared to Millennials they do not just use online platforms; they literally live online. In addition, mobile and social media channels contribute more to their purchase decisions compared to older generations.

Just as Millennials do, also Gen Zers places great emphasis on product quality and uniqueness. Gen Zers continue also to show signs of being enthusiastic online researchers, with reduced use of offline channels. Differently from older generations, that still continue to use traditional websites and search engines, they are much more likely to exploit directly mobile channels to research and price-check products. Another characteristic of this age group is that they prefer to spend their money on experiences rather than products. Over 11% of Gen Zers strongly agree to prefer experiences, compared to only 6% of older generations.

Finally, Gen Zers seem to be more engaged than Millennials in social issues, with family and human rights in their priorities. Also environmental problems are important for them and in particular the reduction of single-use plastic. However, this engagement does not seem to reflect their purchasing decision, especially when they place great emphasis on style. Compared to older generations, they show a lower tendency to buy long-lasting items and products that can be used repeatedly (OC&C Strategy Consultants, 2019).

3.6 Customer Engagement Trends in China

The unique scenario depicted in the previous sections has forced companies to adapt their Customer Engagement strategies to the digital ecosystem. These new technologies have proved to be effective in China among customers of all ages but particularly among Millennials and Generation Z. As mentioned before, these young customers represent the greatest opportunities in China and companies pay special attention to them. To engage these emerging young Chinese, managers are leveraging omnichannel approaches, investing resources and efforts to be more visible on social media and e-commerce platforms. In particular, given the high adoption of mobile technologies, marketing strategies are usually tailored to be effective on smartphones and similar devices. To be convincing in China is also important to involve Key Opinion Leaders (KOLs) as well as Key Opinion Consumers (KOCs). These last figures are becoming increasingly relevant thanks to the emergence of the social commerce phenomenon and the related platforms as *Little Red Book*. In addition, live-streaming has recently registered a significant growth becoming one of the most useful tools to attract and engage Chinese customers.

3.6.1 KOLs and KOCs

Key Opinion Leaders (KOLs) are trusted people who have expert product knowledge and influence in a respective field. They are usually popular among social media where they have a large following thanks to original and viral content. In China, this phenomenon is so widespread that in 2019 the KOLs industry was valued at 57 billion RMB (about 9 billion \$).

The reason why they are so important in this country is related to the lack of trust in the Chinese consumer market. In this context, word of mouth has become a critically influential mean to provide trustworthy information straight to the customer. It is estimated that 92% of Chinese customers believe in KOLs recommendations and rely on their judgment to evaluate the authenticity of a brand. These figures are also more relevant than official brand accounts due to their ability to connect and relate with their audience in a more intimate and authentic way. On average, KOLs content received 4 times the number of views and 8 times the engagement compared to a brand official account. In addition, strategies involving KOLs are particularly effective to engage Millennials and Generation Z shoppers. The 83% of young customers in fact affirm to be influenced by KOLs in their purchasing choices (Fondazione Italia Cina, 2020).

According to Forbes there are five types of Chinese KOLs (Escobedo, 2017):

1. *Celebrities*. This category includes famous actors, singers, and TV personalities.
2. *Wanghong* or “*web celebrities*”. This group include figures as Zhang Dayi and Papi Jiang, famous thanks to their social media content.
3. *Bloggers*. People who build a community around their skill or expertise and often write product reviews based on their personal experience.
4. *WeMedia*. Smaller media companies often run by former or current journalists.
5. *Industry-specific KOLs*. People specialized in a particular sector or niche like Wang Tao, a rally car driver and editor of AutoHome.

The most used way to cooperate with KOLs include social media campaigns, sponsored posts, product reviews, and paid media ads. More recently are emerging new opportunities as social selling and live-streaming. In the first case KOLs are paid by commissions related to the number of products sold through their social media profiles. In the second, KOLs interact directly with customers on live-streaming platforms where they can show sponsored goods and entertain connected users. The prestigious Italian Brand Tod's is a perfect example of the potential benefits deriving from this type of collaborations. In the last years, the company has signed numerous partnerships with the Chinese handbag guru *Mr. Bags*. In 2019 this KOL designed the Summer limited edition “*Unicorn D Styling*” that immediately went out of stock. Tod's sold 320 bags, gaining 4.77 million RMB (approximately \$696.000) in one day (Pan, 2019).

Recently, KOLs authenticity has been partially questioned and brands have started to focus their attentions on a new type of influencers: Key Opinion Consumers (KOCs). One of the reasons behind this new trend include the fact that KOLs have fallen out of favor with many young Chinese people, who are now informed about their profitable contracts with famous brands. Furthermore, the growing popularity of these stars has increased their payments, making them unattainable for many companies. Due to these reasons KOCs have become increasingly important and represent an interesting new opportunity to engage customers. KOCs are everyday normal people, whose credit is based on their reliable and trustworthy nature. Often, they only have a few hundred followers on their accounts, creating intimate circles where to share product reviews and suggestions. For Millennials and Generation Z this personable, friend-like approach have a powerful appeal and is affecting their purchasing decisions. The social e-commerce platform *Little Red Book* is proving itself to be the best place for this type of marketing model. This social media in fact promotes lesser-known accounts and its algorithm shows their content frequently in the main feed (Smith, 2019).

3.6.2 Live-streaming Commerce

Live-streaming is not a completely new trend in China and during the last years it has gone through an interesting evolution and expansion process. It first gained popularity in 2014 primarily around gaming, sports, and teen culture. It then became significantly exploited for commerce, mostly being used to sell fast-moving consumer goods like beauty products. For example Li Jiaqi, country's most important beauty KOL, has built his career thanks to this type of promotional events. During 2019 "Singles' Day", the largest annual shopping festival in China, Li was able to attract an audience of more than 36 million people in a live-stream on Taobao. This marketing strategy generated more than \$145 million in sales for Alibaba (Huang, 2020).

Today almost all the e-commerce platforms offer live-streaming services, including Taobao Live, JD Live, Pinduoduo, and Little Red Book. At the same time social media and short video apps as Douyin, Kuaishou, WeChat and Weibo have converged towards e-commerce thanks to this type of streaming events.

Pushed by COVID-19 and the related lockdown, live-streaming has been also adopted by traditional industries as a new and effective marketing channel. The pandemic has accelerated the importance of this phenomenon, turning it into a necessity for many of the merchants that saw their retail outlets closed as a result of the outbreak. In 2020 China's live-streaming users are expected to increase to 613 million, an increase of 29% with respect of the previous year. In addition, the market size will reach \$16.3 billion in value, growing by 54% compared to 2019 (see Figure 60).

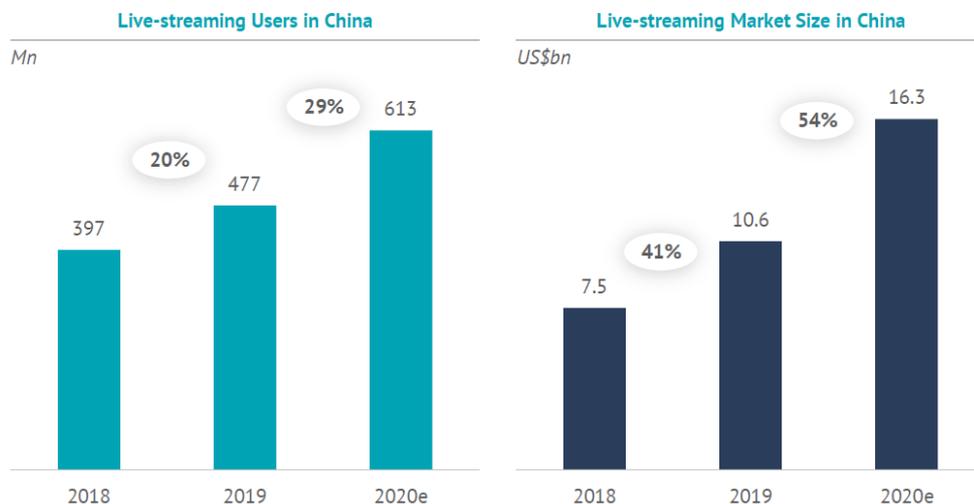


Figure 60: Live-streaming users and market size in China (South China Morning Post Research, 2020)

Traditional industries exploiting these types of event include among the others travel services, real estate, and automotive. For example, in April, Pinduoduo held a 7 hour live-streaming virtual tour showing an ancient town in Hunan Province with more than 350.000 people joining the event. In addition, Taobao Live has attracted over 5.000 estate agents and 23 global car brands, including BMW and Audi, hosting numerous live events on its platform (South China Morning Post Research, 2020). More and more tech executives and entrepreneurs are also becoming live-streaming stars themselves. *Gree Electric Appliances* chairwoman Dong Mingzhu, known as the “home appliances queen”, has been able to sell \$43.8 million of goods in a live-streaming performance on short video platform Kuaishou. During the three hours spent on-air, Dong launched an air purifier aimed at preventing the spread of COVID-19, attracting 16 million of viewers (Zhang, 2020).

Recently, also the Luxury industry has experimented this type of services to sell more products. In March, Louis Vuitton became the first international Luxury brand to host a live-streaming show on Little Red Book (*see Figure 61*). The one hour event was conducted by the fashion blogger Yvonne Ching and was split into two different sections. These two parts included a demonstration of the new Louis Vuitton outfit and an interview session with guest celebrity Zhong Chuxi. During the livestream, Ching reminded viewers where they could purchase new Louis Vuitton products, which were easily accessible through an embedded link. This event attracted more than 880.000 people and was appreciated for its candid approach to attract the younger audience. Thanks to this initiative Louis Vuitton gained over 152.000 pageviews and reached more than 164.000 followers on its Little Red Book account (Zheng, 2020).



Figure 61: Louis Vuitton’s live-streaming show on Little Red Book (www.jingdaily.com)

3.7 Gaming in China

According to Gartner, US leading research and advisory company, among the most interesting digital trends in China for 2020 there are not only the aforementioned live-streaming and KOCs but also Gaming and Esports (Flora, 2019). In the last years, the games market has become particularly relevant in the country, influencing the whole Chinese entertainment landscape. The COVID-19 restrictive measures have also increased revenues and players in all game segments, with mobile gaming seeing the largest rise.

As brands seek out new platforms for exposure in China, Gaming has become an important mean for marketing purposes. The main reasons why this market has attracted the attentions of many companies include the necessity to attract younger generations as well as the incredible capacity of games to engage people. Chinese Millennials and Generation Z customers are always asking for new and exciting experiences, and gaming is a way to deliver them. Moreover, for these generations, games have become not only a form of entertainment but also a part of their culture providing ways to communicate and socialize. According to Johnson Yeh, Regional Head of Greater China and Southeast Asia for Riot Games:

“Gaming is now no longer a sub-culture that the mainstream audience sees. We will start to see more and more people grow up around games, and even want to practice playing games in the hopes of becoming an Esports athlete one day. It is a new way of life, a new fashionable lifestyle and this trend will only continue to get stronger in 2019 and beyond” (South China Morning Post Research, 2019)

In addition, the Chinese digital scenario is the perfect support for Gamification Marketing strategies and offers a large variety of platforms where to create and promote this type of campaigns. Not to be underestimated is also the role of women, who represent a substantial and growing share of this market. This characteristic underlines how the Gaming phenomenon is rooted and widespread in the country, opening interesting opportunities for a multitude of companies.

The next sections explain why Gaming and E-sports are so important in China and why companies have started to care about them in their marketing strategies. In detail, an overview of these two markets and an analysis of the mobile games segment are provided. This paragraph is partly based on the interview with Thomas Rosenthal, General Manager Asia-Pacific at “505 games” (Digital Bros Group) and former Board Member at “Fondazione Italia Cina”, based in Hong Kong [see Appendix A].

3.7.1 Overview of the Chinese Games Market

China Games market is the largest in the world in terms of both revenues and gamers. Despite the dominant position, it is expected that US will undermine its leadership in the coming years. The main reasons behind this trend include China's nine-month licensing freeze on new games in 2018, as well as measures to reduce screen time among children (Wijman, 2019).

According to *Niko Partners*, consulting company specialized in games insights in Asia, the Chinese games market has reached \$33.1 billion revenues in 2019 and is expected to grow to \$46.7 billion by 2024. The Gaming phenomenon is widespread all over the country, representing a significant opportunity for a multitude of companies. Today in fact there are approximately 720 million gamers in China (51% of the total Chinese population), expected to rise to 772 million in 2024. These number are even more outstanding if we consider that the entire population of the United States is 328 million people. However, the Chinese gaming market is not homogeneous throughout the country due to cultural and behavioral differences from region to region. Gamers behaviors and spending for example vary greatly among different city tiers. In particular, only the 23.7% of gamers live in Tier 1 and 2 cities while 76.3% of gamers live in Tier 3, 4 and 5 cities. This distribution also reflects the division of revenues, with lower tier cities leading the market with 70% of total proceeds (see *Figure 62*).

Looking at demographics, this market is mostly dominated by younger generations with Millennials and Gen Z at the forefront. In particular, more than 97% of Chinese people aging 18-24, and more than 90% aging 25-35 affirm to be gamers. From this scenario it is clear how almost everyone under 35 play some sort of games and contribute to market revenues. These young people also spend a lot of time playing games, with a particular preference for the online ones. According to the report, 18% in fact play games more than 30 hours per week. (Niko Partners, 2020).



Figure 62: Chinese gamers overview (Niko Partners, 2020)

According to Rosenthal gaming in China has become so important that the Government is competing with video games providers to attract younger generations:

“One of the most interesting things that is happening in China is that the Government today compete to some degree successfully with video games providers to attract younger generations. Basically there is a competition between the screen time the new generation dedicate to video games and to the content delivered by the official mouthpieces of the Government” (Rosenthal, 2020).

On one side this has caused censorship of video games content and anti-addiction systems. These measures include content regulations, limit on the number of games approved each year, and restrictions in terms of time and money for players under the age of 18. On the other hand the regime is exploiting video games to send political messages to this very susceptible user base. In particular Game publishers are encouraged to create titles inspired by China’s core social values, promoting traditional culture, history, politics, and law. This underlines once again the importance of games in China as successful means to deliver messages. Despite younger generations represent the largest portion of gamers, also older generations have a certain importance in the dynamics of this market (*see Figure 63*). In 2019 people aged above 36 years accounted for 25% of gamers in China (Thomala, 2020). Also Rosenthal confirms this trend:

“In the past, gamers were typically very young males while today the age range is up to 40-45 years of age, even higher. Clearly this means that we are not talking about students which do not have their own earnings. We are talking about people who have their own work, play video games as a hobby and of course have spending power” (Rosenthal, 2020).

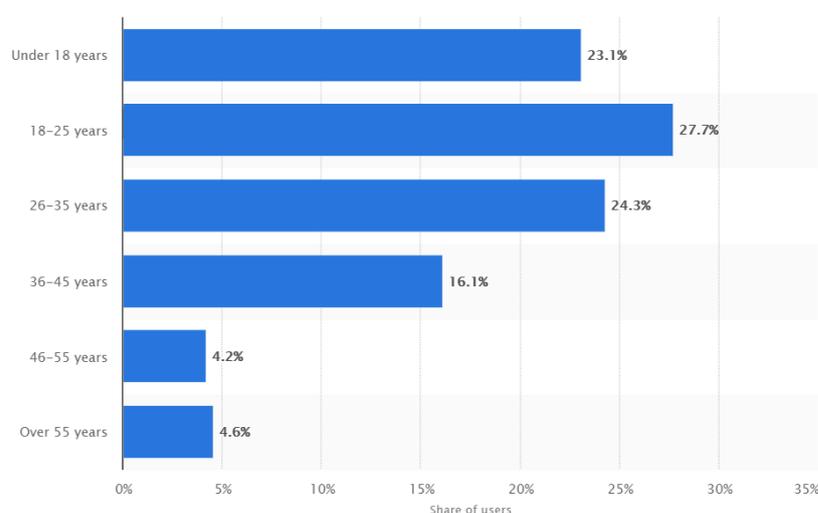


Figure 63: Age distribution of video gamers in China in 2019 (www.statista.com)

Differently from the West, women are particularly relevant and represent the 48% of gamers in China compared to only . Throughout Asia, the number of female gamers is also expected to grow by 14.8% in 2020, significantly outpacing the single-digit growth of male gamers projected to be 7.8%. Analyzing the total gaming spend in 2019, Chinese women accounted for \$11 billion revenues (33% of the total market revenues), of which \$6.6 billion on mobile games and \$4.4 billion on PC. The industry has recognized this increasing importance in terms of purchasing power and has been proactive in gender inclusivity across areas such as game design, storylines, and social media advertising. Similarly to males, female gamers dedicate a significant amount of time each week playing their favorite games. 60% of them in fact spend up to seven hours per week playing games and 20% spend up to 14 hours. Among the different genres, female gamers tend to prefer multiplayer online battle arena (MOBA), puzzle, and shooter games (Niko Partners, 2020).

Due to challenging regulations and cultural gaming preferences it is relatively hard for foreign companies to gain success in China. In this context, Tencent is the leading game publisher in the Chinese arena with 51.5% of market share in 2019 (see Figure 64). Other prominent developers include NetEase with 17.4% share, 37 Interactive Entertainment with 3.3%, and Perfect World with 1.9% (Thomala, 2020).

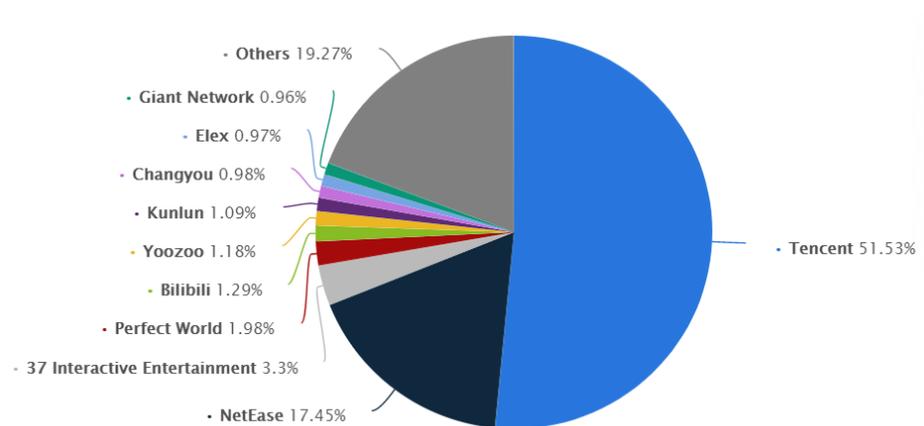


Figure 64: Market share of listed online gaming companies in China in 1st quarter 2019, based on revenue (www.statista.com)

These companies, and in particular Tencent, have developed games appreciated and known all over the world. According to Sensor Tower data the top grossing mobile games worldwide for August 2020 are Tencent's *PlayerUnknown's Battlegrounds* (PUBG) and *Honor of Kings* (see Figure 65). With respect of the previous year they have increased their revenues by 25.5%, gaining respectively \$225.2 million and \$156 million only in the month of August (Sensor Tower, 2020).

Tencent, which is already the world’s largest games company in revenue terms, has also acquired considerable shares in some of the most important Western video games publishers. For example it owns an 84% stake in Supercell (Finnish developer of famous mobile games as “Clash Royale” and “Clash of Clans”), and 40% of Epic Games (American developer of “Fortnite”, one of the most popular PC and console games in the world).

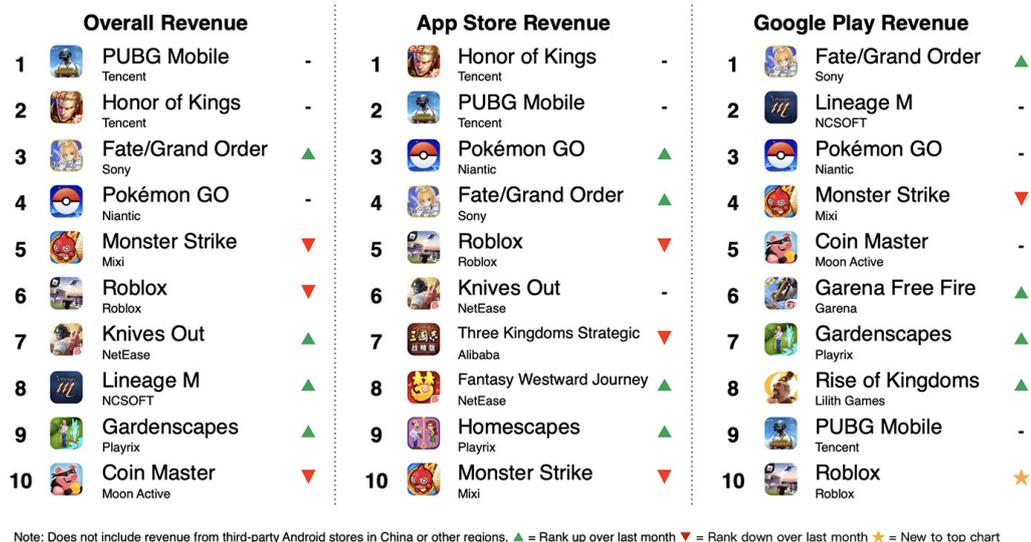


Figure 65: Top Mobile Games by Worldwide Revenue for August 2020 (www. sensortower.com)

The Games market has been able to respond quickly to the COVID-19 crisis and has been among the most active during the pandemic. Gaming has been one of the major beneficiaries of the stay-at-home measures issued during the lockdown, with millions of people working from home, turning to online consumption, and demanding online entertainment. All games segments saw an increase in revenues as a result of social distancing, with mobile gaming having the biggest increase. According to the China Audio-Video and Digital Publishing Association (CAVCA), in the first half of 2020 games sales in China hit \$19.9 billion, 22.3% higher than the same period last year. Chinese-publishers’ games continued to dominate the market, accounting for about 86% of total game sales while mobile games were the most popular segment with 75% of total sales (Ye, 2020). Rosenthal underlines as the gaming industry in general has been a privileged one and has not been hit as hard as others. For example, 505 Games (Digital Bros Group) was not particularly affected thanks to their focus on the digital side:

“Like many other companies we were influenced because Coronavirus affected all the territories where we operate: Europe, America, and Asia. But our broader industry was not hit hard. In particular we have not been particularly affected because we have focused most of our

attention in the last couple of years on expanding the digital side. What we notice is that end users find the e-commerce way to buy video games” (Rosenthal, 2020).

What happened accelerates the existing trend of industry digitization, pushing it to a further step. Despite the changes in people’s lives, there has not been a real structural shift because this was already happening. The only problems have been caused by small third-party studios:

“Some issues we run into are related with the fact that we mostly rely on third-party studios. Some of these studios, for example, were not as equipped as others to deal with smart working, creating some delays” (Rosenthal, 2020).

One of the most interesting trend in 2020 for this market is also Cloud Gaming. Similarly to Netflix services, this new technology allows to play games directly streamed over the internet rather than from a device’s internal memory or a removable disc. According to research firm CNG, this market will quadruple in size by 2022 thanks to the rapid adoption of 5G technology nationwide. Cloud gaming market in fact is projected to worth \$141 million in 2020 and at least \$564 million by 2022. Despite the expected rapid growth in the next years, the industry will have to overcome technical and policy barriers before achieving its full potential. Some of the Chinese tech giants are already investing to develop their own cloud gaming services. Tencent has already adapted many of its games for the cloud and recently has launched an innovative advertising format enabling gamers to play its new *Street Fighter* title from an online frame without having to download the game. Meanwhile, the Chinese telecommunications giant Huawei, who is trying to become a new player in the gaming scenario, has formed a series of partnerships with both Tencent and NetEase to develop 5G cloud games (Ye, 2020).

Also Rosenthal confirms how this trend can reshape the gaming scenario:

“I think today what we really are interested in is whether the Netflix model will apply to video games. Basically, the adoption of streaming technologies with 5G and the subscription model. If this will become a viable business model for end users and at the same time for content providers than it will be a success” (Rosenthal, 2020).

Going more into detail, this broad market is driven primarily by mobile games. As previously mentioned mobile technologies are widely adopted in the country and represent the biggest opportunity to engage Chinese people. Another interesting segment connected to game is also the E-sports one, who represent a new marketing channel to attract potential young customers.

3.7.2 Mobile Games

With their immense popularity, mobile games are the key driver of the entire games market (see Figure 66). In particular, the rise of WeChat minigames, played without installing another app, has pushed the rapid growth of this trend and have attracted many followers across the country. In terms of gaming revenues, this segment generated \$18.5 billion in 2019 (up 18.2% from the previous year) and is expected to increase to \$32 billion by 2024. This exponential growth has been facilitated by the high number of mobile gamers which in 2019 were 637.1 million, twice those from PC (321 million). According to forecast, this growth process is not going to stop and in 2024 mobile gamers are projected to be 737 million (Niko Partners, 2020)

Due to the COVID-19 pandemic, mobile games have even increased in importance. Some casual games that usually had 5 monthly visits per gamer before the pandemic, had now more than 15-20 visits. According to a recent survey by Niko Partners the outbreak has also affected gamers behaviors. 97.2% of the respondents reported spending more hours on mobile games than prior to the pandemic and 81.6% reported spending more money. *Sensor Tower* data confirm this trend, showing an increase of weekly downloads of iOS games during January 2020 by 153% compared to the previous month, and in March 2020 still 67% higher than in December (Niko Partners, 2020). The main reason behind these significant results include the fact that mobile games have the lowest barrier to entry. The 60% of the Chinese population in fact is already using mobile devices and many mobile titles are free to play. Many people have also started to play from mobile due to the closure of PC cafes during the quarantine. In addition, the mobile development process is less complex and, therefore, less likely to suffer delays from COVID-19-related disruption (Wijman, 2020).



Figure 66: China's mobile games market (Niko Partners, 2020)

3.7.3 E-sports

E-sports has emerged as one of the major trend of growth in the games market, and nowhere is this more evident than China. This segment has changed the entire player engagement scenario, extending the longevity of games, and creating new ways of monetization. The term “E-sports” refers to formal gaming competitions, generally organized for a spectator audience. E-sports players may be professional gamers or serious amateurs, and the events may vary in scale from small local tournaments to global mass-media shows in crowded stadiums. Alongside these events, an entire ecosystem has been developed to support these competition. This include tournament infrastructures, streaming platforms, sponsors, advertisers, licensing, management, and merchandising (Niko Partners, 2020). According to Rosenthal, China from a cultural and from a market perspective is really a breeding ground for video games and E-sports. Also the Government has understood its importance and is investing in this segment.

“In our case, we do have a successful cooperation between Assetto Corsa and the Chinese Automobile Federation which is partially owned by the Ministry of Sport. When we launched this collaboration it was clear to many that it was a strategic political priority to foster E-sports” (Rosenthal, 2020).

