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**"DIGITAL MARKETING STRATEGIES IN THE CHINA FASHION MARKET:  
THE DIESEL BRAND CASE STUDY"**

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*“Fashion is transformation, youth, aspiration.  
It’s about what is happening in the world, it’s a  
mixture of what surround us viewed from different  
perspectives. And you have to be always tuned in!”*

*Ralph Lauren  
Founder and Creative Director of Ralph Lauren*





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# INTRODUCTION

Over the last thirty years, China has overtaken Japan as the world's second largest economy and it is expected to surpass the United States in the near future. Owing to its high development rate, it has become an important and strategic market for many international companies.

In particular, the Chinese country is a key market in the global fashion industry, following only the United States. Due to this circumstance, more and more international and Italian fashion brands have entered into the Chinese fashion market, seeking for business opportunities.

The characteristics of the sector and the specificities of local consumers, however, require fashion companies to implement *ad hoc* marketing strategies in order to effectively compete in the market.

One of the main peculiarities that makes marketing in China deeply different from the rest of the world is the massive use of technology and online channels which, in the last decade, have become a key part of almost every aspect of people's lives.

In order to cope with this digital-centric environment, fashion companies need to focus their attention on the development of complex digital marketing strategies that consider the strong digitalization of the Chinese market.

This thesis aims to explore which digital marketing strategies fashion companies should implement in the Chinese market in order to positively compete in this challenging environment. A specific focus is given to the digital marketing strategies developed by Italian fashion firms in China due to the excellent feedback that the Made in Italy is receiving, especially from the younger part of the population. In particular, the digital marketing strategy implemented by the Italian fashion brand Diesel is analysed in depth through a detailed investigation of the social media channels exploited by the company in the Chinese country.

Part 1 introduces the definition and the specificities of the global fashion industry, and investigates the most important trends that are currently shaping the global fashion market with particular reference to the impact of the digital revolution. The relevance of the fashion market in the global economy is analysed and the key countries of the global fashion industry are illustrated. Few expectations of how the global fashion system will perform in the following years are proposed.

Part 2 focuses on the main features and idiosyncrasies of the Chinese fashion market. The Chinese country is described from a geographic, social, political, and financial perspective. It also analyses the development of fashion in the Chinese market, with a particular reference to the Italian fashion companies and their modes of entry in the market. The recent increase of

Chinese cost of labour is examined and its impact in the global fashion market is investigated. The chapter also analyses the role of China in the global market of counterfeit fashion products. Part 3 studies the global relevance of digital marketing in the fashion industry with the explanation of the main digital channels used by fashion companies. It examines the most important phases that have to be considered in developing a digital marketing strategy, with particular reference to the fashion market.

Part 4 provides a deep understanding of the digital marketing strategies implemented by fashion companies in the Chinese market. It analyses the most important digital trends that are affecting the Chinese fashion market and investigates the key social media channels and their potentials for fashion companies. Finally, the chapter analyses the role of digital marketing agencies for fashion companies investing in China through the case of Young Digitals, a company based in Padua which provides digital marketing consultancy to the excellences of the Made in Italy which aim to enter into the Chinese market.

Part 5 concerns the case study of the Italian brand Diesel. It provides a full understanding of Diesel marketing strategies with a deep focus on the digital marketing approach implemented in the Chinese market. It analyses the key digital media channels used by the brand and the main strengths and weaknesses of the its digital marketing strategy in China.

Moreover, it investigates the brand awareness and market penetration of Diesel in the Chinese fashion market through a market research conducted in the cities of Guangzhou and Hong Kong. The influence of the digital marketing strategy on the data collected is examined and a possible explanation of the emerged trends is given. Then, the chapter examines a few suggestions for the improvement of Diesel's digital marketing strategy in China.

Finally, a few conclusions concerning the Chinese fashion market and its digital-centric environment are proposed.

# PART 1: THE GLOBAL FASHION SYSTEM

*“Fashion is a language that creates itself in  
clothes to interpret reality.”*

*Karl Lagerfeld  
Creative Director of Chanel and Fendi,  
Founder and Creative Director of Karl Lagerfeld*





The aim of this chapter is providing a deep understanding of the main features and peculiarities that characterizes the global fashion system.

It introduces the definition of fashion system and investigates the most important trends that are currently shaping this market. A deep focus will be given to the digital revolution that is currently influencing, among other sectors, the fashion industry.

In addition, the relevance of the fashion market in the global economy will be analysed and the most important countries of this market will be illustrated.

Finally, a few expectations of how the global fashion system will perform in the coming years will be proposed.



## 1.1 Definition of the Fashion System

The fashion system is a multi-billion dollar global enterprise concerning the production and sale of apparel, footwear and accessories.

Currently it is one of the world's largest consumer industries and employs more than 60 million people along its value chain (Boston Consulting Group & Global Fashion Agenda, 2017).

In the last decade this industry has significantly evolved, forcing fashion companies to change their key strategies in order to maintain a profitable position in this increasing demanding market. The biggest players of the Italian fashion industry have had a central role in boosting the fashion industry's revolution, from the application of digital technologies for the enhancement of the customer's experience, to the use of special sustainable fabrics.

In 2011, the luxury brand Valentino launched the first virtual museum in the history of fashion. In that period several fashion brands were opening their brick and mortar galleries. The maison, instead, has launched its business in the digital age, showing its 50 years' archives using an immersive 3D technology (New York Times, 2011).

*Figure 1: Valentino's Virtual Museum*



*Source: Valentino.com*

More recently, in 2016, the Italian brand Diesel has launched a virtual reality (VR) flagship store in London, surprising its customers with a 5D multisensory experience in the world of the iconic fashion label.

In 2017 Salvatore Ferragamo became the first fashion label in the world to use organic fibres for its entire collection. Through this approach, the company has made an important statement,

responding to the fashion customers' increasing attention toward environmental sustainability (Zargani, 2017).

Figure 2: Salvatore Ferragamo Orange Collection



Source: ferragamo.com

Before analysing the main drivers of success for fashion companies, however, it is fundamental to understand the meaning of the term fashion.

The word *fashion* is defined as a popular trend or practice in clothing, footwear and accessories which involves change, novelty, and the context of time. The simultaneous introduction of many new styles, together with the selection made by innovative consumers, determines the fashion trend of a specific lag of time (Marzel & Stiebel, 2015).

Fashion is, therefore, a complex social phenomenon involving sometimes conflicting motives such as creating an individual identity and being part of a group, emulating fashion leaders and rebelling against conformity.

Nowadays this challenging role is mainly played by the biggest international fashion maison's studios that thrive by being diverse and flexible enough to gratify all consumer's desires and predispositions.