A recent report from *NewZoo*, leading global provider of games and E-sports analytics, crowns China as the largest E-sports market in 2020, with revenues of \$385.1 million (see *Figure 67*). These revenues are expected to further grow at a CAGR (2018-2023) of +17.0%, reaching \$540.0 million by 2023. Most of these revenues will come from sponsorships, which will grow from \$187.1 million in 2019 to \$222.4 million in 2020. China has also the largest E-sports audience with 162.6 million in 2020, followed by Europe with 92 million and North America with 57.2 million (NewZoo, 2020).

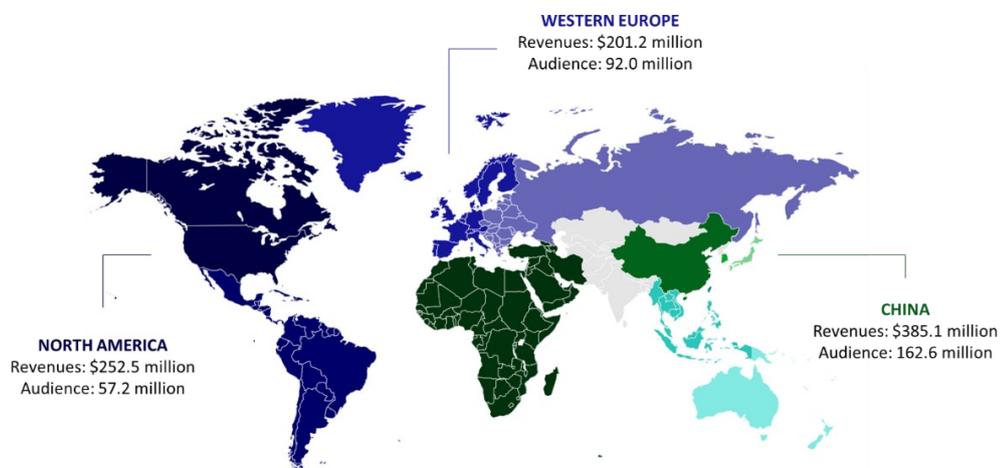


Figure 67: Most important E-sports markets in the world by revenues and audience (NewZoo, 2020)

This phenomenon is becoming increasingly followed also by Chinese women, who represent the 30% of the total audience. Women are also actively participating in the E-sports arena contributing to its growth. For example, *PandaCute* is the Hong Kong's first all-female professional video gaming team. This team of gamers, who are all only 20 or 21 years old, train 10 hours a day for five days a week and have gained a substantial following after winning several big tournaments (Further, 2020).

In China, E-sports are supported by dedicated streaming platforms such as Bilibili, Douyu and Huya which represent a bridge between the world of games and that of digital media (see Figure 68). In the last years, these platforms have rapidly increased their audience gaining popularity in the country. In 2020 Bilibili have become one of the most important live-streaming platforms for games in China. This NASDAQ listed company has reached respectively \$370.5 million revenues (70% year-over-year increase) and 171.6 million monthly active users (55% year-over-year increase) in the second quarter of the year (Bilibili Inc., 2020). People born between 1990 and 2009 account for over 80% of Bilibili's user base, and the vast majority of users access the platform via mobile devices. These data highlight the power of this media to attract large sections of China's Millennials and Generation Z. Many brands as Louis Vuitton and Fendi have understood its strategic importance and are approaching Bilibili to engage China's emerging young customers (Rapp, 2020). Bilibili's main competitors include Douyu, a pioneer in the E-sports industry, with 163.6 million monthly active users and Huya with 151 million (Duncan, et al., 2020). However, these two platforms could soon merge into a single media giant, gaining a leadership position in the market. Through this merger Tencent, that owns more than a third of both Douyu and Huya with the majority of voting powers, will further cements its dominance in e-sports and gaming segments (Ye, 2020).

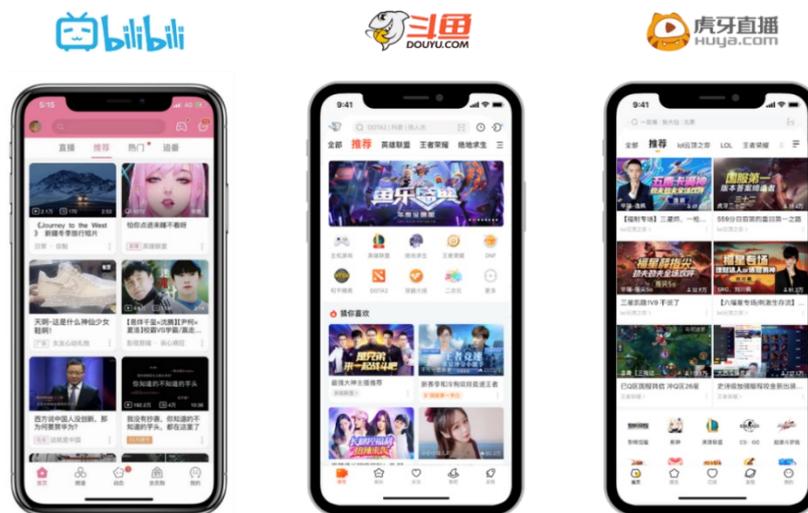


Figure 68: Bilibili, Douyu and Huya streaming applications

With traditional sporting events blocked due to COVID-19, E-sports have become the catalyst for the attention of numerous people. Most of the major games companies and tournament organizers have promoted remote-online events without live audiences. For example, racing simulation *Assetto Corsa*, one of 505 Games biggest titles, hosted real drivers to compete with each other during the lockdown (Rosenthal, 2020). Niko Partners data supports this thesis, with 61.7% of people spending more time watching E-sports during the COVID-19 outbreak than prior.

Despite this upside, the E-sports market has also faced some issues due to the pandemic. The migration of tournaments online created concern for the integrity of the events and cheating that could take place. The remote nature of the online format also brought its own additional challenges in terms of bandwidth and latency, especially with players in different locations. In addition, many E-sports SMEs decided to fire their employees to cut labor costs, and those who remained in their positions, perceived only 70% of their original salary (Chen, 2020).

CHAPTER 4. THE USE OF GAMIFICATION MARKETING IN THE CHINESE LUXURY MARKET

Due to a huge population and a rapid economic growth, China is becoming the driving force of the global Luxury market. According to the estimates, a hundred million new Chinese customers will enter this market over the next decade. In particular, the largest part will be composed by Millennials and Gen Zers, who represent a big opportunity for Luxury companies. Young Chinese are technological natives, buy frequently online through their smartphones, and place great importance in exclusive and unique experiences. Moreover, the COVID-19 pandemic has accelerated the digitization of customer behaviors, making an omnichannel approach no longer negligible. If we add to this scenario the fact that almost all Chinese under 35 are passionate about video games and mobile gaming, with women at the forefront, it is possible to understand why Gamification Marketing has been largely used as an engagement tool in the Luxury market. Almost all the brands have in fact understood the importance of this type of strategies and are experimenting different approaches to exploit the increasing penetration of games in the country. Despite Luxury companies initially conceived Gamification marketing initiatives only for China, their success has pushed brands to export them globally. To develop these type of campaigns is crucial to know very well the Chinese audience, engaging it with correct messages. China is a country with a culture and habits completely different from the West and this aspect should not be underestimated due to the effects it can have on the brand image. In particular, Chinese people pay great attention to storytelling, which must always be placed at the center of every project. Another aspect to consider is how to integrate gamified experiences within the digital ecosystem. Although WeChat has proved to be the ideal platform for Gamification strategies thanks to its mini programs, brands' applications and direct collaborations with game developers have become other viable alternatives. This final chapter focuses on the Chinese Luxury market, highlighting the unique characteristics that have fostered the use of Gamification marketing strategies. The first section offers an overview of the Luxury market and of its customers, exploring the main trends that are reshaping the sector in China. In addition, an analysis of the most relevant Gamification initiatives of Luxury brands is provided. The following sections are largely based on the interviews with *Iris Chan*, Partner, International Client Development at “*DLG*” (Digital Luxury Group), leading digital marketing agency for Luxury and lifestyle brands, based in New York, USA [see Appendix B] and *Denis Coan*, President at “*Fendi China*”, based in Shanghai [see Appendix C].

4.1 The Evolution of Luxury in China

China, the second economic power in the world, with the global largest consumer base, has reached the position of being a clear strategic leader in the Luxury market. Chinese customers represent in fact the largest share of global Luxury purchases and their importance is destined to increase. Several analysts estimate that the percentage of Chinese people making global Luxury purchases will account for almost half of the market in 2025.

COVID-19 pandemic has particularly affected Luxury with losses estimated in 70-80 billion euros in sales and 10 billion of profits in 2020. According to Dal Santo, China has been the first country to close economic activities due to the outbreak and the first to reopen. As a consequence it will be the testing ground for the rest of the world, influencing the recovery of other countries (Dal Santo, 2020).

Today it is still not entirely clear where Chinese customers will buy Luxury products in the near future. Traditionally, a significant amount of Chinese Luxury purchases has been made outside of China. The reasons behind this trend are both emotional and economical. A Luxury product bought in a store in Italy may seem more authentic and carries a different memory than one purchased in China. Luxury goods have had also typically lower prices outside of China due to a combination of exchange rates and taxes. This has encouraged Chinese shoppers to buy abroad, with significant money savings. However, the domestic consumption of Luxury goods over the past years has significantly increased and due to COVID-19 travel disruptions this phenomenon has even accelerated. Around March a new purchasing behavior has also emerged renamed “*revenge consumption*”. This term describes the post-lockdown consumers’ desire to boost their mood by buying Luxury goods. Meanwhile, fears about buying counterfeit items and import duties in China have decreased, adding other reasons for Chinese customers to buy within their country. If these effects will stay in place, the global Luxury market will be completely reshaped after the COVID-19 crisis (Langer, 2020).

Now more than ever, Luxury brands need to engage Chinese customers in an appropriate way. Online channels have become fundamental means both for purchases and communication and cannot be ignored. China currently is also the youngest and most digitally-savvy Luxury market in the world and brands are adapting their marketing strategies to attract these young customers. If before COVID-19 pandemic, many Luxury brands were skeptical about digital transformation, now this shift can no longer be postponed. The crisis has forced managers to think even more creatively and innovate faster to meet customer demands and overcome channel constraints.

4.1.1 Overview of the Chinese Luxury Market

According to *Bain & Company*, in 2019 it is estimated that the personal Luxury market worldwide (fashion, leather goods, beauty, watches and jewelry, the most important areas of the sector) reached a record of €281 billion, with an increase of 8% on 2018. Despite this incredible rise, if we analyze the historical trend of this market (*see Figure 69*) we can identify a relatively high vulnerability to downturns. The SARS pandemic in 2002 (decrease of -1.6%) and the Financial Crisis in 2007 (average decrease of -4.4%) have in fact interrupted a twenty-year period of almost steady growth. According to PwC it is not surprising that due to the COVID-19 outbreak the Luxury market has been quickly compromised and in 2020 it will suffer a year-over-year decline from 15% to 35% (PwC, 2020).

Bain forecasts that it will take until 2022-2023 to return to 2019 levels. This market will recover gradually, reaching an estimated €320-330 billion by 2025 driven especially by the online channel and younger generations (Bain & Company, 2020).

According to BCG and Altgamma's "*True Luxury Global Consumer Insight 2020*", within personal Luxury, casualwear and cosmetics are expected to rebound in 2 years, while other categories will be impacted by the crisis on the long term. Regarding experiential Luxury, consumers are still reluctant towards hotels, resort and cruise vacations, preferring more intimate experiences (BCG & Altgamma, 2020).

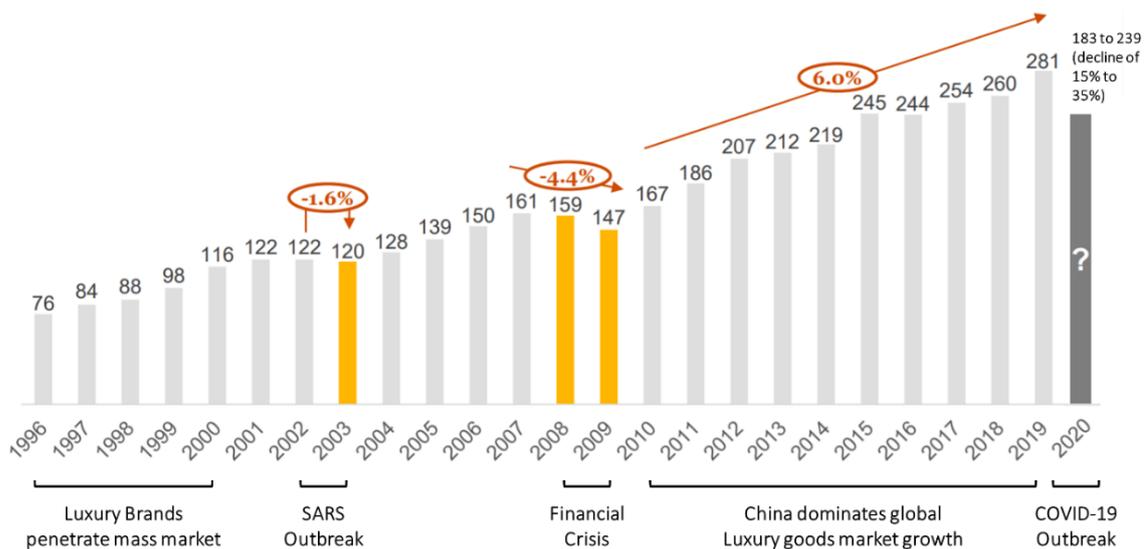


Figure 69: Global personal Luxury market size in billion € from 1996 to 2020 (www.pwccn.com)

In this scenario the Chinese market will play a significant role and the pandemic is highlighting even more the importance of this country as strategic player. China has been the first country to face the pandemic and the first to reopen economic activities after the lockdown. According to Dal Santo in the period January-March 2020, many top Luxury brands saw a 95% reduction in prêt-à-porter and accessories. However, at the end of March they returned to levels equal to 50% of those of 2019, thanks to the restart of the Chinese economy and consumption. In particular sectors such as the Beauty one (thanks especially to the advent of cloud beauty advisors) have already recovered the losses of the first months of the year (Dal Santo, 2020).

Chinese Luxury consumers have emerged confident towards a rapid reaction of the market from the COVID-19 pandemic and are mitigating the effects of the crisis for Luxury companies. According to *Bain & Company* in 2019 Chinese shoppers accounted for 35% of global Luxury spending and 90% of market growth. Their influence on the sector is expected to grow further in the next few years, reaching nearly half of all Luxury sales in 2025 (see *Figure 70*).

With global travels not expected to return to normal levels for up to two years, Chinese people who usually made most of their Luxury purchases abroad will largely shop at home in the near future. Bain’s estimates confirm that 26-28% of total Luxury purchases will be made within China in 2025, significantly growing with respect of 2019 when the country accounted for only 11% (see *Figure 70*). This rise will allow China to surpass US and Europe, becoming the most important region in the world for Luxury (see *Figure 70*). The repatriation of spending was a trend already happening in recent years, fueled by Chinese Government’s reduction in import duties and stricter controls over gray markets. In addition, brands’ efforts to narrow the price gap with foreign regions have led more Chinese customers to make their Luxury purchases in China (Bain & Altgamma, 2020).

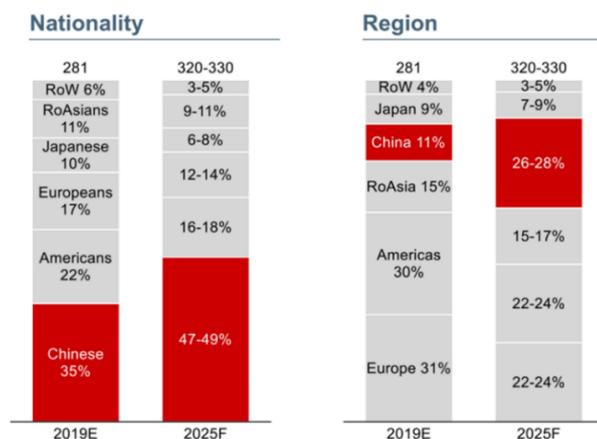


Figure 70: Personal Luxury good market by Nationality of customers and region (Bain & Altgamma, 2020)

The behavior of Luxury customers is also shifting. After months of store closings, social distancing, and changed personal and professional habits, people are in fact showing a willingness to recover part of purchases not made during the first months of the year. According to *Denis Coan*, President of Fendi China, Chinese indulged in a sort of “*revenge consumption*”, term related to the willingness of people to purchase immediately after the lockdown ended:

“People have been locked in their houses for a long time and now they really want to please themselves buying something because it is nice to finally go back to normality. Someone might have expected only a peak in consumption in April and May due to this phenomenon, but now we are having June, July, and August even stronger than the previous months” (Coan, 2020).

For example, the *Hermes* store in Guangzhou recorded \$2.7 million in sales the day it reopened in April, a record for a boutique in China (Frank, 2020).

According to PwC to stimulate sales, the Chinese Government has also enforced a combination of measures during Labor Holidays (1st - 5th of May 2020), with joint participation of e-commerce giants, O2O (Online-to-Offline) platforms, shopping malls and brands. For example 19 billion RMB (about \$3 billion) vouchers were issued in 28 provinces. Average recovery rate of shopping malls in China during this period reached 59.3% (see Figure 71) with 18.600 average daily traffic per structure (4.2 times higher than daily traffic in February). In particular shopping malls in the *Yangtze River Delta* region experienced the highest traffic rebound (PwC, 2020).

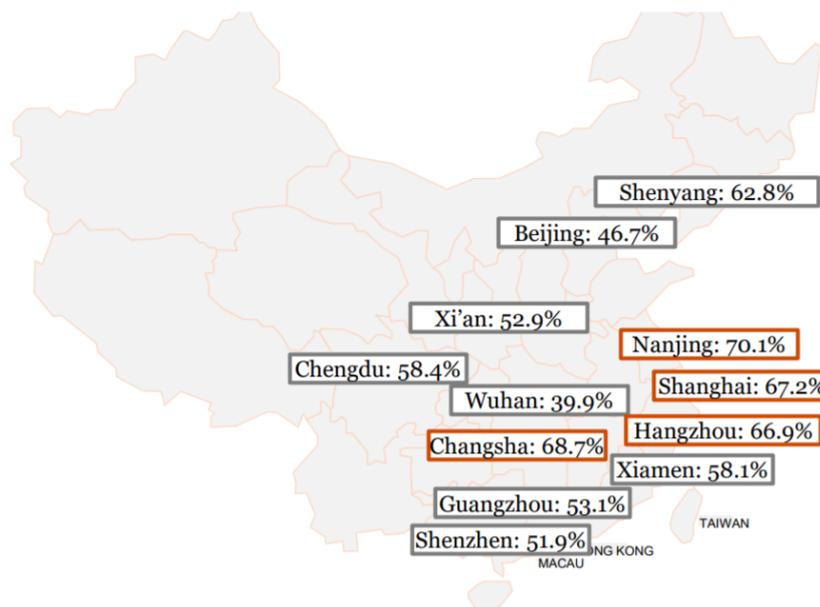


Figure 71: Average shopping mall traffic recovery rate in Chinese cities during Labor Holiday (PwC, 2020)

Matched with this “revenge consumption” phenomenon, Chinese people are also indulging in “*revenge travel*” as witnessed by the latest Golden Week holiday, beginning Thursday Oct 1st. According to official estimates by the Ministry of Culture and Tourism, 550 million domestic trips are expected to be made this year during the eight day break that includes the mid-autumn festival and China’s national day. Chinese travel booking site “*Qunar*” for example said hotel bookings had doubled for popular destinations such as Dali and Lijiang in Yunnan province or Sanya, an island in the southern province of Hainan. Travel sites have also fought to attract customers with discounts, while airlines have added new routes to meet the extra demand (Kuo, 2020). The positive result of domestic tourism is the latest sign of the country’s post-pandemic economic rebound and represent a unique opportunity for Luxury brands to recover part of the retail losses occurred in the first months of the year.

Although Chinese people on average have shown positive signals, affluent consumers are shifting towards a more conscious spending. This indicate that “*revenge consumption*”, “*revenge tourism*” and Government measures alone are not enough to restore pre-crisis results. According to global communications consultancy group Ruder Finn, 82% of over 800 consumers surveyed in mid-March with an annual family income of over 1 million RMB think that the virus is negatively impacting the Chinese economy. Specifically, 88% of the people aged between 36 to 45 years hold this view, the highest among all age groups surveyed. Consumers that live in 2nd, 3rd and lower tier-cities have even more negative feelings, with the percentages reaching respectively 100% and 95% in these areas. People are planning to decrease their purchases especially in the jewelry, handbag, and beauty sectors but showed more willingness to spend on travel, fine dining, and high-end leather accessories (Ruder Finn, 2020). As stated by Gao Ming Senior Vice President and Managing Director of Luxury practices in greater China at the Ruder Finn Group:

“The unleashing of the thirst for consumption post pandemic will happen to specific Luxury categories, but it will not become a mainstream phenomenon as suggested by the findings. The biggest challenge facing brands is the increase in share of people who expect to spend less. Brands should plan ahead and start thinking about how to establish a stronger bonding with their consumers first thing after the pandemic” (Ming, 2020)

Also according to Dal Santo a strong mass revenge spending effect is not expected, but only for some Ultra High Net Worth Individuals (UHNWI), or real wealthy Chinese (Dal Santo, 2020).

4.1.2 Online Channels

Regarding purchase channels, the pandemic has accelerated the shift towards online shopping. Although offline stores are still expected to be the preferred ways to purchase Luxury in the near future, digital sales increase has outpaced traditional channels. According to Bain & Company in the past 10 years online Luxury has shown double digit year-over-year growth rates, reaching 12% of the total market in 2019, with estimated 33.3 billion € (see Figure 72). The pandemic induced Luxury shoppers to increase even more online shopping during the lockdown. This shift is expected to last in the following years, with the digital channel projected to become the most relevant one in 2025 with 28-30% of the share (see Figure 72).

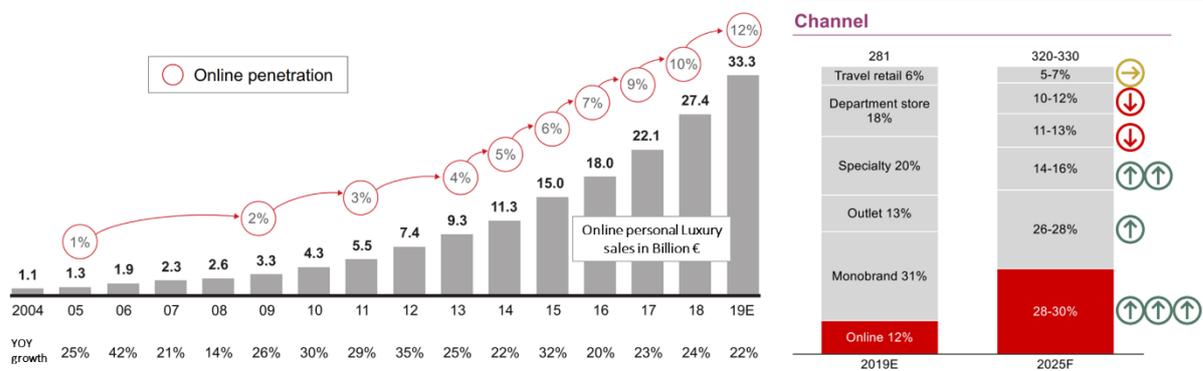


Figure 72: Online penetration in the personal Luxury goods market (Bain & Company, 2020)

This change of perspective has been also underlined at the first edition of the 2020 “*Fashion & Luxury Digital Summit*”, organized by Bain & Company in collaboration with Google. This virtual meeting has highlighted as the virtual dimension has permeated most of the processes in the Luxury industry, accelerating the digitization trend that was already in place. According to Jacopo Allegrini, head of retail fashion Luxury at Google Italy, during the lockdown online channels have been the lifeline for companies, buffering the drastic drop in sales due to the closure of physical stores. This trend has become structural and it is expected that a relevant percentage of offline sales will permanently migrate to e-commerce. Bain & Google’s research points out how the share of online purchases post January 2020 has grown in the premium and Luxury segments, where about one out of two purchases were made online. According to President of Altagamma Matteo Lunelli, one of the reasons behind this trend include a change in cultural habits of Luxury consumers. People in fact used online channels more than ever before, adopting new technologies and new platforms. Lunelli adds that in the near future 100% of Luxury sales will be digitally influenced, making an omnichannel approach essential (Bain & Company Italia, 2020).

As previously mentioned, in China the digitization trend started earlier than in other countries and the recent COVID-19 pandemic has simply made more evident a shift already underway:

“The digitalization of lives has been so fast in the past 10 years that people jumped from not using the smartphone to basically have their life on these devices. This has helped to have the Chinese consumer completely savvy about digital and online. People buy online, order a car, post everything on WeChat, read news, watch tv series, and so on. This is why it is normal for an average Chinese person to do anything online, including Luxury shopping” (Coan, 2020).

In China, the digital environment offers a multitude of different solutions to buy online. In particular, for Luxury exists four types of digital channels (Bain & Company, 2019):

- *Brand owned channels* that give companies ultimate control and the ability to charge full price.
- *Cooperator channels* like Tmall flagship stores and WeChat commerce that give brands some control while allowing them to benefit from the platform’s steady flow of traffic.
- *Aggregators* such as JD.com’s Toplife and Tmall’s Luxury Pavilion that enable brands to outsource the responsibility of building and operating high-traffic channels.
- *Luxury vertical sites* such as Secoo and Mei.com that make possible to move products at a discount.

This wide range of choices underlines how the e-commerce ecosystem in China is fragmented and diversified, offering greater engagement, greater brand experience, and an increasingly contactless retail environment which dominate the Luxury sector (Dal Santo, 2020).

A recent research from Ruder Finn has analyzed the purchasing behavior of Chinese customers, asking them which e-commerce platform they have used in 2019 to purchase Luxury items. This survey highlights how customers preferred buying through Tmall and its Luxury Pavilion (60% of customers affirm to have purchased at least once through these platforms in the past 12 months), followed by official brand websites (48%), and JD.com (44%). In the last years, the rate of purchases through official brand websites has increased significantly reaching the second place in preferences. Despite this result, Mainland China consumers still prefer local e-commerce sites like Tmall and JD.com to official brands’ platforms due to a better user experience in terms of mobile application, user-friendly buying processes, and local language (Ruder Finn, 2020).