Gucci's Milan flagship store, for instance, has launched in 2016 an in-store customization experience offering customers of the Italian label the chance to adorn their new garments with embroidery work, cuffs and other accessories that better reflect their personality. In this way the luxury fashion brand has involved its clients in the production process, fostering a sense of

collaboration and engagement with the maison and supporting, at the same time, the customers' own individual identity.

The market on which these big fashion companies operates can be distinguished in 5 different segments according to the price applied on the apparel, the quality of textiles used and the volume of their production.

The luxury label Armani Privè, for example, is the *haute couture* line of the Italian brand Giorgio Armani, specifically conceived for the highest layer of the fashion pyramid. The exclusive and customized clothing of the luxury label are created by hand and made from high quality and expensive fabrics with an extreme attention to detail. Each Armani Privé piece is, therefore, unique and its price can exceed 100.000 euros.

The second highest level in the segmentation of the fashion market is the *high-end fashion*. Ralph Lauren and Gucci are examples of companies active in this segment, whose high quality garments are still not mass produced with a consequent limited availability. The target audience of these fashion labels is represented by high income earners with an annual income over €80,000.

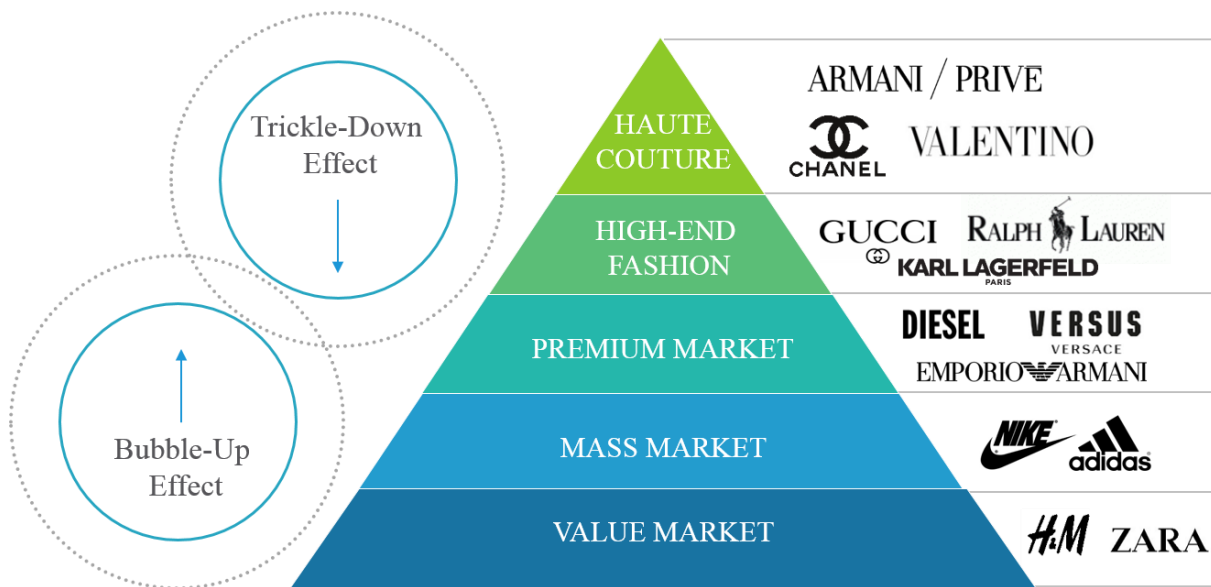
The denim brand Diesel, instead, belongs to the *premium market* segment of the fashion industry hierarchy. Its production process is not as intensive as in the mass market and its collections have a wider variety of garments than in the case of high-end fashion. The average price range of this segment is between €40,000 and €500,000 and is destined to a younger audience than the brands mentioned above.

Labels of the fashion *mass market*, such as Adidas and Nike, offer both a wide range of affordable products and an appealing customer experience. Garments, in this case, are mass produced in order to reduce unitary costs. Moreover, the entry price for basic items is very low, ranging between €10 and €15.

At the lower lever of the pyramid, instead, there are brands of the *fast-fashion* industry such as H&M and Zara. The mass-production strategy and the low quality of the material used, allow these company to apply competitive prices. It is said that 56% of H&M's collections, for example, have a price that ranges between 1 and 20 euros (Strauss & Lynch, 2017).

The pyramid shown in the figure below illustrates the hierarchy of the fashion industry previously analysed.

Figure 3: The Fashion Pyramid



Source: Strauss & Lynch, 2017

In addition, Haute-couture and high-end fashion inspires brands positioned in the lower layers of the pyramid through the so-called *trickle-down effect*, influencing their styles and trends.

At the same time, through an opposite effect called *bubble-up effect*, the influence of street and culture creates a trend that also affects luxury designers.

The events that have the wider influence on the global fashion industry around the world are the “big four” fashion weeks, held in New York, London, Paris and Milan. More recently, two other fashion shows has gained strong importance and popularity as a consequence of the increasing distribution of fashion and luxury labels in the Asian market: the Tokyo fashion week and the Shanghai fashion week.

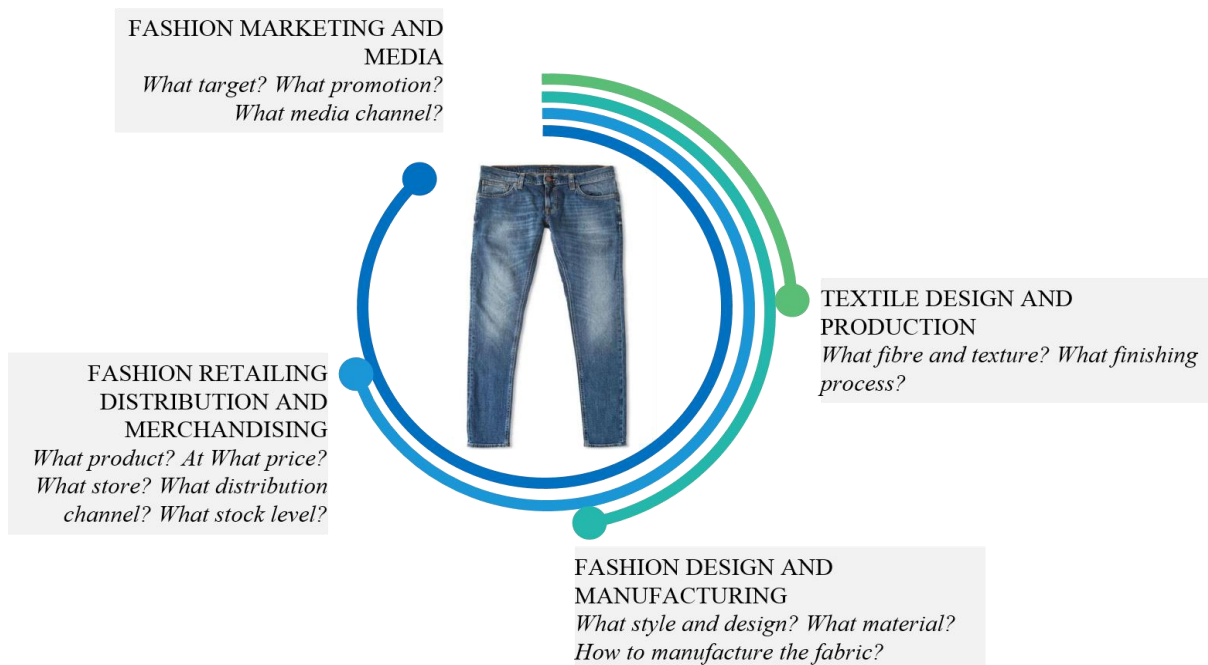
### 1.1.1 Key Sectors of the Global Fashion System

The term *fashion industry* specifically refers to the processes of designing, manufacturing, distributing and the marketing of fashion products.

The fashion industry encompasses, therefore, 4 specific key sectors:

- *Textile design and production*
- *Fashion design and manufacturing*
- *Fashion retailing, distribution and merchandising*
- *Fashion marketing and media*

Figure 4: The 4 Key Sectors of Fashion Industry



Source: Steele & Major, 2015

#### 1.1.1.1 Textile Design and Production

*Textile design and production* includes all the processes that, beginning from raw materials, produce a textile used to manufacture apparel. The materials utilized in this phase include both natural fibres, such as wool, cotton, silk and linen, plus synthetic fibres, such as nylon, acrylic and polyester. Fabrics are produced with a wide range of effects through dyeing, weaving, printing, and other manufacturing and finishing processes.

The recent increased attention toward environmental protection has also influenced this sector, leading to a phenomenon called *sustainable fashion*. This trend has determined a strong growth in the use of environmentally friendly fibres, such as hemp or orange fibres, and an increasing

attention towards production processes in order to have the lowest possible impact on the environment.

Aside from the example of Salvatore Ferragamo mentioned above, other fashion labels have travelled the path of environmental sustainability with different approaches.

Stella McCartney, for instance, uses organic cotton in most of her collections and does research to find new materials and manufacturing processes with low environmental impact. Moreover, the brand also launched a special eco-friendly eyewear line made from over 50% of organic raw materials such as castor oil seeds.

*Figure 5: Stella McCartney Sustainable Printed Eco Sunglasses*



*Source: stellamccartney.com*

### **1.1.1.2 Fashion Design and Manufacturing**

*Fashion design* and *manufacturing* are two essential processes of the global fashion industry. The first concerns the analysis of consumer trends and the design of garments that are most likely to appeal the company target audience. It usually works closely with fashion manufacturers in order to control the quality of the fabric used and oversee the whole creation of the final product.

A key part of the design and manufacturing process is sourcing the fabric to use in the brand's new collections. In consequence, fashion designers and manufacturers visit trade fairs twice a year, before the start of the following season to source the newest and most appealing textiles. *Première Vision* is the most famous exhibition for fashion fabric and trends, which attracts designers and manufacturers from all over the world. Other important fairs include *Pitti Filati* in Florence, which concerns mainly yarns and colours, and *Linea Pelle* in Bologna, which specifically regards leather products.

Usually, the final output resulting from the fashion design and manufacturing process is



represented by a range of pieces that shares a similar theme or feeling. It can be inspired by both a market trend or a specific social or cultural theme. For instance, several fashion companies have recently been inspired by the recurrence of the Chinese New Year, launching special collections designed to celebrate the new animal of the upcoming year.

Dolce&Gabbana, for instance, launched a capsule collection in December 2017 to celebrate the year of the dog with the unconventional and fun style that characterizes the iconic Italian brand.

*Figure 6: Dolce&Gabbana Chinese New Year Capsule Collection*



*Source: Dolcegabbana.com*

In recent years, also the world of sport has inspired several fashion designers. The increased interest in athletics and sport, in fact, has led several fashion companies to collaborate with sportswear brands in order to raise consumer awareness of sportswear as a credible, lifestyle fashion statement.

For example, in 2015 the sportswear brand Puma collaborated with the iconic label Alexander McQueen for the launch of a new line of sneakers. Moreover, in 2016 Adidas successfully created a capsule collection of sneakers and jeans with the fashion brand Diesel.

Figure 7: Diesel X Adidas Capsule Collection



Source: Diesel.com

### 1.1.1.3 Fashion Retailing, Distribution and Merchandising

The business of buying clothes from manufacturers and selling them to customers is known as *fashion retailing*. Retailers usually make initial purchases 3 to 12 months before the customer is able to buy the garment in the store.

*Fashion distribution*, instead, concerns the management of the flow of merchandise, from the initial selection of the product to be purchased by the retailer, to its presentation to the final customer.

*Merchandising* is, instead, the process of selling the right product, at the right price, at the right time and place and to the right customer (Steele & Major, 2015).

The aim of this specific phase is maximizing sales and profitability by inducing consumers to buy specific company products. Fashion merchandisers must, thus, utilize information about customer preferences and trends as the basis for critical decisions such as stocking appropriate merchandise adequately, without excessive quantities, offering items for sale at attractive but still profitable prices, and discounting overstocked goods.

Merchandising also involves presenting goods attractively and accessibly through the use of store windows, in-store displays, and special promotional events. Merchandising specialists must, in fact, be able to respond to surges in demand by rapidly acquiring new stocks of the favoured product (Koumbis, 2014).

This last challenge represents one of the main strengths of the Spanish clothing retailer Zara.

The company has implemented an inventory optimization model based on an inventory-tracking computer program which is present in every store. Through this system the company can determine the quantity to be delivered to a single store twice a week and the ordered products arrive in just a few days. Additionally, the company can easily address peaks in demand due to the fact that its manufacturing facilities usually operate only 4 days per week on full capacity. This allows the firm to have a high flexibility in its processes and reduce lead times to a minimum (Hiiema, 2016).

#### **1.1.1.4 Fashion Marketing and Media**

*Fashion marketing* represents an important aspect of the fashion industry and works closely with the other processes mentioned above.

It regards the management of the procedures which identifies, anticipates and supplies customer requirements efficiently and profitably (Kotler, Keller, & Ancarani, 2014).

The success of this process is based on the understanding of consumers' desires and responding with appropriate products.

Moreover, fashion marketing involves promotional activities such as print and other media advertising aimed at establishing brand recognition and brand reputation for specific characteristics of the label such as quality, low price, or trendiness.

Currently, online and digital are the most important and strategic aspects that fashion companies should consider in developing their media marketing strategy. These channels, in fact, allow fashion companies to provide a more engaging experience than traditional marketing channels and to establish better communication with its consumers.