For example JD gives customers an exclusive “*White Gloves Service*”, a delivery option where couriers in suits and white gloves bring customers their purchases in electric cars (*see Figure 73*). To increase its appeal to Luxury companies, the company has also opened a high-tech, dust-free, climate-controlled warehouse with unprecedented security. This new facility, built in 2018, is for the exclusive use of brands that open flagship shops on JD’s Luxury e-commerce portal TopLife. To improve the company’s image as a Luxury goods marketplace, JD has even expanded its “*White Gloves*” service to this new types of warehouses instead of relying on automation as it does in other structures. These efforts are aimed at addressing the fear of Luxury brands to lose their aura of opulence and exclusivity (Pan, 2018).



Figure 73: JD.com's "White Gloves" e-commerce service (www.jd.com)

As mentioned in the previous chapter, in China have also emerged new online channels through which customers can buy Luxury products. For example short-video application Douyin (TikTok) and social platform Little Red Book are gaining importance thanks to the live-streaming commerce phenomenon. Given their unique features and young audience, they might become the biggest opportunities for Luxury to invest in for the long run. According to Iris Chan online commerce and live-streaming were not a new phenomenon in the country and brands already had their digital infrastructures. The pandemic has simply accelerated the growth of these trends, bringing them to a higher level:

“I think that digitization of businesses has gone further along the process. I do not think selling online was something Brands were lacking in China. Live-streaming was not a new trend and has been used a lot already. Now it is becoming more an essential piece of everything that people do” (Chan, 2020).

4.1.3 Chinese Luxury Customers

The nature of Luxury customers is evolving fast, and younger generations are the new frontier of Luxury market. Millennials and Generation Z already represent a growing portion of Luxury consumption, especially in China, and display behaviors that distinguish them from older generations. According to Bain & Company this trend is rapidly reshaping the Luxury scenario and people younger than 45 will play a leading role in the coming years. In a recent report released by the consultancy company is highlighted as Millennials and Generation Z consumers combined will account for more than 50% of the global Luxury market in 2025, contributing to 150% of the total growth from 2019 to 2025 (see Figure 74). On the other hand, Generation X and Baby Boomers will slightly lose relevance, accounting for smaller and smaller shares.

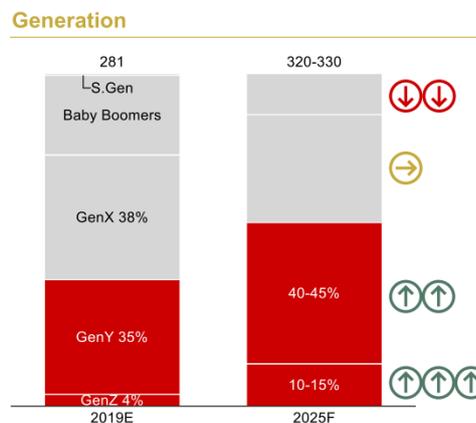


Figure 74: Personal Luxury goods market by generation in Billion € (Bain & Altgamma, 2020)

In China, this trend is even more evident and young customers are the true engine behind Luxury consumption. According to McKinsey, in 2018 Millennials (post-‘80s) represented 10.2 million Luxury consumers, accounting for 43% of the total (see Figure 75). This age group was responsible for more than half of the total annual Luxury spending, reaching RMB415 billion (about \$62 billion). They have grown up with China’s emergence as a global superpower and are the primary beneficiaries of the economic rapid growth of the country in the past 20 years. They are now at the top of their careers and can afford expensive and refined products. On average they spend 41.000 RMB (about \$6.150) per person each year to buy Luxury items.

Generation Z (Post-‘90s) is equally important in the Chinese scenario and represent the best opportunity for brands due to the interesting growth prospects. This age group accounts respectively for 28% of total consumers and 23% of total spending. These dynamic and digital natives have not yet achieved full autonomy in spending and are largely supported by their parents. Chinese families top up their children’s bank accounts by at least 4000 RMB per month

(about \$600) influencing Generation Z consumers' willingness to spend. It is estimated that on average each year this young people spend 25.000 RMB (about \$3750) on Luxury good.

These young customers are mainly new to Luxury purchases and thus have a less profound understanding of the heritage behind Western brands. In particular 50% of Millennials and 31% of Generation Z consumers only made their first Luxury purchase in the past two years. Among these young people the brand is still the most important factor when they consider buying Luxury products but is becoming less relevant if compared with older generations. Especially Gen Zers in fact have started to appreciate more and more elements such as design, fabric, and manufacturing process (McKinsey, 2019).

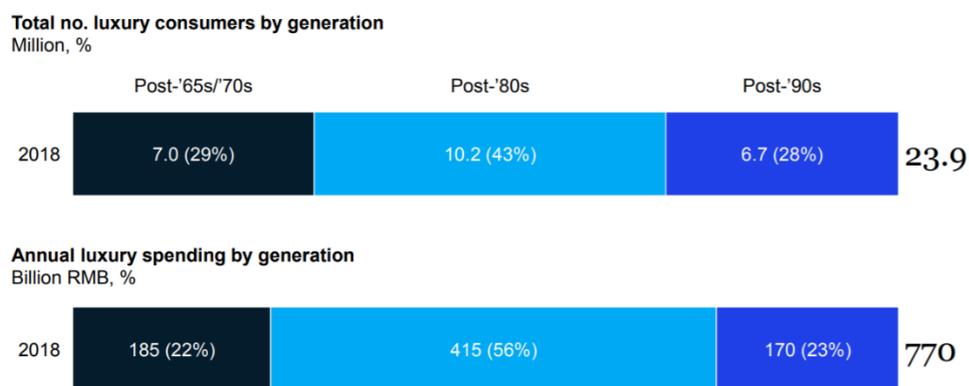


Figure 75: Total number of Luxury consumers and annual Luxury spending by generation in China (McKinsey, 2019)

According to Denis Coan, COVID-19 has even increased the importance of younger generations in China. Students that were overseas in fact came back and did the lockdown within the country. When the market reopened this young population had in their pockets a good portion of the cash they usually dedicated in the year for travelling, do shopping, and buy food abroad. This led on one hand to an increase in domestic consumption and on the other to a drop in the average age of customers from one to four years, a big change in only four months. In addition, these customers mainly belong to the middle class and have a different approach in spending:

“Some of customers now are 18, 20, or 22 years old. These young people are usually mid-segment wealthy and do not spend all their budget for one single item, as a 4000€ Chanel bag. They would rather buy a scarf from Fendi, a pair of shoes from Balenciaga, fashion jewelry from Dior, and maybe a bag from Celine. Why do they do this? Because once the lockdown has finished, they have started going out with friends and they wanted to have new things. But if they only have 4000€ a month and buy only one Luxury piece, it means that until next month

they will have nothing new to show off to their friends. More importantly, they will not have something to exhibit on WeChat or Weibo when they post a photo” (Coan, 2020)

The fact that these young Luxury customers place great importance to digital media also underlines as an omnichannel approach has become crucial to compete in the market. According to a 2019 study by BCG and Tencent Chinese Luxury customers consult a mix of online and offline sources during their customer journey. They are exposed to an average of 4-5 touch points during discovery and research, of which more than 60% are digital (see Figure 76). Despite the increasing importance of online, in-stores experiences are still the most impactful when it comes to buy a product, with only about 10-12% of digital touchpoints used in this phase (BCG & Tencent, 2019).

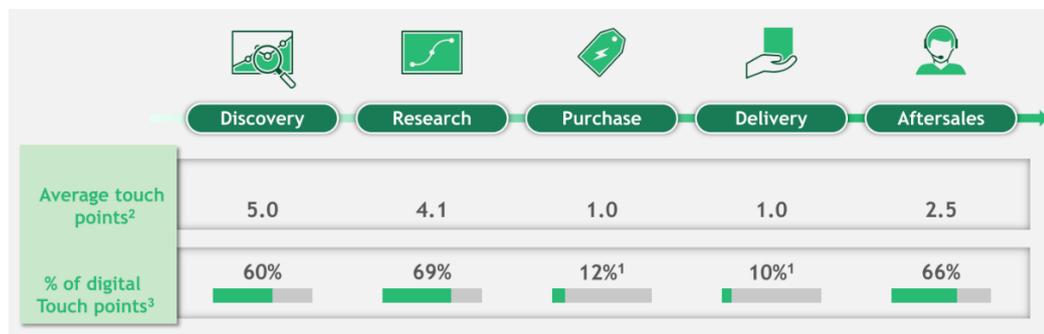


Figure 76: Luxury customer journey in China (BCG & Tencent, 2019)

In particular, social media and KOLs play a significant role in China both before and after the purchase phases and are essential in managing long-term customer relationships. According to BCG & Altagamma survey (see Figure 78), in 2018 social media and influencers were the primary influence lever over Chinese Luxury customers, with 55% of respondents affirming that they have been impacted by these sources in their shopping decisions. If compared with European Union where only 36% of people claimed to be affected by social media and influencers and US with 35%, we can see how China is the most fertile ground in the world for this phenomenon (BCG & Altagamma, 2019).

In China KOLs have a major role in raising awareness of new products thanks to their huge number of followers often larger than the one of brand-owned channels. They also contextualize Luxury products in daily life, making them visible to young customers that constitute the future of brands in China. These trusted people mainly operate through social media and in particular through their WeChat accounts. This platform is the most used to drive customer engagement and thanks to its official accounts and mini programs can host interactive digital experiences such as product trials, service reservations, and consumer advices. As previously mentioned

new social media as Douyin and Little Red Book are rapidly increasing their user base and in the next years they will probably become the new frontiers where Luxury brands will compete in customer engagement.

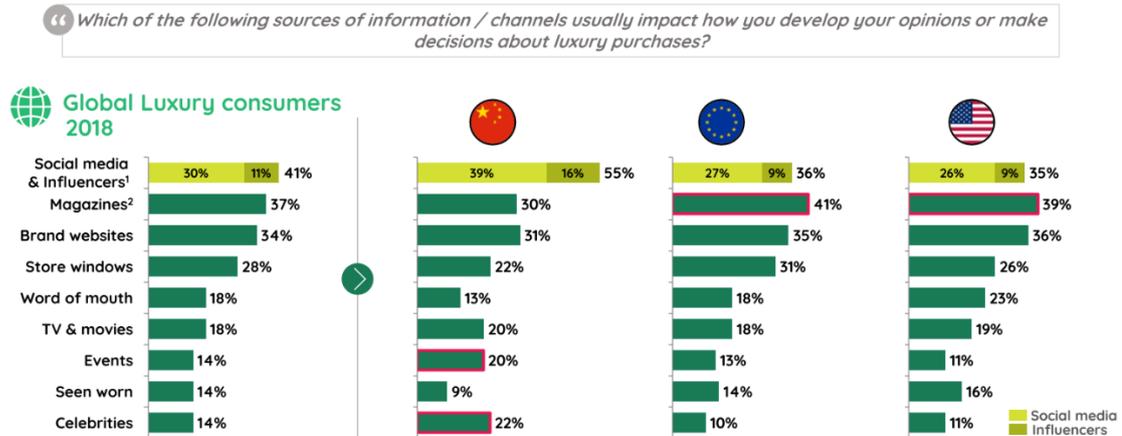


Figure 77: Main sources of information and channels for Luxury purchases in China, EU and US (BCG & Altgamma, 2019)

4.2 Luxury Trends in China

The Chinese Luxury market is particularly dynamic and inclined to change. In a context driven by younger generations, winning brands have been those willing to innovate, and agile enough to do so. COVID-19 has rapidly transformed the Luxury sector, introducing new trends and accelerating the existing ones. Digital technologies for example are disrupting the entire Luxury value chain, pushing a complete redesign of stores and shopping experiences. These changes, along with a shift in customer preferences towards individuality, have highlighted the importance of Customer Relationship Management (CRM) solutions. Moreover, Chinese customers are increasingly demanding for 360° sustainability, which includes not only environmental and animal welfare but also all those actions and initiatives that contribute to define brands social responsibility. Lastly, the incredible upgrades in quality of life, well emphasized by a strong and stable leadership, have led to a rise in national pride that is reaching intense levels. This situation forces companies to pay particular attention when they launch a new campaign in order to avoid cultural misunderstandings.

4.2.1 In-store Integration Between Physical and Digital

The complete immersion in a digital lifestyle has become the normality in China, primarily driven by Chinese digital natives. Mobile technologies have merged together payments, social interactions, and entertainment with WeChat, today irreplaceable in Chinese people's life. Younger generations expect instant deliveries and want to know everything about brands and products. Click, buy and wait is becoming obsolete. New technologies as 5G, Virtual Reality (VR) and Artificial Intelligence (AI) have further taken the consumer experience to a higher level. For example, people do not need to wait and see if a piece of clothing fits as the technology will tell them in advance. Experiences that do not provide this feeling of "instant access" will become anonymous and outdated. Moreover, these advances also provide hands-free and device-free solutions, evolving into a closer integration of customers and physical spaces, as well as between each other (Reuter Intelligence, 2020). The results of this fusion between physical and digital, sometimes called phy-gital, are some innovative spaces where to integrate online and offline experiences. These "future stores" look very different from the traditional ones and are both spaces for connection and sociality. Particular attention is given to mono-brands stores that are becoming more exclusive, more immersive and more experiential. Usually they have hyper-localized assortments and offer engaging digital innovations.

According to Denis Coan this trend will be the most interesting in the future of the Luxury market, largely driven by the desire of customers to live unique experiences:

"The next trend will be creating a mix of experiences between digital and reality in physical stores. And this is back to the effect that customers want to have an experience when they go to a boutique. They no longer want to just go and buy products. They go to a store because they can have an experience. Every brand is trying and considering different things. There is not a final recipe so everybody is testing different solutions in different moments. Usually you try for some months with a popup, just to see how it goes, and then you move into a real store. I think this will continue for the next five to ten years" (Coan, 2020).

One of the examples of integrating digital technologies in a physical space is given by Burberry which in July 2020 opened a new social retail store in Shenzhen (*see Figure 78*). The project is a result of an exclusive partnership with Tencent which has provided all the in-store technologies. This 1.800 square meter concept store is located in the "MixC Shenzhen Bay" Luxury mall and has been designed to offer a unique experience between physical and digital. Through the Burberry WeChat mini program customers can interact with store windows,

virtually try on new clothes, contact customer service, and share everything with friends. In the shop there are also numerous QR codes useful for viewing additional content such as the history of the British Brand and product storytelling. An absolute novelty is the possibility to book and personalize the dressing room, selecting a playlist created by Burberry and adjusting the lighting. To complement the store there is also the “*Thomas’s Café*” (named after the fashion house's founder, Thomas Burberry), a dedicated space for Burberry customers to connect. The café is designed as a dynamic space, which can be converted into a community space for activities including talks, workshops, exhibitions and live performances with bookings made through the mini program (Burberry, 2020).

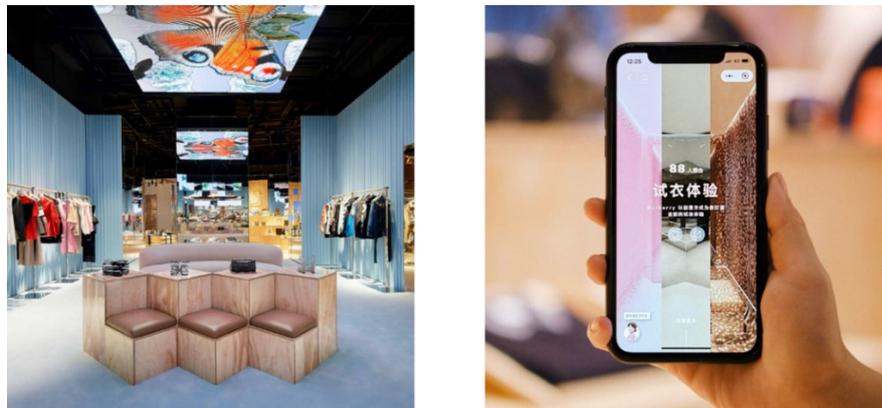


Figure 78: Burberry’s social retail store in Shenzhen and related WeChat mini program (www.burberryplc.com)

4.2.2 Customer Relationship Management (CRM) and Clienteling 2.0

During the latest “*Virtual CEO Roundtable on Opportunity in Times of Crisis*” organized by Fashion Magazine has emerged how CRM is becoming fundamental for companies in the world of Fashion and Luxury. As stated by Marco Palmieri, President and CEO of Piquadro Group, today everything revolves around the relationship with the customer, both online and offline. Databases where to collect information need to be prioritized and shared across the organization, including shop assistants. This because all the choices start from customer profiling, from the construction of the message and from its personalization. In particular CRM is becoming important to remap the function of shops, transforming them in engagement spaces (Fashion Magazine, 2020):

“Today the physical point of sale is the last phase in the path of the product and it is dedicated to conversion. However, the process is moving upwards and the store is becoming more and more the place for customer engagement, while the conversion can take place in many different ways. Today more than ever we need content. And the store is full of them” (Palmieri, 2020).

These concepts can be summarized in the term “*Clienteling 2.0*”. This expression is referred to the establishment of long-term bonds with customers, leveraging data about what they like, what they purchase, and how they behave. A recent survey released by BCG & Altagamma have underlined how this trend will reshape relationships with Luxury customers in the after-pandemic scenario. Luxury customers in fact highly value digital personalized clienteling with 46% of respondents saying they will be more appreciative of digital personalized experiences in the future compared to before. Among the different nationalities, Chinese (76%) and Italians (57%) have shown the highest interest in these type of initiatives (BCG & Altagamma, 2020). The main reasons why this phenomenon is particularly relevant in China are related to the youthful and hyper-competitive environment. According to *Daniel Langer*, CEO of Luxury consultancy firm *Équité* and professor of Luxury strategy at Pepperdine University in Malibu, the growing importance of high-demanding younger generations is forcing managers to redesign their customer-centric strategies, collecting data long before providing experiences. Gen Zers and Millennials have also higher expectations and consider Luxury, in both expression and expectation, much more personal and unique than it was for older generations. In addition, the Chinese Luxury market is becoming saturated, with the number of brands in every segment that will double, or even triple, in the next ten years. This scenario has highlighted the relevance of being close to customers, with digital playing a central role in this process. CRM systems, Artificial Intelligence and Advanced Analytics are perfect solutions to understand what people really want and gain useful insights about them. More importantly, these information should be readily available for decision-makers on every level to offer tailored and memorable experiences:

“If someone checks in to a hotel, for instance, the front desk staff should know the guest’s preferences beforehand, and they should have a relevant, tailored experience strategy prepared for them when they arrive. If a guest has a day packed full of meetings, the hotel should offer an evening of a workout with a personal trainer followed by a light meal to help create a “Luxury” experience. For a vacationing guest, they should offer Luxury in the form of memorable local experiences. Each person and situation are different. The future of Luxury will be about creating experiences that consider those differences, in a memorable, shareable, and consumer-centric way” (Langer, 2020).

Also Iris Chan underlines how using CRM data and not just collecting them will be crucial in the coming years. COVID-19 in fact has even emphasized the relevance of close relationships with people, reducing at the same time the number of touchpoints through which brands can interact with them. These, in turn, have increased the cost of acquiring new customers, making

a brand's existing database more valuable than ever. Creating an effective loyalty program can help to not only convert existing customers, but also to transform them in something more than just buyers. More and more companies are starting to realize how important CRM is, but at a global level this aspect it is not yet considered sufficiently:

“Because of COVID-19 for instance everybody who had a CRM database of consumers was able to tap into those people and more easily convert them. This was because those companies already had strong relationships with customers. I think that a lot of brands start to realize how important the CRM was. At a global level, this aspect is not just set up and CRM databases are quite messy. If I shop in Italy it may not show up in my profile over in China. Trying to reconcile all customer information on a macro scale will allow to find people in the right places at the right time. I think CRM is going to be a lot more focused on people but there is still a lot of fixing on the infrastructure to be done. In this way it will be possible to fuel more insights in terms of what kind of marketing campaigns are going to work well” (Chan, 2020).

In China, WeChat has emerged as the most powerful tool to provide these type of services. For example *Coach*, American Luxury company specialized in accessories, take advantage of Tencent's platform to collect as much data as possible about potential and actual customers (see *Figure 79*). Every person who subscribes to the brand's official account is greeted with a welcome message where it is asked to bind the WeChat account with name, phone number, and gender to become a member. In some cases, the brand also uses the chat box to fulfill this goal. Other important sources to gather additional information include clicks on articles from official WeChat accounts, activities on mini programs, as well as transactions on WeChat e-commerce. Once these data have been collected, managers can send tailored messages by gender, location, relationship status, and even personal preferences.



Figure 79: Coach's WeChat mini program (Chan, 2020)

4.2.3 Sustainability

In the last years environmental and social issues have become a priority in customers choices, driven especially by younger generations. The latest study of Bain & Company, exposed during the 2020 “*Fashion & Luxury Digital Summit*”, has underlined as in the Fashion & Luxury segment, online searches containing sustainability keywords has increased by +17% on a year-over-year basis compared to an average of +10% of any other fashion-related term. In addition, for brands a positive association with sustainability allows to boost their general performances (Bain & Company Italia, 2020). Although this trend is globally spread, China has proven to be among the countries where it has the greatest influence. According to BCG & Altagamma’s 2019 “*True-Luxury Global Consumer Insight Survey*”, on average 59% of Luxury customers are influenced by sustainability, with peaks in younger generations of 64% (see Figure 80). Going more into detail, we can see how there are significant variations across nationalities with 66% of Chinese customers affected by sustainability in their Luxury choices compared to only 45% in US and 43% in UK (BCG & Altagamma, 2019). One of the primary differences between sustainability in China and in the West is related to a different vision of the phenomenon. In the West, sustainability is mainly associated with altruism, as for example using recycled materials to save forests. Differently, in China the idea of buying green fashion is more related to self-interest. Chinese are hands-on shoppers, much more careful about safe or natural organic materials than how carbon emissions are accelerating global warming. Many Chinese brands are leading this movement in the country, including both emerging designers and established companies. For example *Icicle*, high-end homegrown Luxury brand, has been an environmentally conscious label since 1997. Another example is the one of *ffiXXed studios*, collaborative men and womenswear brand based between Hong Kong and Shanghai, which has won Yoox.com’s Asian sustainable fashion award thanks to its stylish items made with eco-material (Zheng, 2019).

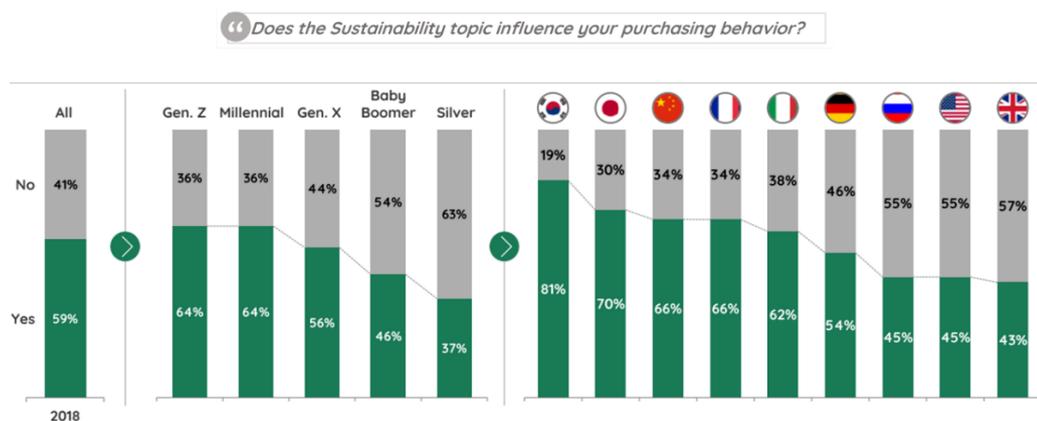


Figure 80: Influence of sustainability in Luxury customers (BCG & Altagamma, 2019)

Also the Chinese Government is playing a relevant role in the rise of the phenomenon. One of the most drastic changes implemented in 2019 has been the “*Waste Sorting Law*” in Shanghai, the fashion capital of China. This set of rules requires people to sort trash into four categories with fines up to \$30 (200 RMB) for individuals and up to \$7500 (50.000 RMB) for companies. Although the regulation is not directly related with Luxury, industry insiders think that it could alter the behavior of consumers inducing them to opt for easy-to-recycle products and packaging. For example, Luxury hotels in the city have started not providing single-use toothbrushes, combs, razors, nail polishers, shoe wipers and loofahs in rooms. *The Peninsula Hotel* recently has also partnered with Hong Kong-based textile company *Novetex*, to recycle its linens which were usually thrown away after use (Reuter Intelligence, 2020).

Due to COVID-19, sustainability concerns have even accelerated influencing customers now more than ever. Today people in fact are more aware of which brands are sustainable and which are not, carefully examining each of their actions. More specifically, during the pandemic people paid special attention on Luxury brands’ contribution to society, appreciating their efforts. Initiatives such as money donations to research, protection of workers, and conversion of plants to produce medical material have particularly impressed public opinion, leaving positive memories. According to the latest survey by BCG & Altagamma, 60% of respondents agree that these actions have had a positive impact on their perception of brands, while 20% say they will potentially buy more from these brands in the future. As a consequence, the traditional meaning of sustainability, focused mostly on environmental and animal welfare, has evolved towards a 360° Sustainability. This new holistic paradigm integrates all those beliefs, actions and initiatives that contribute to define the purpose of each brand, putting a big emphasis on the social responsibility (BCG & Altagamma, 2020).

Another indirect consequence of this trend is the growth of the second-hand Luxury market, pushed especially by younger generations. According to BGC, 17% of customers in this market purchase used items because it is considered a “truly sustainable behavior”. This phenomenon in 2019 was estimated at €22 billion worldwide, expected to reach €31 billion by 2021 (BCG & Altagamma, 2019). In China, consumer sentiment towards second-hand retail is shifting. While older generations associate second-hand goods with poverty and poor quality, younger generations are significantly more open to them. According to the 2019 “*Chinese Second-hand Luxury Industry Report*” Chinese secondary Luxury amounted to \$1.7 billion (12.1 billion RMB) in China, only making up 2% of the overall Luxury market. It is still a modest number if compared to the \$6 billion of US. Despite its backwardness, the Chinese yearly growth rate is encouraging, exceeding 20% in the past four years. In China buying or renting second-hand

Luxury items has become popular especially through online platforms. The main ones include handbag retailer *Milan Station*, two-year-old Beijing startup *Plum* (also known as *Hong Bu Lin*) and clothing rental services *MSParis* (Wu, 2019).

Despite the importance of sustainability, not all the Luxury companies have put in place effective strategies to improve their performance in this area. According to the 2020 Wall Street Journal’s “*The 100 Most Sustainably Managed Companies in the World*” Kering is the only true Luxury company present, ranking at 26th place. The French conglomerate has been awarded for its innovative logistic system, able to track the origin of nearly 90% of materials used by many of its brands. Kering also monitors constantly the sustainability impact of its supply chain, publishing its findings in an environmental profit-and-loss statement at the end of the year. Analyzing more in detail the WSJ’s list, we can also see that only three fashion brands are named, emphasizing even more how there is ample room for sustainability improvements for companies operating in this sector (Sardon, 2020).

4.2.4 New Definitions of Luxury

In the past decades, Chinese customers looked to the West to learn what Luxury was, how brands communicate and how to create exclusive experiences. However, as young Chinese Millennials and Gen Zers have grown up, they have developed both their own tastes and their spending power. This is causing a polarization between West and China in terms of styles and values. According to BCG & Altgamma’s “*True-Luxury Global Consumer Insights 2020*” this shift has been characterized by a wave of extravagance and fun identity statements in China (defined “*Extra is cool*”), opposed to a focus on more traditional values such as craftsmanship and heritage in Western countries (defined “*Sobriety is the Way*”).

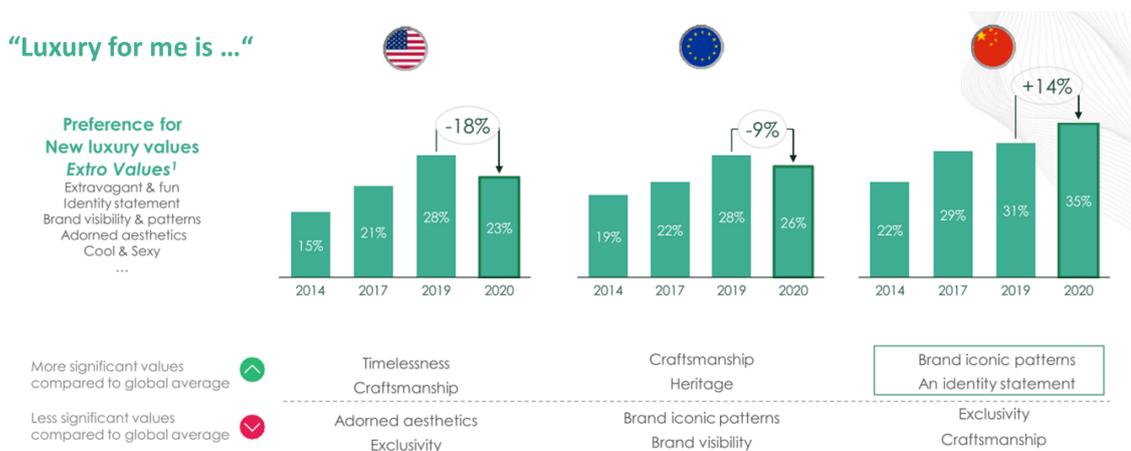


Figure 81: Growth trajectories of “Extro Values” in United States, European Union and China (BCG & Altgamma, 2020)

In their report emerged that Chinese respondents prefer Luxury items with brand visibility and iconic patterns, while Luxury customers from Europe and US state they will be more likely to buy brands for their timelessness and craftsmanship. Compared to 2019, preferences for Luxury “*Extro Values*” such as extravagance, visible patterns, or adorned esthetics have increased by 14% for Chinese, while have decreased respectively by 9% for Europeans and even 18% for Americans (see *Figure 81*). Brands in China are trying to follow this trend adapting their products and marketing campaigns consequently. One of the direct consequences for example is the movement towards a more accessible Luxury as shown by the numerous collaborations with the streetwear world:

“Now Luxury is also more accessible in the sense of style. For example, the streetwear is crossing over with Luxury and the streetwear itself is becoming Luxury, like Supreme and other similar brands. This makes Luxury more approachable for a wider group of people, not only younger generations, but also older people who never really like wearing Luxury suits to work” (Chan, 2020).

This globally spread phenomenon is particularly relevant in the Chinese market. For example, the “*Yo’Hood*” festival in Shanghai, the biggest streetwear event in China, has become a public stage for Luxury brands to show their latest concepts for Millennials and Gen Zers. In 2019 it attracted brands as Montblanc and Hennessy, interested in underlining their attention to new generations’ tastes. Another example of the Luxury brands’ interest in this segment is testified by the 2019 *Fendi x Jackson Wang* capsule streetwear collection (see *Figure 82*). Wang is a well-known Hong Kong rapper, singer, and dancer famous especially among the youngest. Thanks to the collaboration with this artist the collection has been promoted by a concert in Chengdu, collecting over 100 million views on Weibo. This city is the symbol of this new accessible Luxury consumption model that includes also lower-tier cities.



Figure 82: Fendi x Jackson Wang streetwear capsule collection (wwd.com)

Chengdu is the capital of the province of Sichuan and one of the three most-populous cities in Western China. What makes it special are its 34.600 millionaires in 2017, which represent an incredible opportunity for brands. This city is currently ranked as the third biggest Luxury market in China behind only Beijing and Shanghai, with 60% of Luxury sales by locals rather than visitors. In 2018 overall retail sales reached RMB590 billion (\$88.5 billion) while it is expected that by 2030 this city will become the 28th biggest market for clothing in the world (Reuter Intelligence, 2020).

4.2.5 Rising National Pride

In the last two decades China has experienced an outstanding ascent, driven by economic growth, upgrades in quality of life, and prosperity. At the consumer level, Chinese have become increasingly aware of their international relevance and know that Western brands need their purchases. Furthermore, the Chinese Government is promoting country’s heritage through various domestic and international initiatives. In 2017 President Xi Jinping launched a societal campaign based on Confucianism, summarized as a need to “*advance and enrich the outstanding traditional Chinese culture*”. The 70th anniversary of founding People's Republic of China in 2019 has been also the perfect moment to consolidate these concepts. This has led to a general national pride sentiment that is feeding the shift in preferences towards homegrown elements and the rise of domestic players (Reuter Intelligence, 2020). The Luxury market has not been immune to this trend. According to consulting company Ruder Finn in 2019 the demand for Luxury products reflecting Chinese elements has significantly grown (*see Figure 83*). Their survey highlights how about 72% of Chinese customers think it is important to embed Chinese elements into Luxury products or services they buy. At the same time, Chinese brands are becoming better received among customers, accounting for 35% of their Luxury spending over the past year. 56% of respondents affirmed also that they would have buy more Chinese Luxury brands during the following 12 months (Ruder Finn, 2020).

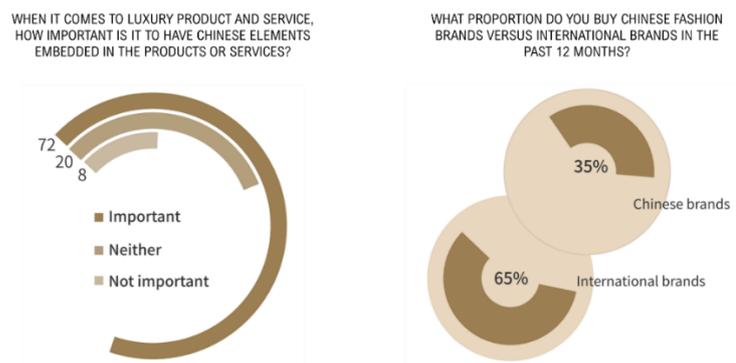


Figure 83: Importance of embedded Chinese elements in Luxury products and services (Ruder Finn, 2020)

This shift towards consumption of Chinese brands is also witnessed by their rise among the most important global Luxury companies. As reported in Deloitte's "*Global Powers of Luxury Goods 2019*", nine Chinese groups have entered among the world's top 100 Luxury goods firm. In particular the Hong Kong-based Chow Tai Fook Jewelry Group is 9th on the list, better ranked than historical brands as Rolex, Hermès, and Tiffany & Co. Other companies that occupy relevant positions are Lao Feng Xiang (15th), Chow Sang Sang Holdings International (30th), and Luk Fook Holdings (32nd). To be noted that all this Chinese brands are Luxury jewelry businesses (Deloitte, 2019).

Another interesting case is the one of *Fosun Fashion Group* which has seen an incredible growth in the last years fostered mainly by acquisitions. In 2018, Fosun earned record profit of RMB 13.4 billion (\$2 billion) on turnover of RMB 109.4 billion (\$16.5 billion). Even if this group is privately owned, it is perceived as an expression of China's desire to achieve greater power worldwide over the next decade. Since its creation it has acquired important Western Luxury brands as Lanvin, the oldest fashion House in Paris (2018, France), Wolford (2018, Austria), Tom Tailor (2014, Germany), St. John Knits (2013, USA) and Caruso (2013, Italy). Fosun has also relevant shares in key global brands as Wolverhampton Wanderers (Premier League football team), Club Med (French travel and tourism operator), and Tsingtao beer (China's second largest brewery) (Deeny, 2020).

The dynamism of the Chinese market has also involved the Shanghai Fashion Week which has become one of the top events in the Luxury world. In 2019 the tight schedule hosted 100 shows, seven official trade showrooms and special guests as Stella McCartney and Kering CEO Francois-Henri Pinault. 40.000 people followed the event, including media, buyers, VIPs and general attendees, doubling the numbers of the Tokyo Fashion Week (Reuter Intelligence, 2020). Due to the COVID-19 pandemic, the entire 2020 edition in March has been organized online, making it the first event at this scale to go fully digital. Despite the difficulties, this new format has been a success. More than 150 designers and brands have used Tmall live-streaming services to show their new collections. Moreover on the first day, brands' showcases attracted 2.5 million views while by the end of the fashion week over 11 million people saw the event. This has helped to generate more than RMB20 million (\$2.82 million) in gross merchandise volume (Chou, 2020).

Now more than ever having a deep understanding of the Chinese audience is critical to have success in this market. Showing a real integration with Chinese culture and society is not easy and special products or collaborations with local influencers are no longer enough. According to Denis Coan, Western Luxury brands still maintain an advantage thanks to their history and

tradition but they need to be careful when developing marketing campaigns, touching Chinese customers with the right messages:

“If you are a Luxury brand made in Italy or made in France with a history and a tradition, for example Fendi is 125 years old, there is obviously a recognized legitimacy that you are a brand with a strong DNA and recognizable elements. That makes you unique in the sense that you are identified as one of the key Luxury brands. This is an advantage because a purchaser can be sure that by buying Fendi he can be recognized by others as a Luxury consumer but the main challenge is to make sure that your marketing communication touches the Chinese consumer with the correct messages” (Coan, 2020).

Many Luxury companies in the past years have failed in this task, making cultural mistakes and offending Chinese customers' sensitivity. For example, during the last Chinese Valentine's Day (*Qixi Festival*) Balenciaga has been heavily criticized for its inappropriate campaign. This festival is after the Chinese New Year the second largest business opportunity in the country for Luxury products and usually brands create special capsule collections for the event. This year Balenciaga launched four limited-edition *Hourglass* handbags on its Tmall flagship store with a dedicated marketing campaign (see *Figure 84*). Both the picture and the bag exemplify the current *“Extra is Cool”* style favored by younger customers. However they have been labeled by most of Chinese netizens as tasteless and even offensive for Chinese culture. The topic *#BalenciagaChineseValentineCampaignTasteless* collected over 210.000 discussions and 170 million views on Weibo, while *#BalenciagaInsultsChina* reached over 15 million views and more than 6.000 discussions (Jiang, 2020).

Also Dolce & Gabbana faced fierce criticism for its *“DG Loves China”* campaign in 2018. The Brand was accused of trivializing the country's centuries-old culture, depicting Chinese women in a racist way. The subject of the campaign video, posted on social media platform Weibo, was an Asian model in a red sequin D&G dress having trouble eating Italian food using chopsticks (see *Figure 84*). This case underlines how something considered funny in the West could not be funny at all locally due to a different sense of sarcasm (Pan, 2018).

To avoid these errors is important to have an accurate knowledge of the Chinese audience as well as the potential pitfalls that this market reserves. According to Coan a local team of professionals can help in this task. However, also the role of the headquarter is fundamental to maintain a Luxury footprint:

“You need to have a local team that gives comments and suggestions to the idea that comes from the headquarter. Obviously, the role of the headquarter is very important because as a

Luxury brand you are appreciated by your consumers since you express a creativity and a message that is from the country of origin. But at the same time you need to be careful how this message is conveyed because it can be detrimental for the image and even offensive in some situations” (Coan, 2020).



Figure 84: Offensive marketing campaigns by Balenciaga and Dolce & Gabbana in China (www.jingdaily.com)

4.3 Gamification: the Future of Chinese Luxury

As described in Chapter 2, Gamification has proven to be a powerful mean for engagement purposes. The secrets behind its effectiveness are linked to human nature and influence people's behaviors by leveraging a sense of urgency. Because of their particular characteristics these strategies are perfect for the Chinese market where customers are younger, more impatient, more aware and more demanding than elsewhere:

“In China, this trend has been around for a long time because the need for entertainment is higher as well as the range of people who might need to be entertained. The appetite for Gamification in this country is just larger than in other parts of the world” (Chan, 2020).

Today in China there are approximately 720 million gamers who are in the same demographics of Luxury customers and represent a huge opportunity for brands. In addition, women are an essential part of the gaming market, accounting for nearly half of all gamers. A recent research report from the Tencent Institute on Games shown that *“Honor of Kings”*, the most popular multiplayer online battle arena (MOBA) game in China, has over 100 million female users, 54% of the total players. The same research also shows that women sacrifice their time usually dedicated to TV series (44.1%) and variety shows (28.3 %) to play games. High-end cosmetics manufacturer M.A.C. has been among the first to understand this opportunity in China. In 2019 the Canadian company signed a partnership with *“Honor of Kings”* to release a new line of co-branded limited-edition lipsticks (see Figure 85). These exclusive products, inspired by game’s characters, were available on various sales channels including Tmall, the official website of the brand, and a dedicated WeChat mini-program. To further boost social buzz around the initiative, M.A.C recruited Chinese idol group *“Rocket Girls 101”* to appear in a live-streaming event and promote the collection through their Weibo accounts. This marketing approach has been an overwhelming success in the country. Chinese customers in fact placed over 14.000 pre-orders across the online platforms, and all lipsticks went sold out in only 24 hours (Zheng, 2019).



Figure 85: Example of M.A.C. x Honor of Kings co-branded lipstick (www.jingdaily.com)

Another characteristic that has attracted the attention of Luxury brands is the integration of gaming with downstream services, such as live-streaming, transforming the phenomenon into a day-to-day activity. Playing and watching live e-sports have in fact become alternative ways for Chinese people to spend their free time. Moreover, games largely overlap with the entertainment industry in China and famous game-streamers have gained the same following and media relevance of singers and actors. They are considered in fact as true Key Opinion Leaders and attract and engage millions of Millennials and Gen Zers. For instance, e-sports professional Yan Junze (also known as “LetMe”) is a real idol among young Chinese, as witnessed by its 2 million followers on Weibo. This 24 years-old player was part of the “Royal Never Give Up” team of League of Legends, according to NewZoo the most popular PC game in the world. His fame derived mainly from his decisive contribution in the Chinese National team who won the 2018 edition of the “E-sports Jakarta Asian Games”. His ability to entertain and engage his supporters also allowed him in 2019 to launch a successful streetwear brand on the online sales platform YOHO!, underlining once again how games and fashion are closely linked (Peng, 2019). This shift from traditional entertainment channels like tv shows and movies to online gaming offers new spaces for brands to propose innovative product collaborations to reach the young audience. According to Coan, Luxury companies in fact exploit games to generate a touchpoint with these young people, even without a direct return in terms of sales:

“Brands go into the territory of games because they want to have a way of entering and getting in touch with the younger generation, not only with commercial purposes. Obviously if you are 18 years old, or even less, I would not expect that there is an immediate conversion into sales for my products. [...] What is important is to create a point of contact with these potential consumers through the videogame” (Coan, 2020).

Luxury and virtual gaming have in common the fact that they are both centered on fantasy and storytelling. The virtual universe of games is in fact a constructed space where it is possible to become someone else and usually people enter this digital space to live unique and exciting stories. This is similar to the way Luxury brands build a fantasy world characterized by unforgettable emotions. In addition, as for games, today the storytelling is fundamental for brands that can no longer rely only on excellent products:

“What is important is to have an element of uniqueness as well as a storytelling. It is not sufficient anymore to have only a beautiful bag, or a beautiful watch, or a beautiful pair of shoes. I am not saying storytelling per se because you want a super story. It is more related to explain the craftsmanship, how the concept design is born, what is the idea or the message

behind this design, what is the link with the DNA of the brand, or why this bag has this specific pattern this season” (Coan, 2020).

Games are perfect to convey these stories because they are unconventional, interactive and easy to understand, especially for younger customers. In this way it is possible to communicate messages that would otherwise be ignored. Moreover, Gamification marketing techniques are ideal to face some of previously cited trends in the Chinese Luxury scenario. They provide in fact accessible solutions to integrate physical and digital, redefining the in-store experience. Thanks to their connection with the digital world they also represent effective means to collect customer data, feeding CRM databases. For example, if people share through the game what they would like to buy it is possible for brands to customize online purchases, as well as making in-store dynamics more personalized. In this way, when customers enter in a shop, sales assistants can know in advance their preferences offering tailored and exclusive services. At the same time, capsule collections inspired by video games can be considered part of the “*Extra is Cool*” wave that is characterizing Luxury in China. These innovative items in fact have been received with a mixture of surprise, curiosity, and welcomeness by Chinese customers. Another element not to be underestimated is the fact that the potential of virtual reality games can be tied in with companies’ increasing efforts to adopt more sustainable practices. Through this digital services customers can virtually test new collections, saving brands from having to ship out products just to be returned. Example of this new paradigm is the mobile game “Drest”, launched in 2019. This application gives in fact players the possibility to dress a virtual model buying digital versions of Luxury garments, including brands as Gucci, Prada, Christian Louboutin and Stella McCartney (*see Figure 86*). According to Lisa Bridgett, CEO at Drest, players spend on average 33 minutes a day on the game, which is more time than many potential customers spend looking for clothing at e-retailers (Schaer, 2020).

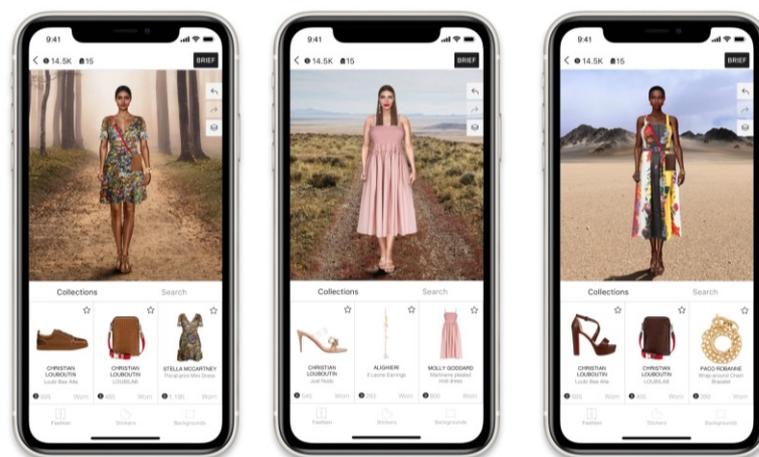


Figure 86: Christian Louboutin’s Spring 2020 collection available in Drest (wwd.com)

This tendency towards buying virtual clothes is also witnessed by the case of Fortnite, a game that is reshaping both the fashion and the gaming sectors. This free-to-play game, partially owned by Chinese giant Tencent (40%), makes money only selling digital items and virtual clothing (called “skins”) to customize in-game avatars. This business model has attracted numerous brands, interested in profitable collaborations. Pre-pandemic, for example, Nike’s Jordan brand joined Fortnite to show off some of its iconic pieces and sneakers. The results of this innovative approach suggest how this trend can be groundbreaking for companies. According to Sensor Tower data, the mobile version of Fortnite has in fact crossed \$1 billion in lifetime player spending just over two years after its release (Sensor Tower, 2020). Furthermore, COVID-19 pandemic has had a crucial role in increasing users’ spending in April to \$44.3 million, up 90% from March and 25.3% on a year-over-year basis (*see Figure 87*). Fortnite is also becoming the competitive arena where to experiment the latest and most innovative marketing strategies. The cases of musical artists Travis Scott and Marshmello, who decided to launch true virtual concerts using the game as a stage, are emblematic in this sense. Despite this success, in August 2020 Fortnite has been removed from both the Apple and the Google stores due to a lawsuit related to in-game payment rights. On one hand this situation forces brands to review their strategies, on the other opens interesting new scenarios.



Figure 87: Fortnite mobile global player spending by month (www.sensortower.com)

As in the case of Fortnite, to develop these types of Gamification marketing strategies, brands usually rely on external partners. These collaborations can include both games developers and/or specialized marketing agencies. Luxury companies need these partners because it is required a technical backend and frontend that is not in-house. According to Iris Chan in addition to these difficulties, the Chinese market represents a particular context where a local partner is needed to deal with its peculiarities:

“I think in China it is inevitable that you need partners. It is a really big market that is constantly changing. So if it is one of the many markets that you have to deal with you need someone else to keep up with what is going on” (Chan, 2020).

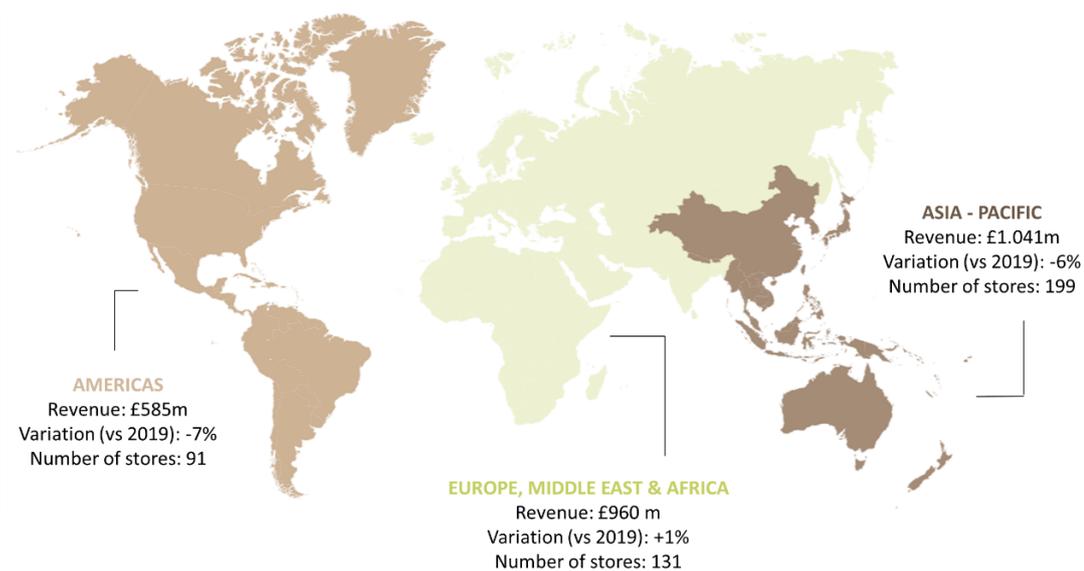
Despite the importance of these external partners also the Brand’s role should not be underestimated. The capability of the company is in fact to give the general mood board and the DNA elements to include into the game:

“The Brand validates every single detail that you see appearing in the game. There is not even one detail that has not been approved by me, or by my team in general, because you need to make sure that everything is not harmful to the Brand. [...] It is the same as when you do a fashion show. The creativity is in-house but the execution normally is done by a technical company outside. This because they have all the necessary tools and also because it is cost convenient. Developing a videogame in that sense is like a show. The building of the videogame is done by a specialized external partner but what is in the videogame is from Fendi” (Coan, 2020).

Luxury companies have understood the potential of Gamification marketing and have already developed numerous projects trying to exploit this phenomenon, initially in China and then all over the world. The next sections are aimed at analyzing more in detail the most relevant cases in the Chinese Luxury sector.

4.3.1 Burberry: From Online Games to In-Store Gamification

Burberry Group Plc is a British Luxury House founded in 1856 in Basingstoke, near London, by Thomas Burberry. This company manufactures and distributes clothing, fragrances, and fashion accessories all over the world. The iconic Maison has derived its success mainly thanks to its timeless trench coat and the Gabardine, a tough, tightly woven fabric invented by the brand's founder Thomas Burberry. Today the key people within the group are the Italians Marco Gobbetti (Chief Executive Officer) and Riccardo Tisci (Chief Creative Officer), responsible for the process of modernization and transformation of this company in recent years. With around 421 stores, Burberry is also one of the biggest global Luxury brands. The group is listed on the London Stock Exchange and is a constituent of the FTSE 100 Index. Burberry's revenue grew from around £716 million in 2005 to the record figure of approximately £2.77 billion in 2017. According to the latest annual report, in 2020 Burberry's revenue amounted to about £2.63 billion, a 3% decrease compared to the previous year when the total was £2.72 billion. The Asia-Pacific region represents the biggest market for Burberry, accounting for £1.05 billion, followed by Europe, Middle East & Africa (EMEA) with £960 million and Americas with £585 million (*see Figure 88*).



REVENUE BY CHANNEL

Period ending £m	28 March 2020	30 March 2019
Retail	2,110	2,186
Wholesale	476	488
Licensing	47	46
Total	2,633	2,720

REVENUE BY PRODUCT²

Retail/wholesale revenue by product division

Period ending £m	28 March 2020	30 March 2019
Accessories	948	1,013
Women's	796	837
Men's	715	698
Children's, Beauty and other	127	126

Figure 88: Burberry 2020 financial results (Burberry, 2020)

Within the Asia-Pacific region, China represents one of the most important opportunities for Burberry. The company in the last decade has significantly increased its presence in the country focusing mostly on proprietary stores. According to the Financial Times, in September 2010 the British brand acquired its Chinese franchises in a £70 million deal, deciding to bet on a direct control over its retail properties (O’Doherty, et al., 2010). As of now, Burberry has over 57 stores in 31 cities in Mainland China, including eight in Beijing, nine in Shanghai and three in Hangzhou. The marketing strategy of the company in China has been always characterized by an omnichannel approach, adopting innovative and tailored campaigns. At the same time, Burberry has been particularly careful to meet the needs of new Chinese generations, being among the most proactive and creative.