The iconic brand Diesel, for example, is responding to this trend of the market with a plan based on the progressive elimination of print advertising in favour of a more digital-centric approach. In addition, the British fashion house Burberry spends most of its marketing budget on digital platforms, embracing the digital revolution that is affecting the fashion industry. The company has been, in fact, the first fashion label to test social media channels for their marketing strategies such as Facebook and Instagram in late 2009. More recently, during the Spring-Summer 2016 fashion show in London, Burberry went beyond live streaming and shared shots of its entire new collection on Snapchat the day before its release on the runway, reaching more than 100 million impressions on the platform (Milnes, 2016).

Figure 8: Burberry's Campaign Announcement on Snapchat



Source: Milnes, 2016

### 1.1.2 Lifecycle of Fashion Products

The fashion industry forms part of a larger social and cultural phenomenon known as the *fashion system*, a concept that embraces not only the business of fashion, but also its art and craft, from the production process to the final consumption.

The fashion system model is based on innovations, modifications and creativity originates from a distinct centre, represented by the main fashion houses, and then radiates outwards, to the lower levels of the fashion pyramid mentioned above (Davis, 1992).

An iconic example of innovation launched by a famous luxury maison is *The New Look* Collection, introduced by Christian Dior in 1947. This innovative style launched by the French fashion label was characterized by full-skirts, waspy waists and soft shoulders and was responsible for a deep change in fashion. Furthermore, its influence is still prominent today, in particular on some of the Christian Dior catwalks (Dior, 2017).

Figure 9: Christian Dior Bar Suit of 1947 The New Look Collection



Source: Dior.com

Though fashion implies continual changes, certain products have persisted over long periods of time, such as blue jeans, which represents the central element of dressing in particular for younger generations. Though blue jeans are a recognizable fabric, however, they have the potential for great variety both in product details and manufacturing processes including stone washing, dyeing, painting, tearing, and fraying. Blue jeans have, in fact, driven and still lead the growth of casual and urban fashion due to their flexibility to change with times and trends.

Figure 10: Diesel Variety of Jeans Pocket Detail



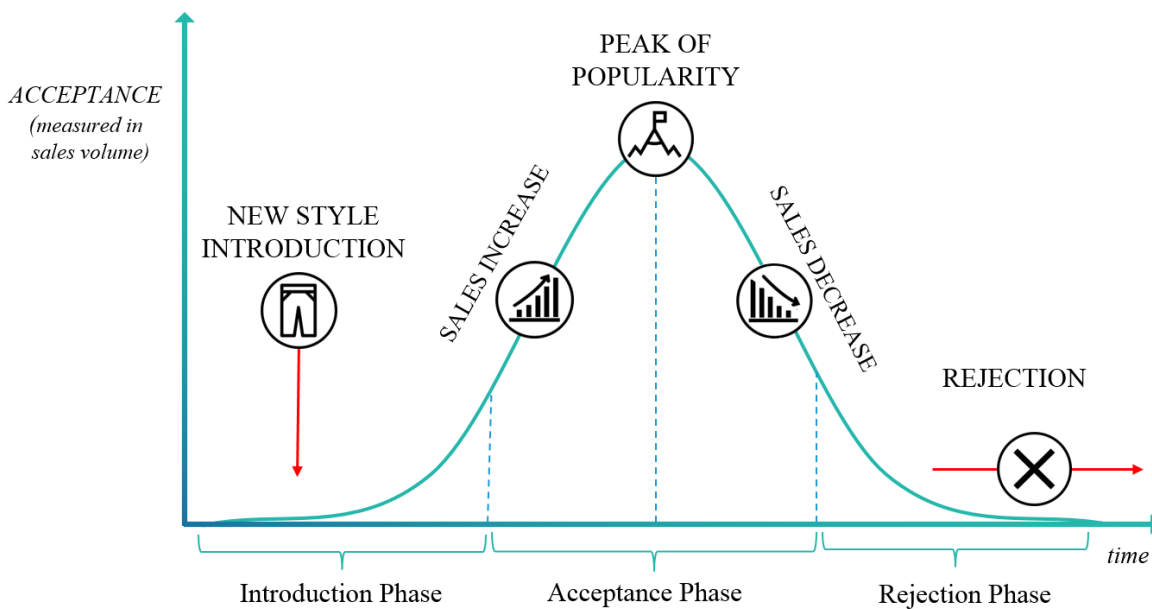
In addition, other influential factors that can affect fashion trends are individual tastes and particular events, as previously mentioned in the *Chinese New Year* Collection of Dolce&Gabbana.

The alternation of trends in the fashion industry can be explained through the *Vernon Bell-Shaped Curve* of the fashion products lifecycle. The specificity of the curve for this industry is the short lag of time during which a product moves from being “fashionable” to being “out-of-fashion”.

The 3 stages of the life cycle curve of fashion products are listed as follows:

1. *Introduction phase*
2. *Acceptance phase*
3. *Rejection phase*

Figure 11: The Vernon Curve of Fashion Products



Source: (Kotler, Keller, & Ancarani, 2014)

## **Introduction Phase**

The *introduction phase* is characterized by the presence of a limited market and the exclusive distribution of a new line of apparel.

A new fashion, in fact, requires a long time to gain acceptance because the majority of customers tend to have a low degree towards risk and innovation that is reflected in their purchasing behaviour. However, this barrier is mitigated by the fact that the low sales of this stage creates an idea of exclusivity for the specific new style launched. As a consequence, customers, are willing to pay very high prices for these almost unique pieces of fashion, leading to the generation of high profits for the brand.

This stage is characterized by having as main objective the education and information of customers in the shortest time possible (Fillmore, 2017).

An example that perfectly fits the process described above is the trend of palazzos pants that this year was influenced the Autumn-Winter Collection of the main fashion houses this year. These particular type of trousers had been initially released in September 2017 during the Autumn-Winter 2017/2018 fashion shows of the most famous haute-couture labels such as Chanel and Valentino. The trend immediately conquered the fashion system and was followed by the big players of the ready-to-wear industry such as John Galliano and Ralph Lauren (Elle, 2018).

## **Acceptance Phase**

In the *acceptance phase*, instead, the new fashion starts to gain exposure through the launch of the trend by less exclusive and luxury fashion labels. In this phase the new trend is, therefore, characterized by a wider appeal and distribution within the fashion market.

During this process, fabrics are usually modified in order to reduce costs and be offered at lower price levels which, as a consequence, increases sales sharply.

Continuing the example of palazzos pants, the trend launched by luxury fashion labels has been followed in the following months by big companies of the mass and value market such as Zara and H&M. The release of this new trend at a lower price and with wider volumes allows, in fact, the new fashion to be followed by a wider audience.