To engage these young people, in 2018 the British brand launched one of the first Gamification marketing strategies in China through a WeChat mini program (see Figure 89). The campaign was based on a social game in honor of the Chinese Valentine’s Day (Qixi Festival), representing an opportunity to strengthen the bond with Chinese customers. This game encouraged players to participate with their partners, in a short quiz aimed at discovering different types of relationships. After few questions like “Which shirt would you most like your partner to wear on a date?”, couples were matched with one of the 27 different relationship outcomes, including results as “when cats meet dogs” and “the tale of ice and fire”. Completing the game gave users the access to shop Burberry’s latest collection, including two special Qixi bags exclusive for China. The aim of this campaign was to engage customers in a seamless and creative way, encouraging their use of social commerce through the WeChat mini program (Smith, 2018).

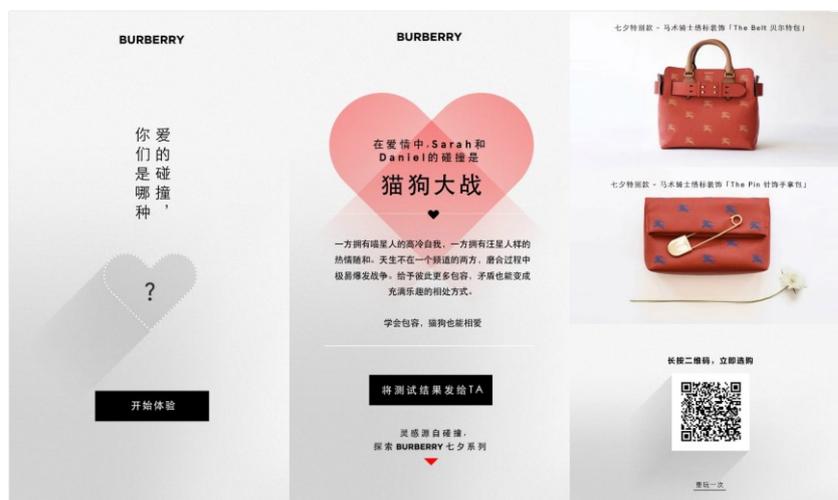


Figure 89: Burberry's social game in honor of Chinese Valentine's Day (www.jingdaily.com)

After this positive experience, the company decided to expand these types of strategies on a global scale, launching in October 2019 its first online game called “B Bounce”. According to Mark Morris, Senior Vice President of Digital Commerce at Burberry, the purpose of this strategy was to connect younger consumers, expanding the community around the brand:

“We have experimented with gaming in China, but B Bounce is our first playful extension into this format to entertain and connect with our new, younger consumers around the world. We know that they are living in an increasingly gamified environment both online and offline and we are excited that they can join the Burberry community” (Morris, 2020)

In this engaging and fun game, users had to drive a deer-shaped character dressed in Burberry monogram puffer jackets on a journey to the moon (*see Figure 90*). Moreover, players compete for special rewards including custom made GIFs and a real jacket from the Burberry puffer collection as first prize (Burberry, 2019).

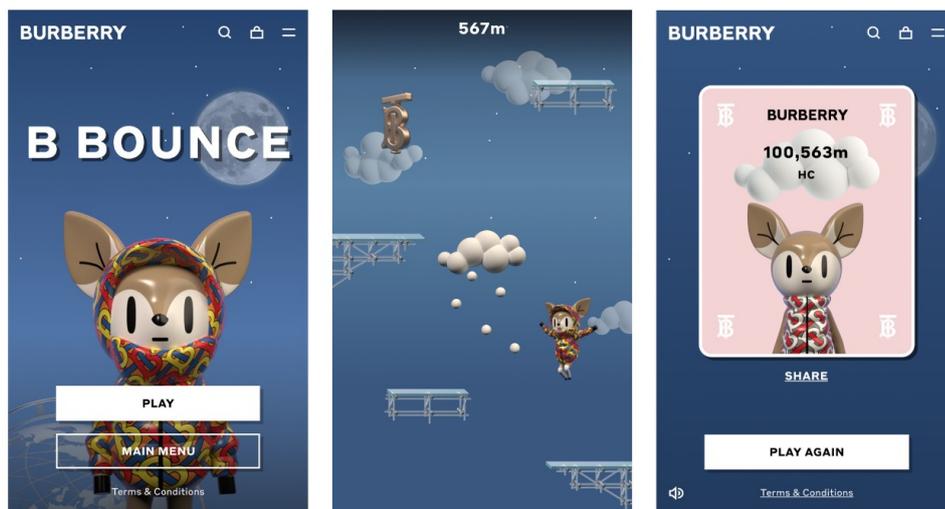


Figure 90: Burberry B Bounce game (www.burberryplc.com)

Only few months later, Burberry released a new chapter of this game adventure, customizing it for the Chinese market. According to the Chinese Zodiac, 2020 is the “Year of Rat” and to celebrate this event the British Maison launched an interactive application, available both on a dedicated WeChat mini program and on the official Burberry’s website, called “B Bounce The World of Ratberry” (*see Figure 91*). This games revolves around a new cartoon character called “Ratberry” and dressed in the Thomas Burberry monogram. Analyzing more in detail the gameplay we can see how it is very simple and players have to bounce the brand’s mascot upwards between platforms in a world inspired by the Burberry’s Chinese New Year limited-edition. The aim is to get as high as possible, collecting gold coins and catching Chinese lanterns along the way. When the character is hit by a firework or a dark cloud the game stops, showing

the score obtained and the position in the global ranking. The social aspect of this campaign has not been overlooked. Players in fact could share their results with friends through an integrated link. In addition, Burberry released Lunar New Year stickers on WeChat as well as videos on Douyin, featuring celebrities with the cartoon rodent and the related products from the holiday capsule collection. One of the main reasons behind the success of the game is its simplicity, according to Chan one of the key ingredients to make a Gamification Marketing strategy fun and engaging:

“If you make the user flow too complicated people do not want to play with it and definitely they do not want to play more than once. One of the most important things of Gamification is that you want people play again and again but if it is too complicated they will not share it and they might not even complete the game” (Chan, 2020).

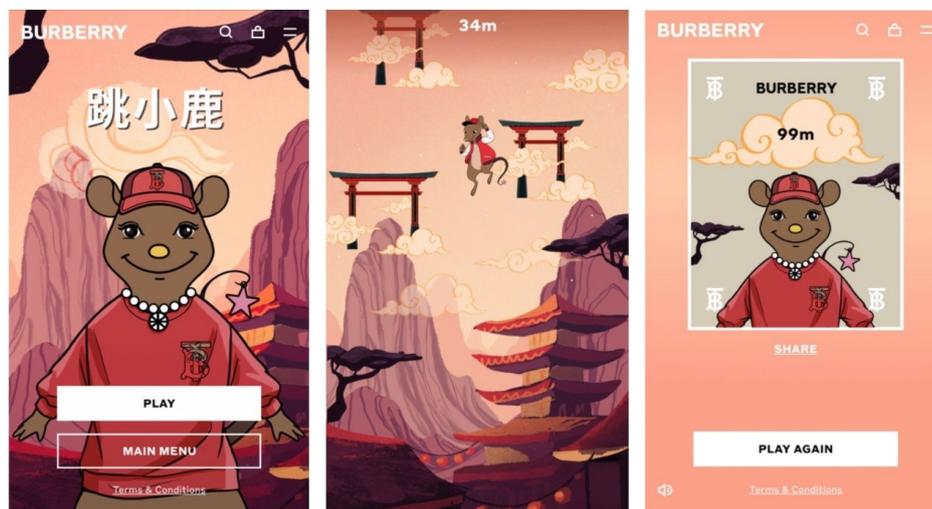


Figure 91: B Bounce The World of Ratberry game (www.burberryplc.com)

Another important characteristic is the fact that the entire campaign was based on a tailored and exclusive message for the Chinese market. At the same time, the game was directly linked with Burberry’s online shop, giving the possibility to customers to buy the Chinese New Year capsule collection in a few simple clicks. Finally, the sharing of results through social media provided that sense of community and competition that has favored the virality of the game. The overall numbers confirm the success of this innovative marketing strategy. The campaign in fact has been well-received by the target consumer group, with the “#RatberryHasArrived” hashtag drawing 120 million views on Weibo and generating 179.000 online discussions around the topic. This success marks a dramatic improvement with respect of Burberry’s last year attempt to attract Chinese customers.

In 2019, the British brand in fact involved Zhou Dongyu, along with other celebrities such as actress Zhao Wei, in a series of staged family portraits heavily criticized for their funereal overtones (*see Figure 92*). By contrast, Ratberry is a fun and bright character that embodies the warm feelings and joy associated with China's most important holiday. It is a good example of how Luxury brands have understood the essential elements of the Chinese New Year festival, embodying them in a tailored and effective message (Canaves, 2020)



Figure 92: Burberry's 2019 Chinese Lunar New Year tribute (www.jingdaily.com)

Another innovative example of Gamification in China comes from the new Burberry's phygital store in Shenzhen. As previously mentioned, this space is a combination of online and offline technologies and the most representative case of the in-store digitization trend. To make the customer experience more engaging, Burberry has collaborated with Tencent to develop a custom mini program, bringing the store to life through exclusive WeChat content. In particular this application gives every customer a playful animal character that evolves as they engage through in-store and social activities (*see Figure 93*). This virtual companion helps the visitor to live a tailored and fun experience, interacting with him throughout the shop journey. In addition, the more the customer engages with Burberry, the richer his experience becomes. Within the mini program in fact, customers can earn rewards through a special point system called "social currency". Collecting these points people unlock exclusive features and personalized gifts. Rewards range from exclusive menu items in the "Thomas's Caf  " to exclusive WeChat content. This example represents the most basic, but also the most effective, form of Gamification. Simply through a gamified system built on points, badges and rewards Burberry has been able to engage people during their purchases, creating an innovative digital experience.

According to Davis Lin, Senior Vice President at Tencent, this first experiment is only the initial step in a new period of transformation, where in-store enjoyable services will help brands to create an emotional connection with people (Burberry, 2020):

“We regard this as the starting point for a new era of innovation. Through connecting social and retail environments, we will create innovative digital services and delightful experiences for our users, help brands build deep emotional connections with consumers, and support the laying of strong foundations for the long-term growths of brands” (Lin, 2020).



Figure 93: Burberry's WeChat mini program for the Shenzhen phy-gital store (www.burberryplc.com)

4.3.2 Chanel: Coco Game Centers

Chanel is a private company and a world leader in creating, developing, manufacturing and distributing Luxury products. Founded in 1909 by Gabrielle “Coco” Chanel, this Brand offers a broad range of refined items, including Ready-to-Wear, Leather Goods, Fashion Accessories, Eyewear, Fragrances, Makeup, Skincare, Jewelry and Watches. Chanel is famous in particular for its Haute Couture collections presented twice yearly in Paris, and for its large number of specialized suppliers collectively known as “*Métiers d’Art*”. The brand’s distinctive colors are black and white, synonyms of simplicity and elegance. After Coco Chanel, the main face of the French Maison has been Karl Lagerfeld, iconic figure in the fashion world recently passed away. Nowadays, the key roles are held by Alain and Gérard Wertheimer (co-owners) and Virginie Viard (Creative Director).

Chanel represents a point of reference in the whole industry, employing almost 28.000 people worldwide. According to the latest report (*see Figure 94*), at the end of 2019 company’s revenue accounted for \$12.2 billion, growing by 13% at constant currency with respect of 2018. This makes Chanel the 4th largest Luxury group in the world, behind only giants as LVMH, Kering and Richemont. Also the operating profit has significantly increased, reaching \$3.5 billion (+16.6%), while net profit reached 2.4 billion (+11.3%). Despite these positive results, 2020 is expected to be a difficult year for Chanel due to COVID-19 impact. According to Philippe Blondiaux, chief financial officer, French Maison's revenues and profits will be both significantly affected, in line with those of the whole industry:

“We expect Covid-19 will lead to significant reduction in revenue and profit in 2020 and that the next 18 to 24 months will be difficult for the sector” (Blondiaux, 2020).

Financial Summary	2019	2018	% change
Revenue	\$12,273m	\$11,119m	10.4%
Comparable revenue ¹			13.0%
Operating profit	\$3,496m	\$2,998m	16.6%
EBITDA ²	\$3,914m	\$3,454m	13.3%
Tax rate	26.5%	25.5%	
Profit after tax	\$2,410m	\$2,166m	11.3%
<u>Revenue by Region</u>			
Europe	\$4,534m	\$4,280m	5.9%
Asia Pacific	\$5,426m	\$4,730m	14.7%
Americas	\$2,313m	\$2,109m	9.7%

Figure 94: Chanel 2019 financial results (Chanel, 2020)

As of June 2020, about 85% of Chanel's 417 boutiques have reopened, excluded some in the US, Russia and Latin America that remain closed due to quarantine measures. Chanel is not planning significant changes to its strategy or retail footprint to cope with the new reality. For example, it has not begun to sell its clothing, handbags or watches online, although competitors such as Gucci and Louis Vuitton are pushing e-commerce activities. Chanel uses digital platforms only for its perfumes and beauty products, available on Chanel.com as well as through Alibaba's T-Mall in China (Abboud, 2020).

Going back to 2019 results analysis, we can also see how at a regional level the Asia-Pacific market represent the largest opportunity for the brand, accounting for \$5.4 billion (44% of total revenues), up to 14.7% with respect of 2018. Regarding other areas Chanel generated respectively \$4.5 billion in Europe (+5.9%) and \$2.3 billion in Americas (+9.7%). The rise of this region has been pushed by China, country at the center of Chanel's strategies. The French Maison in fact entered this market in 1999, year of the first store opening in Beijing. After this date, the company has slowly strengthened its presence in the country, increasing the number of mono brand stores to 14. The importance of Chinese customers is also witnessed by the words of Bruno Pavlosvsky, president of fashion at Chanel (Diderich, et al., 2018): *"The Chinese are obviously a key nationality for us. It is an important and growing customer group, but we have worked as much on developing our network of stores in China, with several openings in the pipeline, as in other destinations where Chinese customers like to travel"* (Pavlosvsky, 2018). As Chinese customers have increasingly looked to get unique experiences, Chanel has embraced retail pop-ups to experiment with new kinds of commerce. In 2018, Chanel's arcade pop-up *"Coco Game Center"* traveled across Asia's fashion capitals, from Shanghai to Tokyo, representing one of the most shared experiences in Chinese social media. These temporary stores were inspired on arcade style, including a wide range of activities like racing games, bubble games, and crane games (see Figure 95).



Figure 95: Chanel "Coco Game Center" in Hong Kong (www.scmp.com)

In these gamified shops, customers could explore all the Chanel products while being engaged in fun and entertaining challenges. To add a Luxurious touch to the store visit, the name of each station was also inspired by popular Chanel's items such as "Rouge Coco", "Chance", and "Hydra Beauty". Furthermore, exclusive prizes played a crucial role to create a more engaging experience. For example, when guests won a game, special Chanel guides offered them free beauty consultations. Another original application of rewards has been adopted in "The Bubble Game" (see Figure 96), a claw machine in which participants tried to catch plastic balls containing Luxury beauty gifts, as lipsticks and cosmetic products (Batat, 2019). Chanel Game Centers represent a unique example of how to use elements coming from a totally different field, adapting them to Luxury. According to Chan this creative ability of mixing various parts of the digital environment is fundamental to develop marketing strategies in China:

"Especially for Luxury brands I would say: be creative. Not only artistic creativity but also digital creativity. It is important to think how to connect with the different pieces of your digital ecosystem and try to find an interesting trigger to do it. For example you can take into your environment some behaviors and habits that are happening somewhere else. Do not try to limit your creativity, especially in China" (Chan, 2020).

Another reason behind the success of these pop-up stores has been the effective use of KOLs. Among the many celebrities involved, Chinese supermodel Liu Wen, actress Liu Shishi, and actor Li Xian, collaborated to promote these stores. Moreover, editors of fashion magazines as Vogue, Bazaar and Elle also interviewed, took photos and videos on the spot. For example, Sina Fashion filmed fashion blogger Thomas Ye, also known as Gogoboi, (see Figure 96) while playing in the Chanel Game Center during a live broadcast (新榜学院, 2018).



Figure 96: Chanel's "The Bubble Game" and fashion blogger Gogoboi while playing Chanel's games (mp.weixin.qq.com)

These KOLs have driven the success of this campaign on social media, as underlined also by data. On Little Red Book alone, over 2.920 user-generated posts have been shared to broadcast the exclusive experience. At the same time on Weibo the brand grew significantly in popularity after the launch of its Game Centers in China. In April 2018, the topic “Chanel” in fact reached its 6-months peak on the Chinese social media with almost 264.000 mentions (*see Figure 97*) (新榜学院, 2018).

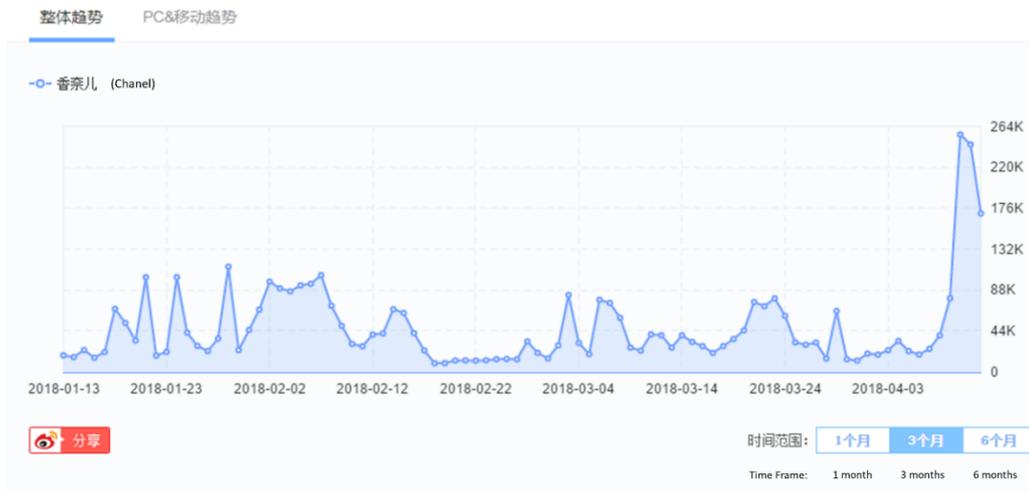


Figure 97: Number of mentions for “Chanel” topic on Weibo from January to April 2018 (*mp.weixin.qq.com*)

This Gamification marketing case study is another example of how the in-store Luxury experience is evolving in China. The Chanel Coco Game Center represents in fact one of the first attempts to combine the physical world with digital technologies as videogames, leading the way towards an innovative approach. These pop-up stores were perfect to attract the younger clientele, offering them a unique and engaging experience. In the near future this trend is destined to become even more relevant and all the Luxury brands need to find their original way to adapt their retail strategies to this change.

4.3.3 Dior: Online to Offline Gamification

Christian Dior SE, commonly known as Dior, is a French Luxury goods brand controlled by LVMH, the largest Luxury group in the world. The company was founded in 1946 by French fashion designer Christian Dior. It currently designs and distribute leather goods, fashion accessories, footwear, jewelry, timepieces, fragrance, makeup, and skin care products. At the same time this brand has maintained its tradition as a creator of haute-couture goods under the “*Christian Dior Couture*” division. This brand remains largely for women's, although it also operates the Dior Homme division for men and the Baby Dior label for children's wear. Key people within the company include two Italians: Pietro Beccari, CEO since 2018, and Maria Grazia Chiuri, current Creative Director.

As part of the LVMH conglomerate (the group does not break out earnings for its brands), detailed and updated information on Dior's financial results are not available. However, in a recent Morgan Stanley report has been underlined how in 2018 Dior entered the realm of Luxury mega brands, becoming the 6th player in the industry to get more than €5 billion revenues. The other brands able to reach this result has been Louis Vuitton, Chanel, Gucci, Cartier and Hermès. According to the estimates, Dior’s total sales grew by 18.7% in 2019, amounting to €6.3 billion in total. Also operating profits reached almost €1 billion, more than five times higher than they were a decade ago (Socha, 2019).

Dior has been always careful about the Chinese market, addressing it with an innovative and digital approach. In the past few years, Dior entered with official accounts in almost all the Chinese social media, such as Weibo, WeChat and Little Red Book. In 2018 the French company also launched a profile on Douyin, making it the first Luxury brand to use the platform. So far, Dior has more than 490.000 fans and 3.6 million likes with 628 posted videos. In addition, on June 2020 Dior created an official account on Bilibili, being the pathfinder to scout this social network. In only few months it has been able to reach 13.000 fans, posting 59 videos with almost 500.000 total views (David, 2020). Dior has been also the Luxury pioneer of live-streaming sales in China, confirming once again to be always among the most active experimenters in the digital field. As early as 2018, the French Maison was selling its products through a “*see now, buy now*” shopping feature for its WeChat official mini program. The one hour long live-streaming session took place in Chengdu, attracting more than three million viewers (Pan, 2018). Another sign of its attention towards digital sales, is the recent release of the Dior’s 2020 “*Singles Day*” capsule collection for China. For the first time in history in fact, a top-tier Luxury brand launches a special product line exclusively for this online shopping event (Zhang, 2020).

On this wave of enthusiasm for digital media, in 2018 Dior decided to explore a Gamification marketing strategy for the Chinese market. In celebration of the brand's new store opening at Plaza 66 in Shanghai, the company released a widely successful WeChat campaign, inviting people to participate via an interactive treasure hunt (see Figure 98). The game was very simple. Users had to collect six Dior's items searching them all over the city thanks to the WeChat dedicated mini program. Those users that successfully completed the game could launch a virtual hot air balloon for a chance to win tickets for the opening event of the store. This special party also involved famous international celebrities as American-Israeli actress Natalie Portman.

This case is an interesting example of an Online-to-Offline (O2O) Gamification campaign, where users can experiment an engaging treasure hunt, halfway between the real world and the digital one. Moreover, it is an original way to promote a physical store, creating buzz around the opening event and driving traffic to the place. Thanks to the WeChat integration and the enabled geo-localization, it also represents an effective way to exploit new digital technologies, collecting information about potential and actual customers.



Figure 98: Dior's O2O Gamification Campaign (www.curiositychina.com)

4.3.4 Fendi: Ways to Rome

Fendi is an Italian Luxury House producing ready-to-wear, shoes, fragrances, eyewear, and accessories. Founded in Rome in 1925 by Adele and Edoardo Fendi, this brand is known especially for its fur and leather products. Among the most iconic garments there are timeless pieces as the "*Baguette*", the "*Peekaboo*" and the "*Pequin*" handbags. Fendi has been a family-controlled company until 1999, when LVMH and Prada joined forces to buy 51% of Fendi for \$545 million. In 2002, LVMH acquired the 25.5% stake of Prada for \$265 million, becoming the majority shareholder. The Fendi family is still represented in the organization by the figure of Silvia Venturini Fendi, granddaughter of the founders and creative director of men's collections. Other key people include recently-appointed Kim Jones, creative director of women's collections, and Serge Brunschwig, President and CEO. Certainly worth mentioning the fundamental role of Karl Lagerfeld, who joined Fendi in 1965, holding the position of creative director until its death in 2019. After joining the LVMH group, Fendi has faced an outstanding growth. Although as in the case of Dior updated official data are not available, analysts at Bernstein estimated Fendi's revenues at €1.17 billion in 2017, with operating profit at €220 million. This makes the Italian Brand the 3rd most important label in the LVMH portfolio, only behind Louis Vuitton and Dior and just ahead of cashmere specialist Loro Piana. According to estimates, Fendi has a worldwide network of 215 stores and employs more than 3.000 workers, including around 400 specialists in leather and fur ateliers in Italy (Reuters, 2018). Since 2015, Fendi has been headquartered at the "*Palazzo Della Civiltà Italiana*", an historical palace in the heart of Rome known also as the "Square Colosseum" (Ansa, 2013). The commitment of the brand towards a policy of enhancing and supporting historical heritage, has been also testified by the sponsorship of philanthropist projects. These initiatives included the clean-up of the "*Quattro Fontane*" and the restoration of the "*Fontana di Trevi*", place where the company held its 90th anniversary show using a Plexiglas floor (The Week, 2018).

In addition to its commitment towards historical heritage, Fendi has always adopted innovative and groundbreaking strategies paying special attention to China and its young customers. The company first entered this country in 1998 with a boutique in Beijing's Peninsula Hotel, the first distribution point for Luxury goods in Mainland China. After years of expansion in the country, the Italian brand has identified itself as one of the first top brands in second-tier cities. Furthermore, in 2007 Fendi created in China one of the most incredible fashion shows in the history, bringing 88 models (44 of them Chinese, 44 of Western origins) on the 2000-years-old "Great Wall of China".

This event gained international attention and strongly resonated as a symbol of China’s arrival on the global Luxury scene. The audacious spectacle, which LVMH Chairman and CEO Bernard Arnault defined as “*the first fashion show visible from the moon*”, positioned Fendi as a global brand creating a great connection with Chinese customers (Socha, 2020). In 2019 Fendi’s attention for China has been renewed with a show titled “*Roma in Shanghai*”, which also represented a moving tribute to its former creative director Karl Lagerfeld. The chosen location was the Powerlong Museum in Shanghai, that hosted 600 influential guests, among which Chinese singer-songwriter Xu Weizhou (internationally known as Timmy Xu), and model You Tianyi. Once again Fendi created an epic moment to add to its long history of achievements (Nicoletti, 2019). In China, Fendi has proven itself as a brand careful to Millennials and Gen Zers, willing to adapt its products and marketing strategies to this new emerging audience. An example of this approach includes Fendi’s attention towards Bilibili, Chinese video-sharing website, popular among younger generations especially for its gaming contents. The Italian company recently launched a banner advertisement on this platform to promote its “*Peekaboo Bar*”, a new Hong Kong customization service for the iconic handbag. To reach the Gen-Z community, the campaign featured a game-inspired illustration that was created by Bilibili’s in-house design team (see Figure 99). This advertising has been well-received and caused many positive comments for the original idea (Wu, 2020).



Figure 99: Fendi’s “Peekaboo Bar” banner advertisement on Bilibili (www.jingdaily.com)

In line with this strategy, in June 2019 Fendi also launched the first ever WeChat mini game for a Luxury brand, with the aim of raising brand awareness and educate younger generations. Titled “*Fendi Ways to Rome*”, this application has been developed together with Tencent after

a selection process that involved also other Luxury brands such as Hermès, Chanel and Gucci. According to President of Fendi China Denis Coan, this project was born due to the necessity of Tencent to create a closer connection with its users, as well as to explore new business opportunities:

“Tencent last year decided to approach Luxury brands because even if they were very good at doing videogames, they have understood that they were disconnected with some of the other interests of their customers. These videogames in fact are a bubble compared to drinking, eating, cinemas, Luxury and everything else rotating around customers’ lives. In particular they wanted to integrate some of these offline activities, merging them with videogames. [...] Explore this side was important for Tencent to see if there were future business opportunities to develop videogames linked to brands or other different future partnerships as virtual reality or 3D shops” (Coan, 2020).

Fendi, normally quite open to explore new opportunities and ventures, has been able to win the bidding process thanks to a well-structured idea and an effective storytelling behind the proposal. The game in fact combined Fendi’s DNA with a visually exciting adventure in Rome, taking players on a journey around the glimpses of the city (*see Figure 100*). Through the most famous monuments it was also possible to learn about the history of the brand, admiring Palazzo Della Civiltà Italiana, Fendi’s headquarter, the Fontana di Trevi, location for the “*Fendi Fall/Winter 2016-17 Couture Show*”, and the Fendi flagship store in Largo Goldoni. Other places included the Pantheon, Piazza di Spagna, and Piazza Navona (Zheng, 2019).



Figure 100: “Fendi Ways To Rome” WeChat mini game (www.jingdaily.com)

Players could also choose between two different characters. The male version of these avatars was singer Xu Weizhou, ambassador of Fendi Peekaboo bag in China, who also provided the background music for the game. Users had to follow the adventures of Fendi-dressed Xu around three different levels (Discover, Tracing, and Pursuit of Dreams), where the protagonist had to run, ride a scooter and fly with a hang gliding. The surprising journey through the wonders of Rome ended with a final hidden level that makes the experience even more exciting.

As almost all the Gamification campaigns, Fendi also added substantial prizes for its fans. The Italian Brand gave in fact the possibility to three people to win a trip ticket from Shanghai to Rome, three free nights at a hotel, and a guided tour of the city. To incentivize the participation, who to reward was based on the final scores of the game. In addition, for those players who left comments regarding hidden details there were also the possibility to win small gifts.

This Gamification strategy marked an important result for Fendi, gaining relevance on digital media channels both at national and international level. The total balance of the game has been incredible, with more than 800.000 players engaged, 37.000 users driven on the WeChat official account, 28 million hashtag views, and 73 million total impressions. This success has been pushed by a truly omnichannel approach, using multiple touchpoints both of the Chinese and the Western digital ecosystems (*see Figure 101*). Also the role of Xu Weizhou, young star in the age of Fendi’s target customers, has been fundamental to create buzz around the initiative. This KOL presented itself the video game to the audience, sharing content on its social media accounts. Xu was also the protagonist of Fendi’s promotional video, in which the young singer was shown playing with the game.



Figure 101: “Fendi Ways To Rome” promotion on main Western and Chinese social media

According to Coan, this Gamification campaign has been an opportunity for Fendi to spread its story in a way that was easy for players to understand. Users in fact could breathe company's DNA through the Fendi logo present everywhere in the game and through other iconic elements as the "Peekaboo" bag, the "Baguette" bag, and the company's headquarter in Rome. This allowed the Brand to be absorbed by users without almost perceiving it. Moreover, this strategy has proven to be particularly effective with younger generations, the main target of the Italian Maison:

"That was a younger way to tell Fendi's history and storytelling without being invasive or boring. If you give the same storytelling on a piece of paper to a young customer, he will not bother to read it. Finally, we did this campaign because we wanted to create an interest for the younger generation after the videogame. In this way they would have checked what actually the brand is, what kind of products we have, and why a celebrity was involved in presenting the videogame" (Coan, 2020).

Notwithstanding the success of this campaign, Fendi is not immediately considering developing similar gamified experiences in China. This because customers always expect something innovative and different:

"We are not considering doing again another videogame at the moment. Not because it has not been successful, but because we would obviously explore something new. If you look what we have done in China in the past two years, we have created different PR buzz and marketing campaigns and they were always different from the previous one. This because customers want to see something new" (Coan, 2020).

Coan underlined many times how crucial the novelty factor for these types of strategies is and in general for marketing campaigns in China. Surprise and amaze the customer has become a priority for Luxury companies and creative gamified experiences has offered an effective way to reach these goals.

4.3.5 Gucci: Arcade Games and Tennis Clash

Gucci is one of the most known and most influential Luxury brands in the world, being an international point of reference for the Luxury sector. Founded by Guccio Gucci in Florence in 1921, the Maison is known for its eclectic and contemporary creations, expression of Italian craftsmanship and innovative design. In 1999, Gucci was acquired by the French multinational Kering (formerly Pinault Printemps Redoute), becoming over time the leading brand in the conglomerate's portfolio. At the beginning of 2015, Gucci started a new chapter of its history under the direction of a new management team led by President and CEO Marco Bizzarri and Creative Director Alessandro Michele. Over the last five years, thanks to an innovative approach, Gucci has gained a strong position within the Luxury industry. The company has in fact consolidated itself as a global leader, operating 487 stores and employing more than 17.000 workers around the world. According to the latest annual report, in 2019 Gucci generated €9.6 billion in revenues (+16.2% compared to €8.2 billion in 2018), with €3.9 billion in recurring operating income (+19.8% with respect of €3.2 billion in 2018). Due to the COVID-19 pandemic, Gucci faced a worsening of financial results (*see Figure 102*). In the first six months of 2020, revenues were €3.07 billion, -33.8% on a comparable basis (in the first half of 2019 revenues were €4.6 billion), with €929 million in recurring operating income, down by 50.5%. Despite these difficulties, online sales performed particularly well, up by 51.8%. At a regional level we can see how the Asia-Pacific region is critical for the Italian brand, representing almost half of its revenues (44%). At the same time, also the number of stores witnesses the importance of emerging markets, led by China, with a total of 211 retail spaces (Kering, 2020).

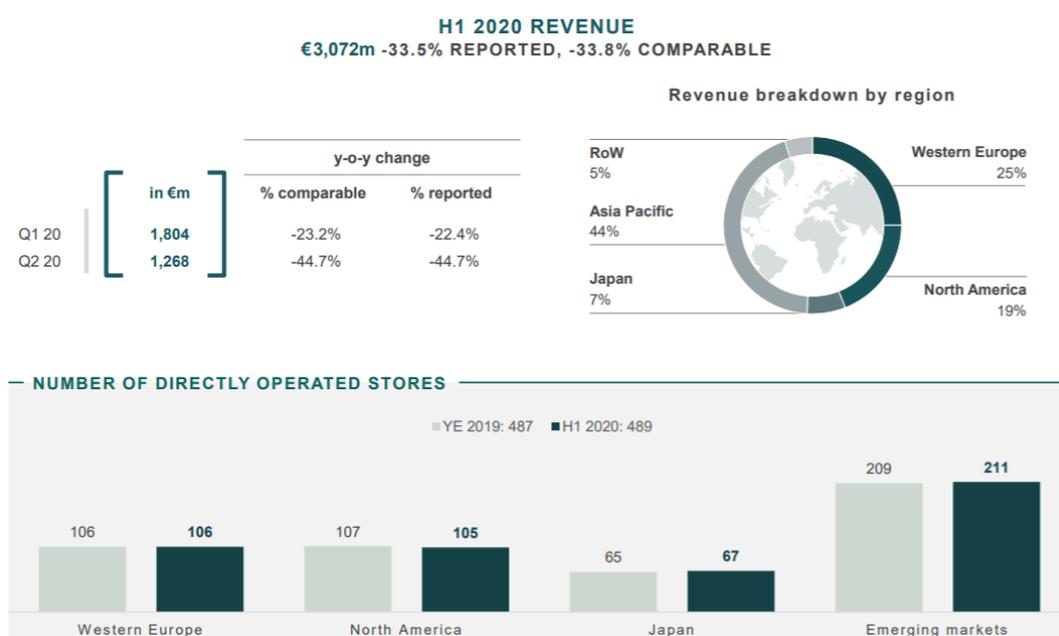


Figure 102: Gucci 2020 first half results (Kering, 2020)

The recent ascent of Gucci, especially in China, has been driven by the focus of the company on young customers. After the arrival of Bizzarri as CEO in 2015, a wave of changes began, leading the company to stand out from its glorious history and embrace new ideas and creativity. Gucci numbers among younger generations have been remarkable, with 62% of the \$8.2 billion sales in 2018 coming from Millennials and Gen Zers customers. One of the main reasons behind these positive results has been the strategic commitment of the company in investing in new technologies. Example of this approach is the Gucci “*ArtLab*”, a futuristic factory where artistic experimentation mixed with innovative production processes. This has enabled the Italian brand to transform concepts into products at a faster rate than many of its competitors, meeting the demand of younger generations for unique items. In addition, Bizzarri created a “*Shadow Committee*”, comprised of Gen-Z and Millennial members, to discover original ideas and digital strategies (Langer, 2019). Following this approach, in 2019 Gucci decided to dedicate an entire section of its app for arcade games (*see Figure 103*). The first one launched was “Gucci Bee”, in which players have to free a bee trapped in a labyrinth. The second-released entertainment experience was instead “Gucci Ace”. In particular, this game retraces the history of video games, from console to mobile devices, exploring the evolution of the Gucci Ace sneakers. As of today, nine arcade games are available on the application, including new-published titles as “Gucci Grip”, “Gucci Lips”, “Psychedelic”, “Mascara Hunt”, “Gucci Surf”, “Gucci Dive”, and “Gucci Bloom”. All these 8-bit games are influenced by retro themes aimed at arousing a sense of nostalgia in people. To immerse the user in the Gucci universe, virtual experiences present some brand’s iconic elements. For example “Gucci Bloom” takes its name from the latest fragrance of the Italian company. In this game players enter in a mysterious garden, choosing to interpret one of the four women protagonists of the “Gucci Bloom” campaign: actress Anjelica Huston, singer Florence Welch, actress Jodie Turner-Smith and designer Susie Cave.

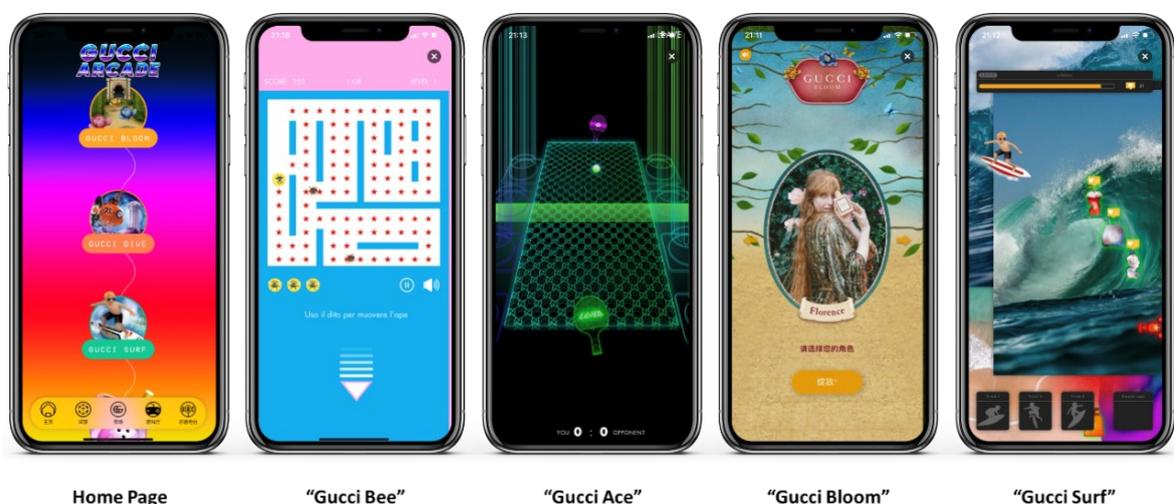


Figure 103: Gucci Arcade Games

The aim of these games is to speak more effectively to younger potential buyers, promote greater engagement with the brand and drive traffic to the Gucci app. In addition, to access the dedicated game section is necessary to complete a form with personal information. In this way the company can acquire useful data to understand customer age, gender, country and even preferences. As previously mentioned, this is crucial to support effective CRM strategies and provide customized and unique experiences. Another aspect to consider is the fact that through these games Gucci is conveying sustainability messages in an effective way. For example in “Gucci Surf” players can assume the role of Leonardo Fioravanti, best Italian surfer and testimonial of the Gucci brand, cleaning the plastic waste from the ocean while surfing (*see Figure 103*). Moreover, the virtual character must avoid sea creatures, underlining the importance of careful behaviors towards nature. This helps the company to build an environmental-sensitive image among Millennials and Gen Zers, who pay particular attention to these issues.

The positive feedback from this communicative approach has convinced Gucci to sign collaborations even outside its own app. The last in chronological order was signed in 2020 with “Tennis Clash”, a very famous mobile game constantly present among the most downloaded applications on Android and iOS devices. With the cancellation of the 2020 edition of the Wimbledon Tournament this virtual game gained even more relevance, representing an incredible opportunity for international brands. The partnership with Wildlife Studios, developer of the game, allows players to dress their virtual characters (Jonah and Diana) with four exclusive Gucci outfits, including clothing, accessories and sneakers (*see Figure 104*). Meanwhile, it has been also organized a dedicated in-game tournament, the “Gucci Open”. This limited-time competition saw players compete against each other, showing their avatar dressed in Gucci. A particularly important characteristic of this partnership is the possibility for players to access directly through the game to the brand’s official website. In this way they can easily purchase real versions of their favorite items through a “*shopping while playing*” model.



Figure 104: Tennis Clash’s characters dressed in Gucci outfits (www.gucci.com)

4.3.6 Hermès: H-Pitchhh and H-Break

Hermès International S.A. is a French high-Luxury manufacturer and distributor founded in 1837 by Thierry Hermès. It is specialized in leather, lifestyle accessories, home furnishings, perfumery, jewelry, watches and ready-to-wear. Among the most representative brand's items there are timeless "Birkin" and "Kelly" handbags as well as its refined and colorful scarfs. After almost two centuries of history the company is still familiar and independent, retaining the core of activities in its 43 production sites in France. At the same time Hermès has established itself as a global leader in the Luxury industry, developing an international distribution network of 311 stores in 45 countries and employing 15.700 people around the world. Key people within the company include descendants of the Hermès family Axel Dumas (Executive Chairman) and Pierre-Alexis Dumas (Artistic Executive Vice President). Nadège Vanhee-Cybulski instead is the current creative director. The latest annual report underlined as in 2019 Hermès reported €6.88 billion in revenues, up +12% at constant exchange rates with respect of the €5.96 billion of 2018. The recurring operating income increased by +13%, reaching €2.33 billion (Hermès, 2020). As other Luxury brands, also Hermès has been hit by the recent pandemic. Despite the gradual improvement of the situation that began in June, the group reported revenues in the first half of 2020 down by 24% at current exchange rates and operating income down even -53%, penalized especially by store closures (*see Figure 105*).

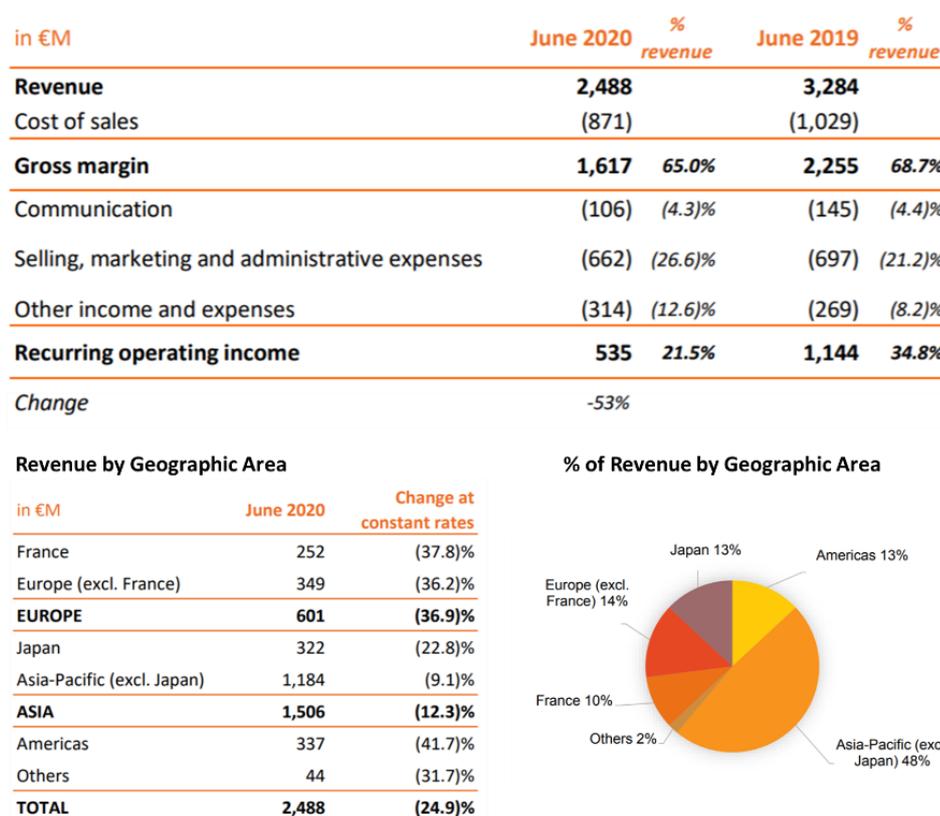


Figure 105: Hermès 2020 first half results (Hermès, 2020)

The most affected areas have been Americas down -41.7% and Europe down -36.9%. However, the Asia-Pacific region (excluded Japan), driven by China's recovery, has proved to be the less affected one with a year-over-year decrease of only -9.1% (Hermès, 2020). Analyzing more in detail the Geographic distribution of revenues we can also see how the COVID-19 has even increased the relevance of this region for Hermès. In 2019 Asia-Pacific (excluded Japan) in fact accounted for 38% of total revenues while in the first six months of 2020 this proportion has increased even to 48%. The main reason behind this trend can be identified in Hermès' online channels, where sales have grown by double-digits across Asia. In the first six months digital purchases have increased by more than 100% in China, and this growth continued even after stores reopened in the country (Fu, 2020).

In this country the company has also shown a good resilience in its 26 proprietary stores, driving total sales to grow at a rapid pace. For example, as previously mentioned, the French brand reported \$2.7 million revenues in one day at its Guangzhou flagship when it reopened in April. According to Vogue Business, part of this is due to the all-year-round nature of Hermès' product range and the limited supply of its famous handbags (Arnett, 2020). The company has in fact made exclusivity a synonym of its brand. In China, as well as in other parts of the world, Hermès has adopted a restrictive production and distribution strategy, keeping the demand for its items high. Example of this elitist approach is the fact that this Luxury brand sells online its products exclusively on its own website and not through third-party platforms. In addition, since its entry in China Hermès only opened one flagship store per year instead of inaugurating multiple stores simultaneously, focusing on communicating the ideas of exclusivity and French savoir-faire in each of these retail spaces (Achim, 2019). Another aspect that confirms this line of action is the fact that Hermès has not adapted its offering to local tastes, remaining consistent to its traditional motifs. Differently from its competitors, the French Maison did not target China aggressively and to meet the domestic style it has created a totally new and independent brand called Shang Xia. This company celebrates a contemporary fine living lifestyle, merging Chinese tradition with modernity.

Even Hermès' marketing strategy is playing an important role in building the exclusive status of its products. Both communication and campaigns are tightly controlled by the brand and every message has to convey company's core values and philosophy. However, this does not mean that Hermès is a conservative, old-fashioned Luxury brand. On the contrary, the French Maison exploits innovative management tactics and is a real explorer in the digital media world. One of the most emblematic digital campaign has been developed in 2018, exploiting a Gamification approach. To celebrate the theme of that year, "*It's your turn!*", Hermès created

in fact H-Pitchhh, a horseshoe throwing game application (see Figure 106). Inspired by horseshoe pitching, one of the oldest games dated back even to Roman Empire, this game allowed users to virtually try that ancient playful experience simply using a swipe on their mobile devices. Players scored points based on how close their horseshoe lands to the stake. In order to add a Luxurious touch to the game, users were guided through five different realms inspired by the Hermès refined style. Some of these levels included an immersion in an aquatic and fun space, a walk in a magic garden and a climb up the stairs of brand’s headquarter in Paris, the “24 Faubourg Saint-Honoré” palace. Each world was also illustrated by a musical theme, from hip-hop to rock, making the setting even more exciting. In addition to these functionalities, H-Pitchhh also allowed players to compete against each other, challenging their connected friends. To promote this downloadable application, the company launched a video-trailer set in the desert, where some models played the game dressed in the new Hermès collection (Batat, 2019). For the French Maison, this game was in perfect harmony with its traditional values and also with its equestrian DNA. Hermès in fact has a long-standing history with this world, being for example the sponsor of the “Saut d’Hermès” horse showjumping competition, one of the most relevant of the sector. This Gamification campaign showed the ability of the Luxury brand to adapt to new mobile usages, innovating its communicative style without losing its exclusivity footprint. Despite this game was globally available, this strategy can be interpreted as a significant step forward towards the Chinese market, where the average Luxury consumer is significantly younger and more receptive to gaming.

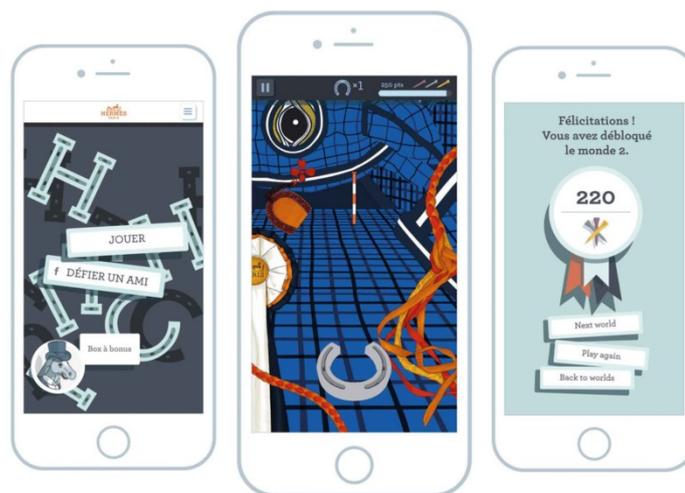


Figure 106: Hermès H-Pitchhh application (www.gameifications.com)

Hermès has also been the first Luxury brand to experiment Gamification marketing strategies in the wearable technologies field. The French Luxury Maison signed a partnership with Apple and since 2015 the two companies co-develop an exclusive line of smart watches. Hermès

designs the straps with its iconic style while Apple provide all the technological components. Despite this co-branded products are available all over the world, this move seems to work particularly well in the Chinese market, where Apple has gained a Luxury status and customers are increasingly demanding its wearable devices. According to Counterpoint Research, global industry analysis firm based in Hong Kong, while in China local smartphones have overtaken Apple's iPhone, the Apple Watch is still country's leader in the smartwatch sector. This device in 2019 reached in fact the 30% market share in China, with a 45% year-over-year growth rate (Counterpoint Research, 2019). For these reasons, the choice of Hermès is not surprising and has been a smart move, especially in China. To exploit even more this collaboration the French Maison in 2018 launched a fun and colorful game called “H Break”, exclusively designed for the Apple Watch (see Figure 107). Through this application players can challenge themselves with three different interactive experiences, testing their capacities. In the first, they have to use their sense of balance to reveal the colors of a Hermès scarf. In the second, they must apply their sense of logic to recompose some images in the fewest possible movements. Finally, in the third, they must exercise their memory abilities. This game represents a groundbreaking initiative in the Luxury arena, highlighting the interest of the company in developing innovative strategies. According to Iris Chan, wearable technologies represent a useful opportunity to create gamified contents and have been used to engage people in an effective way:

“These platforms have been able to connect customers in a really great way. These strategies are community based and gamified the experience through competition. For these reasons I think wearables are an integral part of the Gamification phenomenon” (Chan, 2020).

This case therefore represents the first step of Luxury companies towards Gamification marketing strategies on wearable technologies, but in the future it is likely that other brands will imitate the Hermès' move.



Figure 107: Hermès H Break wearable game application (www.hermes.com)

4.3.7 Louis Vuitton: WeChat Gamification and Video Games

Louis Vuitton is a French Luxury House founded in 1854 by Louis Vuitton and is considered the most important brand in the Luxury scenario. Born as a trunk maker, today the company offers a wide range of products including leather goods, ready-to-wear, shoes, watches, jewelry, accessories, and sunglasses. The intertwined LV logo, synonym of refined quality and French “*savoir-faire*”, represents the main distinctive element in the Maison’s creations. Among these items, timeless pieces as the “Speedy Bag” and the “Neverfull Bag” have become two of the best-selling bags in the Luxury market history.

In 1987, Louis Vuitton merged with Moët Hennessy, creating the top Luxury conglomerate in the world under the name of LVMH. Subsequently to this deal, the multinational started an aggressive diversification strategy, acquiring shares in numerous international companies. Today LVMH owns 75 different brands, controlling among the others Dior, Fendi, Loro Piana, Céline, Marc Jacobs, Guerlain, Givenchy, Sephora, Bulgari, and Tag Hauer. LVMH is also the only group present in all five major sectors of the Luxury market: Wines & Spirits, Leather Goods, Perfumes & Cosmetics, Watches & Jewelry, and Selective Retailing. The mind behind this growth strategy is Bernard Arnault, majority shareholder, chairman and CEO of the company since 1989. Within the company’s portfolio, Louis Vuitton is still the leading brand and with \$15 billion revenues is also the most profitable. According to Forbes, Louis Vuitton is also the most valuable brand in the Luxury industry, ranked 9th in the general list, with an estimated brand value of \$47.2 billion. The company is followed by Gucci at the 31st place, Hermès at 32nd and Chanel at 52nd (Forbes, 2020). Regarding group’s data, in 2019 LVMH generated €53.7 billion revenues, with a variation of +15% compared to €46.8 billion in 2018. Due to the COVID-19, also LVMH revised downwards its estimates for the first six months of 2020. As previously mentioned, in the period between January and June, the company generated €18.4 billion, down by 28% at a constant currency with respect of the first half of 2019 when revenues were €25.08 billion (*see Figure 108*).

Change in revenue by business group (EUR millions and percentage)	June 30, 2020	June 30, 2019	Change	
			Published	Organic ^(a)
Wines and Spirits	1,985	2,486	-20%	-23%
Fashion and Leather Goods	7,989	10,425	-23%	-24%
Perfumes and Cosmetics	2,304	3,236	-29%	-29%
Watches and Jewelry	1,319	2,135	-38%	-39%
Selective Retailing	4,844	7,098	-32%	-33%
Other activities and eliminations	(48)	(298)	-	-
Total	18,393	25,082	-27%	-28%

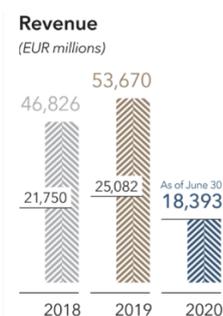


Figure 108: LVMH 2020 first half results by business group (LVMH, 2020)

Breaking down sales by geographic distribution we can also see how the Asian market (excluded Japan) is the major area for the LVMH group, accounting as of June 2020 for 34% of total revenues. This data is even more interesting if we consider that at the end of 2019 this region generated 30% of sales, changing by 4 percentage points in a few months (see Figure 109). Also the distribution of stores confirms the relevance of the Asian market with 1471 retail spaces, compared to 1175 in Europe (excluded France) and 834 in US (LVMH, 2020).