This period, however, also encompassed a stage called *maturity*, during which the new fashion reaches its peak in popularity (Fillmore, 2017).

After this prosperous lag of time, the style starts its rapid decline, going quickly out of fashion. This is the path that has experienced, for instance, bell-bottom pants during the last decade of the nineteenth century, when they were replaced by the skinny fit model.

## **Rejection Phase**

During the *rejection phase*, competitors are gradually eliminated as sales and profits falls drastically and the prospect of being left with obsolete stock is near.

The companies left in the market may try to extend the product's life through intensive advertising. In this last phase of the fashion cycle, however, most customers have already turned to a new fashion, as in the case of skinny fit jeans, beginning therefore a new cycle. This situation, in which a style is rejected merely because it is out of fashion, is called in the fashion cycle theory, *consumer obsolescence* (Fillmore, 2017).



### **1.1.3 Driving Forces of the Global Fashion System**

In the context of the fashion industry, trends are one of the most important aspects on which companies need to direct their attention. As in any other market, fashion trends can be influenced by social, technological, economic, and political forces (Gockel, 2014).

#### **Social Forces**

Demographics and culture are aspects that companies have to consider when trying to predict the fashion trend of the following season. For instance, age, gender, status and profession are relevant aspects that allow a company to better understand consumer's needs. It is important for fashion houses to become aware of the fact that the fashion industry is not merely about clothes and aesthetic, but it also concerns social and topical issues.

Designers, therefore, can express their cultural values, their messages and their thoughts about society, through the launch of their collections.

An example that shows this type of commitment is provided by the English brand Stella McCartney, mentioned above. All collections of the fashion label, in fact, have always shown the company's dedication to animal rights with cruelty-free apparel lines and explicitly condemning the use of real leather and fur in the production of clothes and bags. Moreover, at the beginning of 2017, the fashion label announced a partnership with the Silicon Valley biotech company Bolt Threads for the creation of a new collection of apparel made with vegan silk.

In October of the same year, the company exhibited at the Museum of Modern Art in New York its first dress entirely made with this innovative and cruelty-free material. The objective of Stella McCartney is the future elimination of materials that derive from animals and the use of this unconventional silk is the right step in this direction (Bain, 2017).

Moreover, also Music has strongly influenced fashion trends in the last century. Popular singers, in fact, tend to be trendsetters in the fashion market, inspiring the style of those who love their music.

Madonna, for example, has been a fashion leader since she became famous in the 1980s. As an icon of popular culture, she has set fashion trends by appearing on numerous fashion magazine covers and at the most important runway shows around the world. Her style encompasses punk and androgynous features plus urban style and military looks that have been introduced by several fashion companies at the time of her highest popularity (Dawson, 2017).

Due to the deep influence that music culture has on fashion trends, sometimes singers are engaged by important labels of the fashion industry, becoming the brand "face" in their advertising campaign.

In September 2017, for example, the popular Chinese singer Chris Lee has become the brand ambassador of Diesel. The influence of this Chinese star in the local market has been further exploited by the Italian brand with the launch of a special capsule collection called *Diesel X Chris Lee*.

### **Technological Forces**

Today's technology is affecting several aspects of the society, starting from an individuals' lifestyle, to the organizations' way of doing business.

Concerning the fashion industry, technologies are influencing companies' business in two ways.

The first, refers to the production process of apparel that can be implemented through the use, for example, of 3D printing technology.

In January 2018, for example, Adidas launched its first line of 3D printed shoes. The collection represents the first mass-produced 3D product in the fashion industry and is positioned in the premium price range of Adidas' collections.

*Figure 12: Adidas Futercraft 4D Shoes Collection*



*Source: Adidas.com*

Moreover, high-tech can also be englobed in the final product itself as in the case of wearable technology. In March 2017, for example, the luxury brand Mont Blanc launched, in partnership with Google, a line of smartwatches called the *Summit* collection. The product combines, therefore, the exclusive design of the German brand with the most advanced technologies of the American high technology company.

The second way in which technology influences fashion concerns the implications of online platforms in marketing a brand's product. Almost all companies of the fashion industry, in fact, have developed social media marketing strategies, digital and online services and e-commerce

platforms.

In Part 3 and Part 4 of this thesis, the influence of digital marketing in the fashion industry will be analysed in detail.

### **Economic Forces**

The state of the global economy in a specific period strongly influences consumers of fashion. Clothing and other fashion purchases, in fact, are typically based on consumers' disposable incomes. Consequently, fashion consumers tend to be sensitive to variations in economic conditions (McKinsey & Co., 2018).

When the economy is suffering a downturn, therefore, disposable incomes may fall because jobs become more scarce and salaries decrease. Additionally, in a period of financial crisis, a sense of heightened uncertainty begins to spread and, therefore, people become more cautious in their spending. As a consequence, consumers may avoid or postpone clothing purchases or shift to lower-priced items, resulting in sharp sales downturns for the fashion industry (Lockrem, 2013).

Moreover, an economic crisis may cause a change in consumer behaviour and purchase intentions. After a period of economic downturn as it was the financial crisis of 2008, consumers tend to become more sophisticated and fashion companies need to change strategies in order to please these more discerning customers who want lower prices and better value. Since that recession, in fact, fashion customers have realized that they can survive with less, thus it has become crucial for companies to market themselves as having the best value to please their target market needs (Lockrem, 2013).

The Chinese slowdown of 2016, for instance, subsequently determined a drastic decline in domestic spending which strongly affected the performance of fashion industry which experienced a deep decrease of sales of 2.4% (Deloitte, 2017).

In this negative economic situation, the Chinese government managed to positively influence the performance of the local market through the reduction of duties imposed on imported apparel. In order to boost the Chinese fashion market, in fact, in November 2017 the finance ministry announced an average 10% reduction of the tariffs on clothing, beauty products and other goods, stimulating the domestic consumption (BBC, 2017).

### **Political Forces**

The political culture of a country is another force that influences the fashion industry.

The first way in which politics affects fashion trends is through its political representatives that become a sort of influencers.

A topical example is the case of the United States' First Lady Melania Trump, who has been discriminated by several designers since her arrival at the White House. The designer Sophie Theallet, who has dressed, among the others also former first lady Michelle Obama, has asked the other big fashion designers to not dress Melania Trump. The aim of this statement, followed by several leaders of the fashion industry, was to demonstrate the contrast of the designer with Donald Trump's ideologies of racism, sexism and xenophobia.

On the other hand, the Duchess of Cambridge Kate Middleton has always been very appreciated in the fashion industry and every clothing item she wears, immediately sells out the day after. This is the case, for example, of the Zara checked coat that she has been pictured wearing on December 2017 in London. The day after the release of the photos, the garment was sold out in almost all the British stores of the Spanish brand.