Revenue by geographic region of delivery			
(as %)	June 30, 2020	Dec. 31, 2019	June 30, 2019
France	8	9	9
Europe (excl. France)	16	19	17
United States	24	24	23
Japan	7	7	7
Asia (excl. Japan)	34	30	33
Other markets	11	11	11
Total	100	100	100

Figure 109: LVMH 2020 first half revenue by geographic region of delivery (LVMH, 2020)

In this scenario, the Chinese market plays a crucial role in Louis Vuitton’s strategies. Since first entering the country in 1992, the French Maison has been one of the most appreciated brands by Chinese customers. According to the 2019 Gartner L2 Luxury Index, which measures the performance of Luxury brands, Louis Vuitton was in fact the leading company in China, followed by Bulgari, Cartier, and Gucci (Gartner, 2019). At a meeting in 2019 with analysts, CEO Michael Burke said Vuitton was experiencing “*unheard-of growth rates*” in China, as reported by Bloomberg (Williams, et al., 2019). This growth has been partially stopped by the COVID-19 crisis even if the brand has been able to quickly rebound after the reopening of its stores. For example, according to the local financial information platform Xueqiu, the Louis Vuitton’s Shanghai Plaza 66 flagship store (the largest in China), has reportedly generated \$21.7 million over August, which is double the store’s typical monthly sales (Fu, 2020). The main reasons behind these outstanding results in the country comprise a stricter control of its distribution channels, streamlining operations, and particular attention towards new trends (Achim, 2019). Louis Vuitton has also embraced digital innovation, gradually integrating online and offline channels. This approach has included the large use of its own WeChat mini program for different purposes, the exploration of live-streaming commerce on Little red Book (see paragraph 3.6.2 *Live-streaming Commerce*), and recently also by half-virtual runway shows. The French brand in fact for its “*Men’s spring 2021 Show*”, launched in Shanghai its first online/offline fashion event. The whole runway show has been broadcast through different livestreaming channels, generating over 100 million views across various platforms (Diderich, et al., 2020).

The choice to build this strong online presence is also in line with the recently adopted strategy to focus on younger customers. In the past few years, Louis Vuitton has increasingly tailored its messages and products to Millennials and Gen Zers. Examples of this innovative approach include collaborations with streetwear brands as Supreme, and global partnerships with young popular influencers as Selena Gomez, Karlie Kloss, and Emma Chamberlain. Specific to China, Louis Vuitton in 2018 selected rapper and television celebrity Kris Wu as their brand ambassador, provoking discussions on social media about this audacious choice (Achim, 2019).

Due to this digital expansion aimed at attracting younger generations, Louis Vuitton has been among the most active in experimenting digital Gamification solutions. The first attempt of the company in this direction has been made in 2015 when the creative director of Louis Vuitton, Nicolas Ghesquière, announced that one of the testimonials for the brand's new advertising campaign would have not been a model or a famous actress but "Lightning", the protagonist of video game saga "Final Fantasy" (see Figure 110). This game, produced by Japanese developer Square Enix, is one of the highest-grossing video game franchises of all time, having generated \$10.9 billion in lifetime revenue, as of 2019. This decision reflected the personality of Nicolas Ghesquière, women's collection creative director of Louis Vuitton since 2013 and science fiction enthusiast. Another example of this interest has been the Spring Summer 2016 collection, heavily inspired by technology. The show in fact started with the audio introduction of the popular video game Minecraft and the soundtrack written by Daft Punk for the sci-fi film Tron: Legacy. The fashion event was also opened by a model with pink hair, very similar to Final Fantasy's character "Lightning" (Il Post Moda, 2015). Despite this last case does not represent a proper Gamification strategy, underlines the early interest of Louis Vuitton in the gaming world. The company in fact has been among the first Luxury brands to understand the potential of video games, testing different marketing approaches.

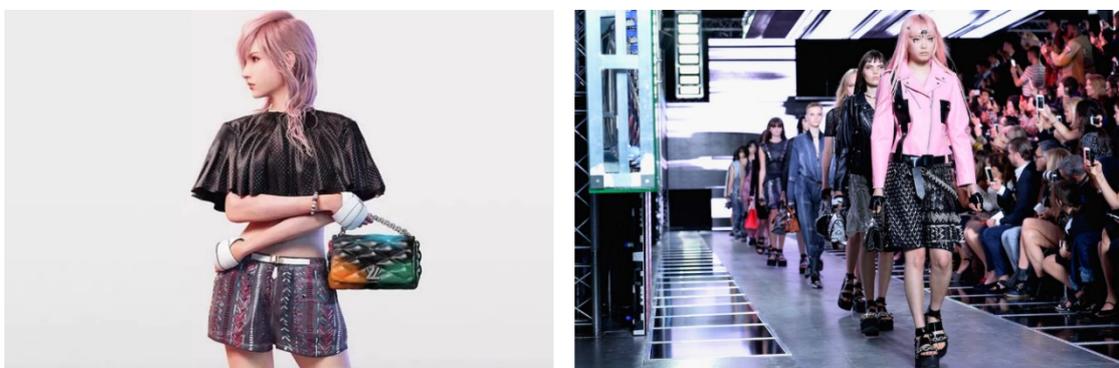


Figure 110: Final Fantasy's character "Lightning" in Louis Vuitton's outfit and Spring Summer 2016 fashion show opening (www.ilpost.it)

The first true Gamification strategy developed by the company was released during the Louis Vuitton's "Volez, Volez, Voyagez" exhibition in Shanghai. This exhibition featured more than 1.600 objects from the Louis Vuitton archives as well as original Chinese artworks. Throughout the exhibit, visitors could also track the chronological China-related histories by following a small red Chinese flag. The aim of this event was to create a sense of exoticism and Luxury travel for potential Chinese consumers, promoting at the same time brand awareness and prestige through stories about the company's rich history.

To further engage visitors in their journeys, Louis Vuitton uploaded a lot of information and functions into its mini program transforming it in a personal tour assistant (*see Figure 111*). Through this application visitors could discover useful information, buy tickets, listen the official audio guide and get exclusive stickers. During the event, the mini program also offered the possibility to entertain visitors with a creative game, called "Trunk in the sand". Players had to participate in a treasure hunt in the middle of the desert driving an historic Louis Vuitton branded pickup truck. The goal was to find all the hidden Louis Vuitton's trunks containing different historical items of the French Maison. Once each treasure was reached, the player could also read additional information of the objects discovered, making the experience even more interesting (Zheng, 2018). This simple game represented a fun and interactive way to engage visitors, conveying product related information at the same time. Moreover, the fact that Louis Vuitton decided to test a similar strategy first in the Chinese market suggest how Gamification campaigns in this country represent effective solutions.

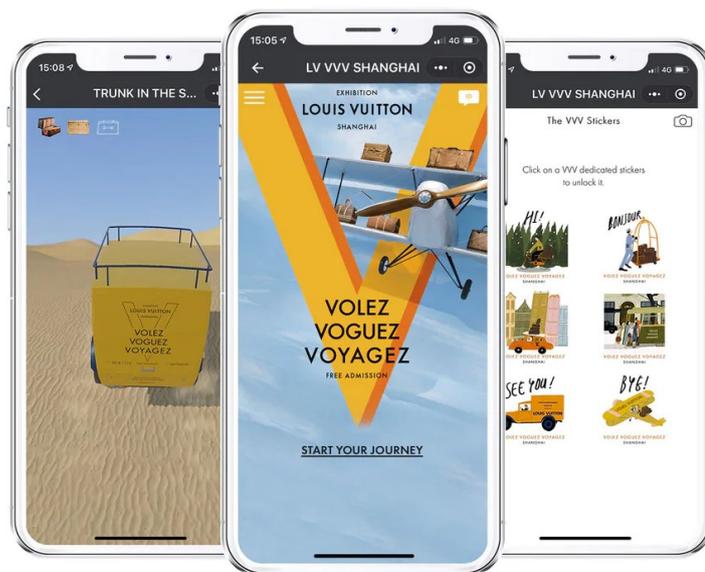


Figure 111: Louis Vuitton WeChat game for the "Volez, Volez, Voyagez" exhibition in Shanghai (www.louisvuitton.com)

Following the success of this initiative, in July 2019 Louis Vuitton decided to globally launch on its website a new retro-style video game called Endless Runner . This interactive experience was inspired by the Autumn Winter 2019 show of the French brand, designed by men’s collection creative director Virgil Abloh. The 1980s graphics of the game revisited in fact the New York City streetscape set that Abloh recreated in a corner of the Jardin des Tuileries in Paris for the fashion show. The player had to control a third-person avatar avoiding obstacles typical of the US city such as bins, traffic cones and phone boxes. At the same time, the goal was to collect as many Louis Vuitton’s monogram elements as possible to increase the score. To add a competitive element, players could also see their global ranking on the dashboard and invite friends to join the game (Pambianco News, 2019). This campaign represented a successful example of how to promote a Luxury event through the use of Gamification.

The most recent and most interesting example of this experimentation in the gaming sector has been a groundbreaking two-years-partnership with Riot Games, creator of popular multiplayer online title “League of Legends” (see Figure 112). As part of this deal, Louis Vuitton designed two exclusive avatars’ skins, the outfits players use to change their in-game appearance, and the trophy travel case to hold the Summoner’s Cup, the prize awarded at the end of the League of Legends World Championship. Moreover, the French Maison also released a capsule collection merging its style with that of the game. This exclusive line of clothes, designed by Nicolas Ghesquière, includes both sportswear items as €850 “Archlight” sneakers and more elegant pieces as the iconic €1280 Speedy bag or the €360 Monogram scarf. Despite its extravagance, this new collection has been well received by Luxury Customers. Only one hour after the launch in fact all the Luxury products went sold out in Louis Vuitton’s online shop (Jahns, 2019).

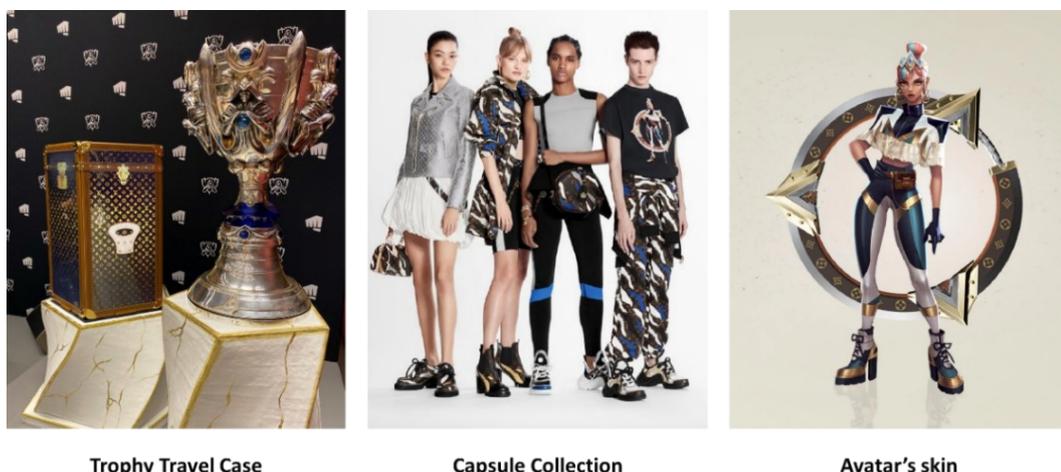


Figure 112: Louis Vuitton partnership with League of Legends

According to the brand’s CEO Michael Burke, one of the main reasons behind this partnership is the huge audience following e-sports and in particular “League of Legends” (Diderich, et al., 2019):

“The final will be watched by 100 million people minimum, so the number of people that will actually be exposed to this is going to be a multiple of how many viewers watched the final. This is going to go viral. It’s going to be an eye-opener for hundreds of millions of people” (Burke, 2019).

Analyzing the interest over time of the search term “Louis Vuitton” on Google we can also see how the peak of popularity in the past 5 years has coincided with the launch of this marketing campaign (see Figure 113). Despite other factors such as the LVMH announcement in November 2019 of the acquisition of Tiffany & Co. may have influenced this trend, the choice of the company to bet on video games seems to be successful, generating curiosity and interest around the brand.

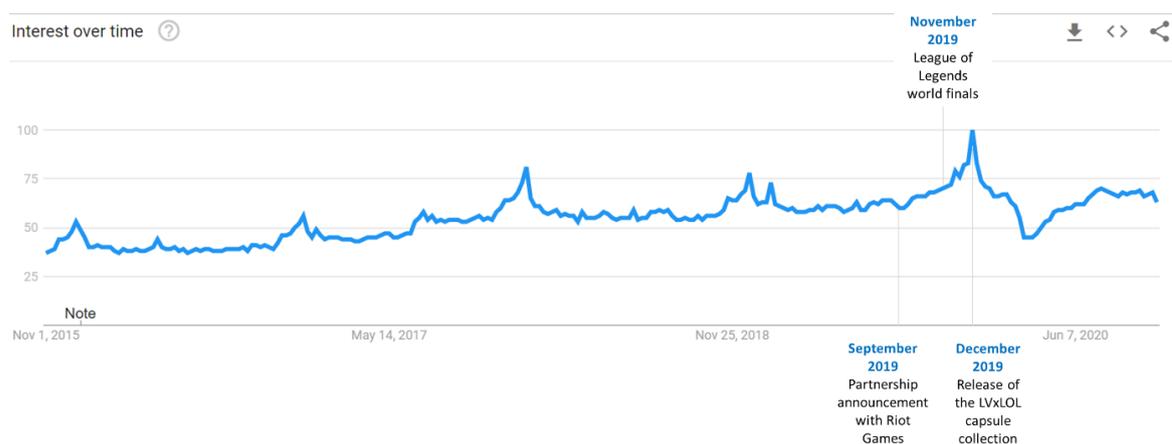


Figure 113: Interest over time of the search term "Louis Vuitton" on Google (trends.google.com)

Despite its global relevance, this partnership has been also particularly important for Louis Vuitton to address the Chinese market and its younger customers. Riot Games’ “League of Legends” is in fact the third most popular professional sport in China, only behind soccer and basketball. Among the 13 regional leagues of the game around the world, China’s “League of Legends Pro League” (LPL) is the biggest and the most popular, currently counting 17 professional teams. In addition, at a global level these teams have also taken the top spots at the World Championship finals in the last two years in a row (Vella, 2019). Chinese fans also represent the main audience for the League of Legends’ international competition. In 2019 in fact an estimated 104 million people in China watched the final match of the tournament, compared to only 3.7 million fans from overseas countries (Ye, 2019). It is therefore not

surprising that Riot Games has planned to host the next two editions of the “League of Legends World Championship” in China. The 2020 tournament is scheduled in Shanghai from September 25 to October 31, with the finals booked at the city’s Pudong Football Stadium. To be noted that Riot Games is also a subsidiary of Chinese internet giant Tencent Holdings, world’s largest video games company and owner of China’s biggest social media platform WeChat (Ye, 2020).

CONCLUSIONS

This thesis has underlined how China has become a crucial player in the global competitive arena by establishing itself as a point of reference for international companies. For this reason, now more than ever, it is important to approach this country with appropriate messages and tailored engagement strategies. First, it should be noted that an online presence is essential to communicate with Chinese consumers. The country's broad digital ecosystem offers in fact a multitude of different services and continuously evolve to adapt to people's needs. As a consequence, companies that want to succeed in this context need to have familiarity with new technologies such as social media, e-commerce and live-streaming platforms. Online shopping for example has pervaded all the product segments, with digital marketplaces such as Tmall and JD.com that offer varied and diversified services. Particular attention should be also given to WeChat, which has now become the hub of Chinese life. This all-encompassing application is not only a center of socialization and entertainment, but also a key purchasing channel through which brands can promote and sell their products in the same place. Among the other platforms that managers should consider when developing digital marketing strategies in the country, Weibo, Little Red Book, Douyin, and Bilibili certainly worth mentioning. These social networks are in fact steadily carving out considerable market niches, addressing specific categories of users. For this reason, today in China it is no longer sufficient to have a passive digital approach, but it is required to proactively engage customers where they feel most comfortable in interacting with brands.

The aforementioned digitization phenomenon has been pushed by Chinese Millennials and Gen Zers, that today are the leading generations both in terms of spending power and potential growth. These young, savvy and tech-addicted consumers are rewriting the rules of Customer Engagement, requiring sophisticated products and services. To address these emerging consumer classes it is necessary to keep up with latest trends, assimilating them into omnichannel and innovative marketing strategies. Among the latest digital tendencies, the gaming phenomenon certainly represents one of the most interesting fronts, thanks also to an unprecedented growth over the past few years. Video games have in fact entered Chinese daily routine, influencing people's habits, social interactions and even spending behaviors. The stay-at-home measures issued during the COVID-19 pandemic have even accelerated this ongoing trend, making it clear to everyone how Chinese consumers are progressively moving from traditional entertainment channels, such as TV shows and movies, to online gaming.

This has opened new, interesting opportunities for brands in the most disparate sectors, with Luxury ones at the forefront. Chinese Millennials and Gen Zers are in fact the most relevant buyers of Luxury products, setting the growth trajectories for the industry as well as fashion styles. China has therefore become the testing ground for Luxury companies to develop innovative strategies for these demanding and discerning generations. In particular, Gamification marketing campaigns, that consist in the use of game elements as marketing tools, has shown to be extremely effective to engage Chinese young customers. This is because in this country games share numerous similarities with the Luxury world.

First, young gamers are in the same demographics of Luxury purchasers, with women representing a consistent portion of video games enthusiasts. In addition, Gamification tactics are viable methods to facilitate the in-store digital integration, nurture CRM databases, promote sustainability, and satisfy a young clientele's new tastes. As shown through the previous analysis, all the most important brands have experimented different solutions in the gaming field, reaching good results both in term of engagement and awareness. The common thread of all these strategies has been the possibility to convey the Maisons' DNA to Millennials and Gen Zers in an entertaining and understandable way, building the base for future profitable relationships. Another important factor that managers should consider is the possibility to directly link these games to e-commerce channels, encouraging in this way a "*shopping while playing*" model. However, the development of these initiatives requires an interesting storytelling, a simple structure and an adequate reward scheme to be successful in engaging players. At the same time, managers should support these campaigns with social media platforms, increasing in this way the buzz effect around the brand. Fundamental in this sense is the contribution of KOLs, which have a strategic role in influencing Chinese consumer's behaviors.

To conclude, Gamification marketing has shown a great potential in China, with Luxury companies progressively exporting these strategies on a global scale. The new challenge for brands will be to find innovative ways to integrate games and videogames in their plans, without losing the surprise and novelty effects. For this purpose, latest technologies such as 5G, wearables, Advanced Reality, Virtual Reality and Cloud Gaming will surely be interesting opportunities to create creative and engaging Gamification marketing campaigns. Companies that will be able to do that, will gain a significant competitive advantage among the young leading generations, not only in China, but all over the world.

Appendix A: Interview with Thomas Rosenthal



INTERVIEW WITH THOMAS ROSENTHAL



*General Manager Asia-Pacific at “505 games” (Digital Bros Group)
and former Board Member at “Fondazione Italia Cina”*

Based in Hong Kong

13/07/2020

1. What is Digital Bros business about and what have you found to be the greatest needs in your organization?

Digital Bros is engaged along the whole value chain of videogames. We develop, we publish, and we distribute video game content. We also have an academy for videogames professionals to nurture the next generation of these specialists. Speaking about Gamification, this matter may be relevant also for our business and maybe in the future we will have Gamification professionals in our academy. I believe in fact that Gamification is truly an effective means to market product which have nothing to do with games. Digital Bros Group was established in 1989 and when we got listed in the 2000s the two main strategic directions of the company were digitization on one side and internationalization on the other side. The

company realized also that the market for physical video games in Italy was very limited and we started to sell box videogames in the shops. That was unsustainable in the long run because this market would have got smaller and smaller and the trend was generally to go digital. Now we operate mainly as pay-to-play and pay-to-download providers, but we also have a free-to-play segment in our company that is growing. We are platform agnostic and we believe that content is king. What really matter is the quality of games and we are always looking for new ways to deliver content to end users globally. Now we are close to a next generation of consoles because we will have PlayStation 5 and Xbox X in October. 2020 will be an important year because is in the middle of a transition to the next generation.

2. In which way the COVID-19 pandemic has affected Digital Bros activities in China?

Like many other companies we were influenced because Coronavirus affected all the territories where we operate: Europe, America, and Asia. But our broader industry was not hit hard. In particular we have not been particularly affected because we have focused most of our attention in the last couple of years on expanding on the digital side. What we notice is that end users find the e-commerce way to buy video games. This trend pushes the already happening digitization phenomenon to a further step. From a purely work perspective we were all impacted because as human being we missed the social interactions but compared to other industries we simply shifted focus and sales on the digital side. Some issues we run into are related with the fact that we mostly rely on third-party studios. Some of these studios, for example, were not as equipped as others to deal with smart working, creating some delays. Overall we are in a privileged industry, we were able to quickly react compared to others and we weather the crisis quite well.

3. Do you think that the increased interest in gaming due to COVID-19-related lockdown measures will have permanent benefits on the future of the Chinese games market?

What happened basically accelerates an existing trend which is the digitization of our industry. I think there is no real structural shift because this was already happening. This simply accelerates not only our direction towards digitization as a company but the general industry's direction.

4. Do you think e-sports have reached, if not exceeded, the popularity of traditional sports in China?

I think that we should divide between the pre-Covid and post-Covid period. While physical sports were not happening due to the health emergency, some of these competitions actually shifted to videogames. For example with our racing simulation game *Assetto Corsa*, one of our biggest titles, we hosted real drivers to compete with each other. This however cannot replace in the long-run the physical experience although the e-sport industry is growing and growing fast and is particularly suitable for China because of its competitive nature. From a cultural perspective, in China we observed players loving competitive games and this makes China one of the best markets for e-sports. So much so that some local publishers and developers of game have created games devoted specifically to e-sports. I think China from a cultural and from a market perspective is really a breeding ground for video games and e-sports. In our case, we do have a successful cooperation between *Assetto Corsa* and the Chinese Automobile Federation which is partially owned by the Ministry of Sport. When we launched this collaboration it was clear to many that it was a strategic political priority in the creative industry to foster esports.

5. What are the key ingredients to create “entertaining” and “engaging” contents for Chinese players?

Generally speaking the quality of the gameplay experience, the stunning artwork and the multiplayer element would be those which are more appreciated by a core gamer in China.

6. If you could give a suggestion to anyone developing a digital marketing campaign in China, what would it be?

I would say most of all is “know your audience”. It seems banal but sometimes we look at foreign territories as if are western lands and I think this is the biggest mistake. Just to give an idea, the user interface on an app is typically very different from the user interface we see in western territories. When we have our games delocalized, one of the first things that is done by our local partners for ourselves is to radically revise the user interface in our games. If you compare WeChat and WhatsApp, you can see how different the user interface is. User interface is only an example to explain how different China is compare to Italy or US. This is the most visible and clear element but of course there are deeper differences when delivering content to a Chinese audience. If I were a western company the first thing I would do is consult the local office in China because now most of the big companies have their own office. If you develop a Gamification marketing strategy, you cannot define it without involving your local office or local game developers. Just to give another example you can see the huge difference between streaming game platforms in China as Huya, Douyin, or Bilibili and Twitch in the West. In China most of the money the streamers make, they make via virtual gifting. It is the end user that gives virtual gifts, buying them in app and sending them live to the influencer. On the other hand in the West, streamers are typically paid probably by viewership but mostly because of the contracts they have with streaming platforms. If who really pays you is the end user rather than the platform, the kind of content and how to deliver this content radically change.

7. What is the one mistake that is most likely to derail a digital marketing campaign in China?

I think it is again the lack of knowledge of the audience. There are so many cases of failures which mostly come from cultural mistakes. When I say culture, I mean it in the broader sense. I do not mean your knowledge of Confucianism. I do not mean your knowledge of Communism. I mean the understanding of the local audience that comes from the culture they are embedded in. How content are delivered to them, how they process the content, how they react to the content. What is culturally sensitive today may not be culturally sensitive tomorrow. There are a number of informal barriers that become an obstacle when you do business in China. How do you present yourself? As a global company or as a company that is deeply embedded into the local business environment? Campaigns need to be localized and culturalized, just like games, in order to fit the local audience as better as possible. There are many successful companies that are localized incredibly well in areas where you would have never believed that was possible. When you enter in a KFC in China, you will notice that the menus are revolutionized compared to menus in the West. KFC was so much localized that actually it was sold to Alibaba Group. It is now a different company using the same Brand but delivering a totally different menu from what you would expect. Clearly fried chicken is always there but the rest of the menu you would not find in the US. Also when we bring our games to China we need an amount of localization. For example in China you need to go through a censorship process and you need to get approval before releasing a commercial game, so a game that monetizes. Many companies appreciate how big the Chinese market is and thus are able and willing to make cultural changes.

8. Video games are evolving into real 360-degree engagement tools for millions of people. What do you think of Luxury Brands that, especially in China, are taking advantage of this trend to improve their engagement with customers?

What I have seen from a Luxury perspective were some collaborations leveraging on images and trademarks, basically graphical assets of video games, using them to promote a Luxury accessory, a piece of clothes or a bag. What I saw is also the exploitation of minigames that are used to refer the customers to a website or to a product page to actually buy a good. Clearly this minigames are more effective than a static banner. We ourselves use this strategy to promote our games. For example, we developed a small boss fight minigame. If you won the boss fight you would have been led to the page where to download with a discount one of our games. I think that there is scope to do a better job in this field, for example through product placement. Movies are famous for product placement but there can be games that are very suitable for product placement as well. As an example, brands are actually a structural part of our Assetto Corsa game experience because we incorporate all the brands of the big carmakers. In this case we did not see it as a marketing tool, but clearly for the companies that has been part of the video game from the very beginning, it is. Signing a licensing deal with us is a double opportunity for these brands. On one hand to be more aware globally and for targeting a specific age group, the gamers. On the other hand the licensing agreement brings itself further revenues for the company. In my opinion, games in order to be engaging need to have a large userbase, making the competition valuable to the user itself. The reality today is that the number of users for videogames is much higher than cinema goers, besides the Covid era or not. Today in fact for some of the

most popular games you have tens of millions of users. Recently the CEO of Netflix said that its biggest competitors were not others in its same industry but, in terms of screen time, it was Fortnite.

9. What do you think are the complementarities between the Luxury and the videogames industries?

Today I would say the biggest consumers of video games are probably in the same demographics of the biggest consumers of Luxury products. In the past, gamers were typically very young males while today the age range is up to 40-45 years of age, even higher. Clearly this means that we are not talking about students which do not have their own earnings. We are talking about people who have their own work, play video games as a hobby and of course have spending power. So I think the complementarity is there, especially when comes to the female audience. This is particularly true in China, where the female audience is not a “blue ocean” like it was. It is a growing segment of the industry which is approached more and more often with content specifically addressed to that target consumer. And again we are talking not only about students but grown ladies that are big spenders and may spend in virtual items as much as they spend in a real store. From other perspectives, another similarity could be in product development. Today fashion is about design but also technological research, for example when comes to materials. For a video game it is the same: the amount of technology which goes into a game is huge and its design creates a very deep experience. The amount of knowledge which gets into that, especially when comes to free-to-play games, affects the ability to convince a gamer to spend within a game. Product design and technology are the key elements for a successful video game, just as for a successful fashion product.

10. What do you think will be the next most interesting trend in the Chinese market and in particular in the videogames industry?

I would say again it has to do with the delivery of content. I think today what we really are interested in is whether the Netflix model will apply to video games. Basically, the adoption of streaming technologies with 5G and the subscription model. If this will become a viable business model for end users and at the same time for content providers than it will be a success. Going back to your topic, one of the most interesting things that is happening in China is that the Government today compete to some degree successfully with video games providers to attract younger generations. Basically there is a competition between the screen time the new generation dedicate to video games and to the content delivered by the official mouthpieces of the Government. How does the Government react to this? On the one side censorship of video games content. On the other hand leveraging the video games, just like as if they are a Luxury Brand, to send political messages to a very susceptible user base. If they are competing with publishers they might as well cooperate with them to deliver specific messages. You can see minigames, and proper video games inspired by successful histories in China. For this reason, I totally agree that games can be very successful means to deliver messages, whatever the message is, and it can surely be a marketing message for Luxury Brands to engage users which today have a very high spending power.

Appendix B: Interview with Iris Chan

dSEA



INTERVIEW WITH IRIS CHAN



*Partner, International Client Development at "DLG" (Digital Luxury Group),
leading digital marketing agency for Luxury and lifestyle brands*

Based in New York, USA

13/07/2020

1. What does the term "Gamification" mean to you exactly?

Gamification I think is making something that would otherwise not be entertaining. It is continuous engagement, and not a one-shot strategy. It is also related to human behaviors and exploits a sense of urgency. Gamification creates an end point to something and the path there is more entertaining compared to just like walk towards. In China, this trend has been around for a long time because the need for entertainment is higher as well as the range of people who might need to be entertained. The appetite for Gamification in this country is just larger than in other parts of the world. The other thing with Gamification is that it requires continuous engagement. It is not a click-and-buy strategy and it prolongs the engagement with the Brand.

2. Why Gamification Marketing strategies are so successful in China and in particular in the Luxury market?

For Luxury there are a couple of reasons. First of all consumers are younger and these younger generations are entering in the stage where they could be spending. The sort of digital lifestyle that they have is quite different from the traditional Chinese Luxury consumer who belongs to an older demographic. There is more incentive for brands to set an interaction and as a result there is more opportunity for successful results. There is also the fact that there are more people of a certain age that are more willing to spend time with games and are easy to get along in that area. Luxury is something that the younger generations have an appetite for whether or not they can spend on it completely. This is why I think brands start early with these relationships, allowing young customers to know their brands. They

might not buy today but they potentially might buy something later. Now Luxury is also more accessible in the sense of style. For example, the streetwear is crossing over with Luxury and the streetwear itself is becoming Luxury, like Supreme and other similar brands. This makes Luxury more approachable for a wider group of people, not only younger generations, but also older people who never really like wearing Luxury suits to work. Gamification and all the tactics that are doing things more digital are speaking to the newer generations. Generally speaking all the digital capabilities of most people in China are just higher than everyone else. For example there are people live streaming from their farms to sell goods. These strategies do not require to be big companies and can be done at a very small scale as well as a very big scale level.

3. What are the key ingredients to make a Gamification Marketing strategy “fun” and “engaging” for users?

First of all you need to be realistic about the size of screen that you are using. If you are talking about just gamifying a marketing campaign you have to think about people staying on their phones, for example on metro. The other thing is to create a sense of urgency. Some tactics include timers when you have to get a certain goal, levels, badges, or rankings like all kind of typical old school video games elements. Very simple ingredients due to the small size of the screens where customers are playing. Tmall for example gamified the process by which people can increase their chances for discounts. Customers needed to complete certain tasks, doing certain actions inside the Tmall’s ecosystem within a certain time to get a reward. These kinds of mechanisms help to make people feel they need to do it now rather than later.

4. Do you think that new technologies such as virtual reality and wearable devices will influence marketing strategies and in particular the gamified ones?

I think that wearables being gamified is something that has already been done. If you think platforms like Strava, Fitbit or even WeChat they have developed game systems to compare your daily steps with other people. These platforms have been able to connect customers in a really great way. These strategies are community based and gamified the experience through competition. For these reasons I think wearables are an integral part of the Gamification phenomenon. For the ocular visor I think it is going to be a while before it will really become fully in. First of all it is still really expensive. Second it is not entirely practical to walk around outside with it. Augmented Reality and Virtual Reality are just terms that are nice and buzzy but they do not necessarily mean anything else. We have done augmented reality campaigns where you can move around and discover things dynamically but it is just not realistic to go too far with that. Hopefully eventually they will become more immersive. Think for example how Pokémon Go has engaged people through their phones, but again the screen size limits the experience.

5. Is there any research behind a Gamification Marketing strategy? If so, how this type of research can be conducted?

I think that research is done no matter what it is going to be the Gamification mechanism. This is the most successful way to ensure that it works, as opposed to just thinking of an idea and then hoping it works. In terms of the research usually we are looking at the trends that are going on, if there are areas that have been really gamified, and if there are passive experiences that can be converted into more

active and entertainment ones. Part of it is looking at what your competitors are doing as well as looking at companies in other industries to get inspiration. The other thing is to look at your target audience. Usually there is a core audience and then probably a secondary audience that comes after that. Then look at your Brand and what is the main message that you want to convey in this campaign. Try to understand how this message will be perceived by customers and how it will stand out from competitors. How you do the rest of the campaign is just a matter of mechanisms. If your target for example are baby boomers, look at what their habits are, what are the opportunities to engage with them, and where they typically engage with you. If you are a fashion Brand try to understand if they typically inquire about things like where it is the nearest store, or if they inquire about what it is coming up for the autumn/winter collection. There is a number of different things to look at but the research definitely centers on competitors, consumers, and your Brand.

6. What are some of the common problems when developing these types of marketing tactics?

One of the common problems is that your campaign is too simple or too complicated. If you make the user flow too complicated people do not want to play with it and definitely they do not want to play more than once. One of the most important things of Gamification is that you want people play again and again but if it is too complicated they will not share it and they might not even complete the game. On the other hand if you make it too simple it is not really engaging. Finding the right balance is really tricky because it is very easy to go on one side or on the other. I think that understand

how things work on screens is also important. Trying to bring monitors games into small screens is very problematic and is a common mistake. Another error is to be out of message. For example you created a game that is not saying anything to a consumer. Is crucial to keep in mind that at the end of the day there is an objective such as either build Brand awareness or push sales.

7. Do Luxury companies have the capabilities to develop this type of campaigns internally or do they usually rely on specialized external agencies?

Typically you need someone outside. Especially because these games tend to be developed with a technical backend and with a frontend that still need to have code into it. These kinds of services tend to be outsourced because they are not part of a typical skillset that a Brand needs to have all the time. Luxury Brands in general are not as big as people think they are. There are a lot of people in the stores but there are not many people doing the marketing. Usually there are managers in the headquarter that are covering everything worldwide. For situation like that there is just no way that you are able to handle all by yourself. I think in China is inevitable that you need partners. It is a really big market that is constantly changing. So if it is one of the many markets that you have to deal with you need someone else to keep up with what is going on.

8. If you could give a suggestion to anyone developing Gamification Marketing strategies, what would it be?

Especially for Luxury brands I would say: be creative. Not only artistic creativity but also digital creativity. It is important to think how

to connect with the different pieces of your digital ecosystem and try to find an interesting trigger to do it. For example you can take into your environment some behaviors and habits that are happening somewhere else. Do not try to limit your creativity, especially in China. If you find another Brand interesting to pair with, consider a cobranding. Not just doing a crossover but possibly creating a new product. From the Gamification side of things, you can consider having it hosted on several platforms. Maybe at each one it could be a different kind of mechanism, targeting different audiences.

9. What do you think has been the impact of COVID-19 on the Luxury market in China and how have marketing strategies changed?

I do not think anything has changed in China. I think things have really changed in the West where it has fundamentally shaken companies to figure out what to do. In China there were already teams of digital associates to help people with consultation, especially in Beauty. The only thing is that now there are 300 people instead of 50 inside those teams. They had not to set the infrastructure and create live streaming channels to be able to show products or sell online. It was already happening. I think that the pandemic has simply catalyzed this to a higher level. This has given more flexibility to switch from offline to online and vice versa. I think that digitization of businesses has gone further along the process. I do not think selling online was something Brands were lacking in China. Live streaming was not a new trend and has been used a lot already. Now it is becoming more an essential piece of everything that people do. In the past it used to be one of those things that was exceptional to add to a marketing campaign. Now it is fundamental to have it.

10. In your opinion, which will be the next digital marketing trend for Luxury in China?

If I have to think only to one thing I would say the CRM aspect. Mine is more a wish than a trend but I think things are going in this direction. Because of COVID for instance everybody who had a CRM database of consumers was able to tap into those people and more easily convert them. This was because those companies already had strong relationships with customers. I think that a lot of brands start to realize how important the CRM was. At a global level, this aspect is not just set up and CRM databases are quite messy. If I shop in Italy it may not show up in my profile over in China. Trying to reconcile all customer information on a macro scale will allow to find people in the right places at the right time. I think CRM is going to be a lot more focused on people but there is still a lot of fixing on the infrastructure to be done. In this way it will be possible to fuel more insights in terms of what kind of marketing campaigns are going to work well. I think Tmall does a good job with that because they have a lot of data just on categories for instance. Using the data and not just collecting them is going to be more and more important but actually doing it is the problem that might make it not happen.

Appendix C: Interview with Denis Coan

dSEA



INTERVIEW WITH DENIS COAN



President at Fendi China

Based in Shanghai

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1. In which way the COVID-19 pandemic, and the related lockdown, have affected Fendi's activities in China?

I think in general there has been a shift in market consumer behavior. If you look specifically for China, a portion of the market was based on Chinese travelling abroad who buy Luxury products in foreign countries due to a significant price gap. Now we are in a situation in which you cannot travel anymore, therefore either you buy within China, either you do not buy any product. This situation has changed the behavior of customers. On one hand some of them, who do not necessarily need Luxury products immediately, just stop buying waiting to travel again because it is cheaper. On the other hand a portion of customers do not want to wait for borders reopening because they have the urgency of self-satisfaction in their daily life. Now Luxury

in fact is a fundamental part of customers' everyday life as much as it is being online or being on WeChat. In addition, what happened is that the average age of customers has changed in the market due to the Coronavirus. What we have seen in general is that students that were abroad came back in China and did the lockdown within the country. Moreover, thanks to the effective and immediately close in the month of February the market did not collapse. The domestic consumption at the moment is very strong in China, there is no lack of job and the life is back to normality. As a consequence you have a younger population with disposable income who cannot travel and do not know how to spend their money. This is because they have in their pockets a good portion of the cash they usually dedicated in the year for travelling, do shopping, and buy food abroad. Especially going to the restaurant is one of the preferred activities that Chinese consumers do when they travel in foreign

countries. For example, they normally go in Michelin restaurants to have exclusive experiences. At the same time because they have been in lockdown for about two months, they indulged in a sort of “revenge consumption”. This term is related to the behavior of people who have been locked in their houses for a long time and now they really want to please themselves buying something because it is nice to finally go back to normality. Someone might have expected only a peak in consumption in April and May due to this phenomenon, but now we are having June, July, and August even stronger than the previous months. What is happening here, not only for Fendi but for the market in general, is that the average age of consumers has dropped from one to four years. So, if normally the age of a Luxury customer in China was 35, now it can be down even to 30 years old. That is quite of a big jump to have, difficult to achieve in four months. What does it mean that the average age dropped? That you have a direct link to the products category that you are selling. Obviously if the age dropped, some of your customers now are 18, 20, or 22 years old. These young people are usually mid-segment wealthy and do not spend all their budget for one single item, as a 4000€ Chanel bag. They would rather buy a scarf from Fendi, a pair of shoes from Balenciaga, fashion jewelry from Dior, and maybe a bag from Celine. Why do they do this? Because once the lockdown has finished, they have started going out with friends and they want to have new things. But if they only have 4000€ a month and buy only one Luxury piece, it means that until next month they will have nothing new to show off to their friends. More importantly, they will not have something to exhibit on WeChat or Weibo when they post a photo. As a consequence, they have started to buy less expensive products, still branded, to have new looks almost every day of the week. Another difference related to the lockdown is that the e-

commerce starts booming. Obviously, this was due to the fact that people were locked at home and cannot go to the physical store. Once the market reopens, this trend has continued because customers already had the habit of buying online. Obviously, there are customers going back to their normal behavior preferring the store, but those are people over 35 that go to the store because they prefer the human contact. Younger generations, so from 18 to 35 years old, go more online and this is why we see that the e-commerce business has started flying in China since March.

2. According to your experience, what are the characteristics that make Chinese Luxury customers different from those in the rest of the World?

If you take for example the e-commerce business for Luxury, US and Europe are bigger than China. The e-commerce business in China is huge obviously, but it is huge because of the phenomenon of Taobao and Jingdong (JD.com), where the average price is very low and you can buy any type of product with discounts and promotions. When it comes to real pure Luxury business, obviously China is smaller than US where there is a longer consumer behavior habit to buy online. This is not the case for example of an Italian consumer, who is still in the early stages of e-commerce. In China is different in the sense that the digitalization of lives has been so fast in the past 10 years that people jumped from not using the smartphone to basically have their life on these devices. This has helped to have the Chinese consumer completely savvy about digital and online. People buy online, order a car, post everything on WeChat, read news, watch tv series, and so on. This is why it is normal for an average Chinese person to do anything online, including Luxury shopping.

What is different probably is that in other countries people only buy up to a certain point online. Customers still want to have a physical touch with some of the product categories that they are buying. So probably they would not purchase a very expensive watch on e-commerce because they still want to check it out physically. In China there is no longer any blocked step in buying Luxury accessories, bags and ready to wear online. It has become a normal part of daily life and this is thanks to the effects that started on Taobao first. When people have begun to buy online they had very limited incomes. Now that they are 30 years old they have obviously much higher spending power than when they were younger but they have bonded themselves to the habit of buying online. Therefore they find normal to purchase Luxury products on e-commerce because now these items are their normal purchases.

3. For a foreign company what are the main problems and obstacles when entering the Chinese Luxury market? What are the advantages?

I would not call them neither problems nor advantages. I think you always talk about opportunities, in the sense that your diversity is an opportunity. If you are a Luxury brand made in Italy or made in France with a history and a tradition, for example Fendi is 125 years old, there is obviously a recognized legitimacy that you are a brand with a strong DNA and recognizable elements. That makes you unique in the sense that you are identified as one of the key Luxury brands. This is an advantage because a purchaser can be sure that by buying Fendi he can be recognized by others as a Luxury consumer but the main challenge is to make sure that your marketing communication touches the Chinese consumer with the correct messages. I give you an example of what

happened this summer during the Chinese Valentine's Day. This festival is after the Chinese New Year the second biggest commercial opportunity in the country for Luxury products and for gifting in general. For the Chinese tradition there is a real story behind, a real legend linked to love, and it is not only a simple day. Five years ago it was starting to be significant, last year was very important but this year has been incredible. Obviously, every single brand tried to convey a message to the market and create specific products dedicated to Chinese Valentine's Day. For example some with hearts, some with a love story behind, some with dedicated tales, special clipping, special photo shooting and devoted advertising campaigns. However, you need to be very careful when you try to localize too much your message. On one hand, it might go super well having a touching message related to love, China and their culture. On the other hand, if you represent yourself in an extreme very local way then you are not anymore perceived as a Luxury brand. This year *Balenciaga* had a terrible result because they did a Valentine's Day capsule targeting the classic stereotype of Chinese customers, a very tacky and low perception of them, and this was not appreciated. Instead of having a positive result from this campaign, they created a media storm and were heavily criticized by the young generation. As a consequence, no one wanted to buy or wear those specific products, labeled as "bad taste". In that sense you need to be careful when you do a campaign. The same happened to *Dolce and Gabbana* a couple of years ago. Something they found very funny was not funny at all locally, because the sense of sarcasm in China is very different. You need to have a local team that gives comments and suggestions to the idea that comes from the headquarter. Obviously, the role of the headquarter is very important because as a Luxury brand you are appreciated by your consumers since you

express a creativity and a message that is from the country of origin. But at the same time you need to be careful how this message is conveyed because it can be detrimental for the image and even offensive in some situations. We have noticed that in the past several brands did advertising campaigns and video clipping, as you see in Europe or in the US, with friends going out clubbing and party at night. It can be a very normal video, maybe in the city of Shanghai, with people simply in a bar drinking something. This is a very normal situation if you are living in a big city in China, but in the countryside you can have very negative feedbacks. There, consumers think that is not proper as a lifestyle going out together at night drinking in a big city. For example, a Cartier campaign shot in the evening did not receive very positive messages on Weibo. If they had done the same campaign for the same product during the day, for example with people going out for afternoon tea, they would probably have received a lot of positive messages. This is because the consumer behavior in international cities as Shanghai is quite different from the very traditional mindset of a consumer that lives in 3rd, 4th, 5th tier cities.

4. In your opinion what are the key elements to attract and engage Luxury Customers in China?

Nowadays Chinese customers are very well informed and they know all about brands. If you are a young customer you are very well prepared and probably you have searched and discovered the brand, either through friends, or through family members. Maybe your parents already purchase Luxury products so for you it becomes a commodity and is normal to buy Luxury. What is important is to have an element of uniqueness as well as a storytelling. It is not sufficient anymore to have only a

beautiful bag, or a beautiful watch, or a beautiful pair of shoes. I am not saying storytelling per se because you want a super story. Is more related to explain the craftsmanship, how the concept design is born, what is the idea or the message behind this design, what is the link with the DNA of the brand, or why this bag has this specific pattern this season. So once you have this story and your salesperson in the store is able to convey this message to your potential customers, then you are gaining its attention. It is not anymore sufficient like 20 years ago to buy a brand logo, because now everyone can buy it. This storytelling is important because when your customers are with their friends in the restaurant they can have a little story to tell about the brand or about the product. As much it is for Luxury wine, or for starred restaurants. When you seat down and you eat in a Michelin restaurant they explain you the taste, the color and so on and the same is for a Luxury product. In that sense is unique, because you are able to create an emotion which is more than just buy a logo. Sometimes in fact some of the Luxury products do not have any logo actually. If you take Loro Piana you do not have a logo in any of their products, but you know it is wonderful cashmere. In their storytelling there is the refinement of cashmere, the craftsmanship, the tradition. Chinese customers buy Loro Piana because of the quality of the product. Do they get recognized? Maybe not. Do they need to be recognized? They need to be recognized by their range of people, by the people that they care. They do not care to be recognized by the people on the street, because they probably do not want to mingle with them. 20 years ago people wanted a full logo jumper because everyone in this way could see they were rich. Not anymore, not necessarily.

5. What do you think about the increasing importance of online games and videogames in the Chinese society? In your opinion can these resources be useful for Luxury brands?

The videogame market is obviously huge with millions of players online in China. In my opinion brands go into the territory of minigames because they want to have a way of entering and getting in touch with the younger generation, not only with commercial purposes. Obviously if you are 18 years old, or even less, I would not expect that there is an immediate conversion into sales for my products. Most of the time people are just playing the video game, so they are not interested to buy something. What is important is to create a point of contact with these potential consumers through the videogame. In this way you are able to say: "I am a Luxury Brand but I actually understand you as a person. I understand what is important for you and I can also create something that you like, even if my business scope is not videogaming, is Luxury". In that sense you create a point of affinity between you as a brand and a potential customer. And this is why it was interesting for several brands entering this affiliation with some videogames last year, as for example Burberry and Louis Vuitton. Either directly creating a videogame, or by featuring or dressing up some of the characters in videogames.

6. In 2019 Fendi launched the WeChat minigame "Fendi Ways To Rome". What were the objectives of this marketing campaign?

Tencent last year decided to approach Luxury brands because even if they were very good at doing videogames they have understood that they were disconnected with some of the other

interests of their customers. These videogames in fact are a bubble compared to drinking, eating, cinemas, Luxury and everything else rotating around customers' lives. In particular they wanted to integrate some of these offline activities, merging them with videogames. Therefore they said to different industries, and one of these industries was Luxury, that they had this opportunity and they wanted brands to work with their team for a couple of weeks to come out with an idea. Then, they would have chosen which one was the best to develop a videogame, putting as Tencent all the resources and programmers to create it. Obviously, they did not expect that brands have the knowledge and the budget to create a videogame alone. Explore this side was important for Tencent to see if there were future business opportunities to develop videogames linked to brands or other different future partnerships as virtual reality or 3D shops. For example, recently Burberry cooperated with Tencent to create together a virtual reality shop in Shenzhen. Since we are normally quite open to explore new opportunities and ventures, in particular in the communication, we decided to participate in this bidding for the videogame. I think that is important to get closer with customers trying and exploring different ways of doing marketing. There were different brands competing as Cartier, Gucci and few others but and at the end Tencent decided to work with us because they found that there was a real storytelling behind our proposal. For instance, the fact that it was linked to Rome and the fact that you have to create a path. Basically it is like a Mario Bros version of Fendi. This videogame was an opportunity to create a mini story which was easy to be understood by the player. If the gameplay is too complicated customers would not get the storytelling that you want to stay behind the videogame. They lose completely the message because they have no time to understand what the story or the

dynamics of the Brand are. You need to be able to put your DNA elements into the videogame and be absorbed by your user without almost perceiving it. People should breathe Fendi through that videogame. For example in our game you have to simply jump and around there is our logo, there is the Peekaboo bag, there is the Baguette bag, there is our headquarter in Rome, and so on. So that was a younger way to tell Fendi's history and storytelling without being invasive or boring. If you give the same storytelling on a piece of paper to a young customer, he will not bother to read it. Finally, we did this campaign because we wanted to create an interest for the younger generation after the videogame. In this way they would have checked what actually the brand is, what kind of products we have, and why a celebrity was involved in presenting the videogame. We had in fact Timmy Xu, a young Chinese star that is in the age range of the customers we wanted to reach, playing himself the videogame and presenting it to the audience, which basically are its own fans. So if these fans were not already familiar with Fendi, thanks to the videogame they have found the brand interesting. The goal for this videogame was obviously as all videogames to win something. In our case a trip to Rome. There were three people that would have had the opportunity to see in real what they have played in the videogame. Who to send was based on the game's scores, not a decision of the Brand. This was obviously an interesting part and a reward for the player.

7. Was this marketing initiative successful? If yes what were in your opinion the key ingredients that contributed to its success?

I think without doubt that it has been a successful campaign and even relevant for the

whole Luxury industry. For example WWD went out with an article on this videogame specifically, because it was the first brand ever game with Tencent. This created a buzz in the industry because Fendi was the first one. We are not interested to go back and do it again because it has already been done. Now you have Burberry launching this summer a new videogame. They can do it, but they are not creating the same buzz that the first videogame created in the market and among young customers. The aim was not persevere making people playing the videogame but create a buzz around the brand. You are in the mouth of customers because you have done something different. That created brand awareness among young people, and in particular among Generation Z, which are our top customers for the future.

8. Is Fendi considering proposing again similar gamified campaigns in the future?

We are not considering doing again another videogame at the moment. Not because it has not been successful, but because we would obviously explore something new. If you look what we have done in China in the past two years, we have created different PR buzz and marketing campaigns and they were always different from the previous one. This because customers want to see something new. Now, if I prepare again a new videogame it could be fun. Maybe it could be even better than the previous one because you have some learning points in developing the game. But it is better to focus on a new activity. This is why we probably would not develop immediately another videogame.

9. What is the role of specialized external partners when developing this type of campaigns?

Companies would not have the capability of self-developing a game. The capability of the company is to give you the mood board and the DNA elements that you must include into the videogame. The Brand validates every single detail that you see appearing in the game. There is not even one detail that has not been approved by me, or by my team in general, because you need to make sure that everything is not harmful to the Brand. Even a very small detail that you think is not disturbing, actually could disturb. It is not only the case of videogames, but even when you do a videoclip in the city. There could be elements that you want to remove because either do not represents your Brand or they create a strange message which it is not wanted. So you need to check all of those elements. The technical capability of developing a videogame obviously is not in-house so you need to search for the best partner. In this case Tencent was the best one because has thousands of engineers working on videogames. In general, when you do marketing activities you can have a big team in-house and you can do everything by yourself. But you might have situations where you need the help of a local agency for specific activities. They might have a specific competence that is stronger than your in-house one. It does not mean that you are not good at it. It means that agencies work 24 hours a day only on that portion of your business and therefore for them it is easier and faster. It is the same as when you do a fashion show. The creativity is in-house but the execution normally is done by a technical company outside. This because they have all the necessary tools and because it is cost convenient. Developing a videogame in that sense is like a show. The building of the videogame is done by a specialized external

partner but what is in the videogame is from Fendi.

10. What will be in your opinion the next most interesting trend in the Chinese Luxury market?

I think obviously with the growing of the e-commerce segment of this industry it would be to create more and more future stores where there would be an integration between physical and digital experiences. There are already some attempts. As I said Burberry started the first attempt in Shenzhen Bay this summer with its new boutique which is half created in digital experience. But this is only an attempt and there would be an evolution. So this ultimately will be the trend. To go into a direction of creating a mix of experiences between digital and reality in physical stores. And this is back to the effect that customers want to have an experience when they go to a boutique. They no longer want to just go and buy products. They go to a store because they can have an experience. Every brand is trying and considering different things. There is not a final recipe so everybody is testing different solutions in different moments. Usually you try some months with a popup, just to see how it goes, and then you move into a real store. I think this will continue for the next five to ten years.

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