Another type of political influence on the fashion industry is represented by political movements. One example is China, a country with an strong and sophisticated heritage in traditional clothing, which has been interrupted in 1949 by Mao Zedong's policy. The chairman of the Communist Party, in fact, introduced his famous *Yat-Sen Suit* jacket, with neutral colours and simple lines, as a symbol of the proletariat. In the period of his regime, clothes were seen just as uniforms and this situation lasted until 1990, when the People's Republic of China opened to the world again.

Nowadays the situation is drastically different and the politics affects and, at the same time, is affected by fashion. The First Lady of China, Peng Liyuan, has become an icon for Chinese fashion and her style is appreciated all over the world. Her fashion choices are based on an elegant and dignified style, created by her choice of local designer brands. Her sense of glamour and natural elegance is even more significant in a historical context, as she is the first Communist Party first lady to embrace a modern style, not following the low fashion profile of her predecessors (Chan, 2017).

## 1.2 Social Impact of the Global Fashion System

The individual's appearance is the ticket to transmit non-verbal communication, signalling social stature, values and lifestyle.

In our society, fashion is, in fact, a critical form of non-verbal communication, representing a fundamental means of self-expression and helping individuals in shaping their personality.

All clothing, in fact, sends a message, whether it is intended or not.

Moreover, fashion marketing methods are targeted to reach consumers with the sense that certain products or clothing lines stimulate individuality and uniqueness (Blumer, 1999).

The fashion brand Diesel, for example, supports this concept in its mission statement, claiming the importance of individuality and stating that every ordinary individual is capable of dressing uniquely and still becoming part of fashion lifestyle community.

*Figure 13: Diesel Mission Statement*



*Source: diesel.com*

In the last decades, fashion communication has experienced a drastic shift, moving from a mere projection of the basic image of people looks and class differentiation, to a more intrinsic representation of people feelings and emotional experiences (Dejean, 2010).

In this view, fashion consumers are moving their interest from garments displaying big logos of the brand, to fashion and luxury products with little or no visible branding on it. This transition has determined an increasing focus on the product itself and a transition towards a

more discrete luxury which emphasizes tailoring and fabrics. Moreover, this anti-branding movement has developed an even more exclusive idea of fashion that appeals to a select group of luxury-oriented persons (Krabtree, 2016).

The brand that perfectly represents this trend is the iconic Italian label Bottega Veneta, also known merely with its initials BV. The fashion house has always had as its distinctive feature the absence of its logo on its collections, which are recognizable simply by the intrecciato technique of its leather. Coherently, the brand has never been ostentatious in its luxury, and this was evident in the latest Autumn-Winter 2017 collection, which was characterised by strong lines and confident designs with only the necessary adornments needed, and no more.

*Figure 14: Bottega Veneta's Veneta Bag crafted using the intrecciato technique.*



*Source: bottegaveneta.com*

This trend has also been embraced by other luxury brand like Céline, Giorgio Armani and Hermès which have begun to label their fashion collections with smaller and less visible logos. This shift towards unmarked products, therefore, moves competition from the brand as central driver of consumers' preferences, to the features of products itself and the relationship the brand is able to create with its customers.

## **1.3 The Fashion System in the Global Economy**

### **1.3.1 Success Stories**

During recent decades, the fashion industry has been an important engine for the global economy. It is, in fact, one of the world's largest consumer industries and currently employs around 60 million people along its value chain (Boston Consulting Group & Global Fashion Agenda, 2017).

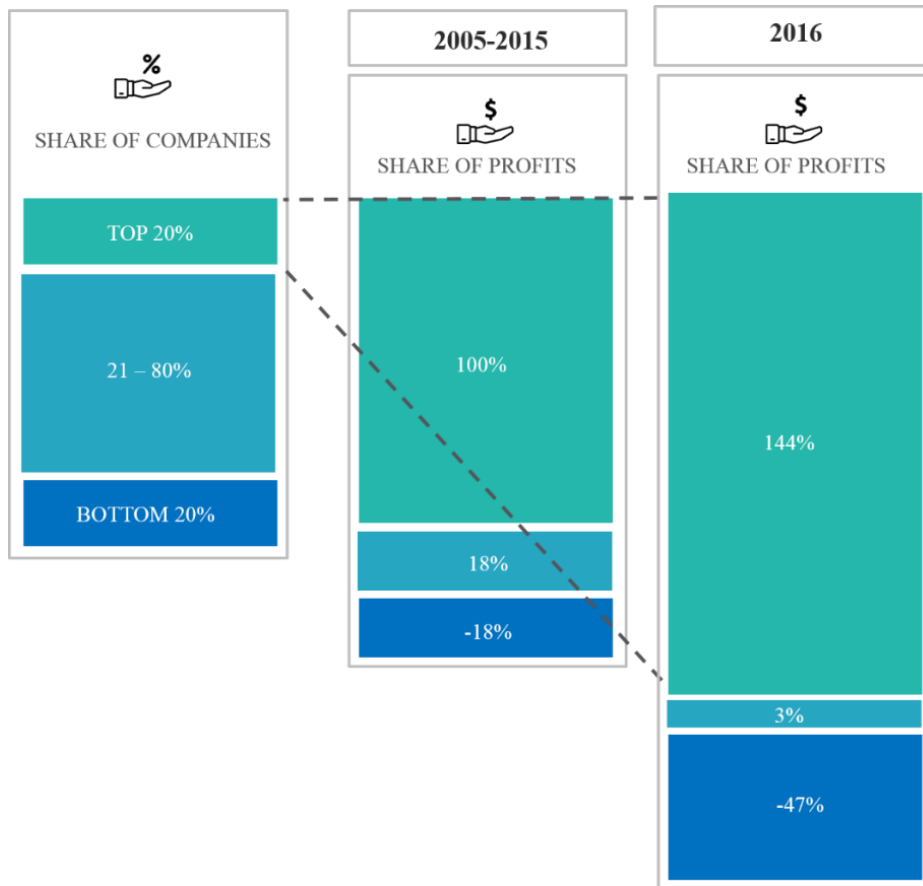
Moreover, according to Deloitte's Fashion & Luxury Private Equity & Investors Survey 2017, the fashion industry is among the most attractive sectors for private investors due to its strong turnover growth, profitability and increased M&A activity.

In fact, after a slow 2016 characterized by a total fashion industry sales growth of only 1.5 %, in 2017 the industry has continued its trend of success with a sale growth of 3%.

Moreover, the industry profitability is stable, with an average EBITDA margin of 17 % that reflects an increase of 0.7% with respect to 2010 (Deloitte, 2017).

In 2016 the performance gap between front-runners and laggards has continued to widen: from 2005 to 2015 the top 20% of fashion companies contributed 100% of the economic profit, while in 2016 their contribution had increased to 144%. These top 20% of companies include Richemont, LVMH, Kering, TJX, Nike, Hermès, Gap, H&M, Ross stores, Gitanjali Gems and Michael Kors (McKinsey & Co., 2018).

Figure 15: Fashion Companies Contribution to Industry Economic Profits in 2005-2015 vs 2016



Source: McKinsey & Co., 2017

Finally, according to Deloitte’s 2017 Fashion and Luxury Goods Report, Italian companies continue to have a central role in the global industry. Italian eyewear enterprise Luxottica, for example, occupies fourth place in the global industry of sales revenues, which accounts for 9.2 Billion USD.

Another Italian eyewear company occupies first place among the fastest growing companies in 2015; Marcolin, in fact, enjoyed a growth of 43.01% compared to its performance in 2013. In second place Italian maison Valentino is present with a growth of 37.8% (Deloitte, 2017).

The fashion industry, therefore, does not simply affect the world with the latest styles or trends, but it also has a fundamental and strategic role in the global economy.



### 1.3.2 New Trends

During recent years, the global fashion system was affected by the increased role of emerging markets, the advent of new digital technologies and the need of more flexible and fast processes. These trends are examined in the following paragraphs.

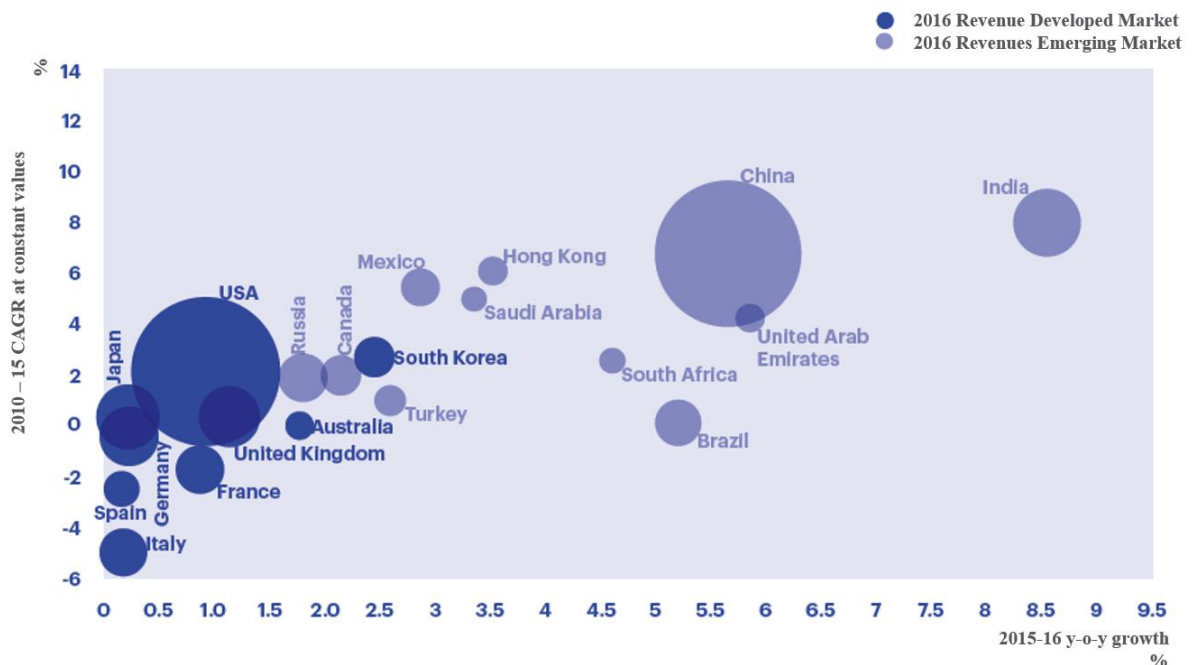
#### Role of Emerging Markets

The strong growth of the global fashion system has been driven for the first time in the history of the fashion system by more than half of profits originating from areas outside Europe and North America, which, until that time, have always represented the traditional and most influential market for the global fashion industry (McKinsey & Co., 2018).

The pace of growth of emerging markets in the Asia-Pacific region, but also in the areas of South America, has taken the leading role in the fashion market at the expense of traditional players in most developed countries.

The growing role of BRIC countries was evident also from the map published by McKinsey in 2017 showing the fashion market growth of emerging countries, compared to developed ones.

Figure 16: Fashion Market 2015-16 Growth Difference Between Developed and Emerging Countries



Source: McKinsey & Co., 2017

The growth rate between 2015 and 2016 show that the highest-growth countries were India and United Arab Emirates, due to the downturn of China in that period. However, they were still

far behind in size compared to the country of Chinese and the United States.

### **Technological Innovation**

The recent adoption of disruptive technologies like advanced robotics, mobile internet, advanced analytics, virtual and augmented reality and artificial intelligence is accelerating, with the potential to disrupt entire industries, including fashion.

Leading players are therefore creating innovative business models, using granular customer insights as a source of differentiation and pushing the limits of their end-to-end product development process.

The fashion brand Gap, for instance, in 2017 launched an App that allows customers to simply try on a garment size from home, with the use of an innovative 3-D virtual fitting room that causes a further downturn on already soft retail sales.

An example of disruptive changes in the fashion system is the *see-now-buy-now* business model which consists of runway styles being available for purchase immediately after fashion shows instead of the usual wait of 6 months.

The Spring/Summer 2017 fashion show season which took place in September 2016, was the first one to embrace this new movement. The British brand Burberry was the first label to announce a see-now-buy-now runway fashion show, immediately followed by Tom Ford and Tommy Hilfiger among others.

From the point of view of consumers, the model can be considered largely a positive development. The changes taking place are, in fact, enabling the fashion industry to become more democratic, inclusive and accessible, as the boundaries between traditional fashion buyers and everyday retail buyers are eroding.

However, the changing fashion industry schedule has drastic implications for design, marketing and supply chains. The see-now-buy-now approach presents additional challenges and increases logistical complexity, requiring tighter production schedules, even for luxury brands that produce smaller batches of products.

See-now-buy-now is also risky for designer brands in the sense that designers are unsure of collection product demand and run the risk of under or over producing their pieces. With this instant-fashion model, design houses will not have the opportunity and time to ascertain wholesale and retail buyer demand for their products, as merchandise will have to be ready for sale immediately after the fashion show that introduces their new collections.

Fashion houses have, therefore, to plan the appropriate inventory mix and volumes to avoid unsold goods ending up in discount stores, which would erode the brand's image.

## **The Digital Era**

Hand-in-hand with the online revolution, many fashion companies are experiencing a steep decline in brick and mortar traffic. They are, in fact, simultaneously looking for ways to reduce store operating costs, re-evaluate store networks and innovate the in-store experiences to attract customers.

This fast pace of the industry is shaking up the fashion system. Sales of the fast fashion-sector have grown rapidly, by more than 20% over the last three years, and new online fast fashion players are gaining ground (Boston Consulting Group & Global Fashion Agenda, 2017).

In order to maintain their competitive position, leading fashion players are accelerating the time from design to shelf, including the recent announcement from Gucci that it will focus on supply chain optimisation and responsiveness.

This acceleration is driven partly by social media bringing fashion trends to more consumers at a faster pace than in the past. Industry leaders are also pushing up standards as analytics and customer insights which enable them to meet customer needs better and improve their responsiveness.

## **The Need for Speed**

The need for speed and flexibility that the just mentioned trends has led, bring new challenges for fashion companies.

Shortened lead times requires, in fact, major changes to the traditional business model and supply chain. Moreover, these changes also require a shift in the focus of the fashion industry to a customer-centric model, with the customer as the principal driver of design, production and merchandising.

Nowadays the reaction of fashion companies towards these innovative challenges varies widely. For instance, companies that are performing through traditional models, with prolonged end-to-end product development processes, face increased fashion risk and excess inventory if they are not able to match customer demand. This is the case of most luxury companies, that need long lead times to developed their apparel, whose fabric research and product creation start almost one year in advance.

Others companies, instead, such as those active in the value and mass markets, are usually characterized by agile supply chains supported by high-quality consumers insights. Zara, for example, can design and stock a new piece of apparel in 20 days, developed according to consumer preferences communicated by every retail twice a week. Moreover, their business model is characterized by a flexible production processes, and an optimal stock management

system (Hiinema, 2016).

Secondly, also the widespread use of technology can help a company in accelerating their time to market, embracing the need for speed of the current age.

The use of 3D technologies, for instance, can help companies in accelerating their processes, from the product designing to its production and distribution. Moreover, a shorter supply chain achieved through the strategy of re-shoring can be another approach which allows a company to be closer to its consumer. It would permit fashion firms to accelerate the distribution process towards the local market and to faster adapt its products according to indigenous consumer needs.

At the beginning of 2017, Adidas, for example, opened two modern production facilities called *SpeeFactory* in Germany and US. The two plants have been equipped with 3-D printing, robotic arms, and computerized knitting to make running shoes which were previously mass-produced by workers in China, Indonesia, and Vietnam. The factory has, thus, implemented a re-shoring approach that allows it to be closer to its European and American market, serving them faster and overcoming the issues of shipping delays and expenses.

The use of 3D digital designs, moreover, allows the company a quicker product design and adaptation based on local markets requirements. The use of robots, on the other hand, permits a faster production of these new designs, produced in few days (Wired, 2017).

Adidas is, therefore, an example of how companies in the fashion market can innovate their processes in order to embrace the need for speed requirements of the current age.

### **1.3.3 Expectations for 2018**

According to the last McKinsey statistics (2018) it is expected a continued uptick in global fashion industry sales growth, while not yet reaching the 5% sales growth level of 2015. The projections for the industry sales growth revealed, in fact, an expected increase from 3.5% to 4.5% in 2018.

However, this growth is not spread evenly across all regions. It is, in fact, primarily driven by emerging markets into the East and South. Emerging countries across APAC, Europe and Latin America are forecasted as particularly strong growth markets in 2018, with growth rates estimated to range between 5% and 7.5% (Boston Consulting Group & Global Fashion Agenda, 2017).

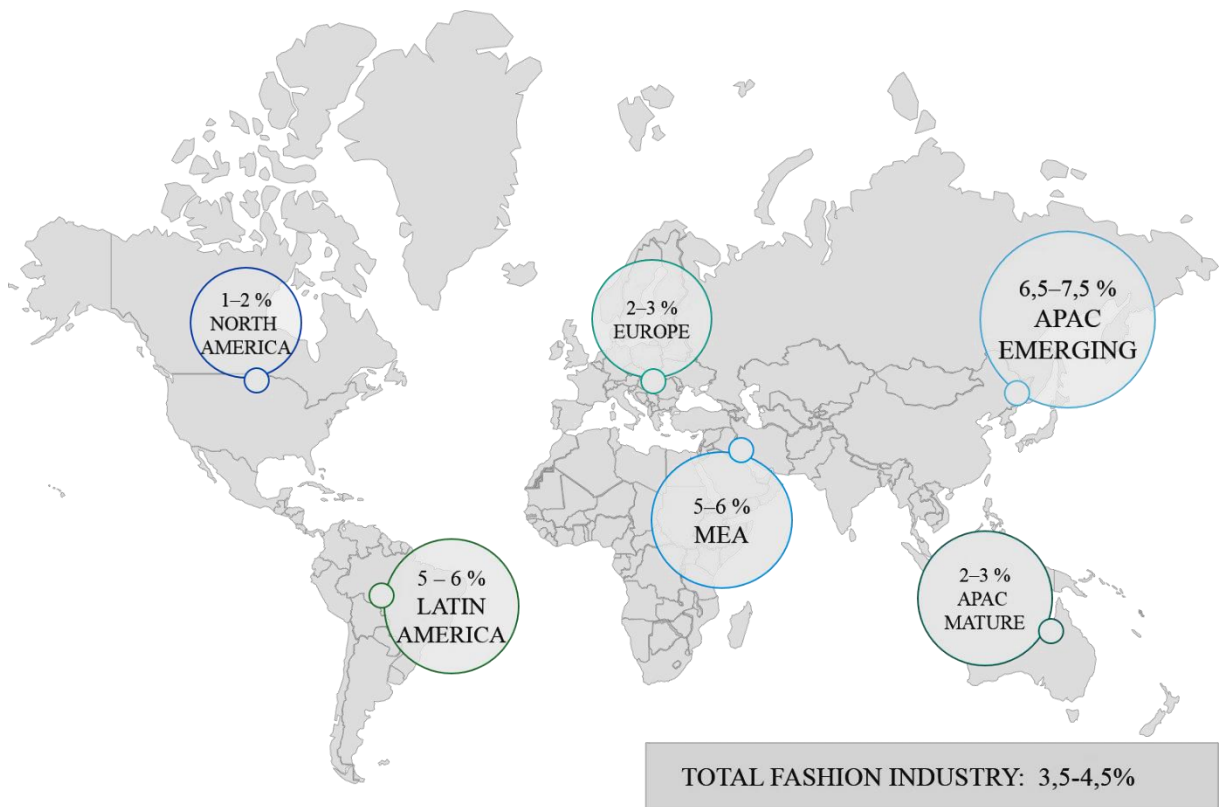
Meanwhile, the economic outlook in a mature Europe is stable, and the fashion industry sales growth is likewise expected to remain at a modest but steady 2 to 3%.

The outlook for the North American fashion sector is, instead, less clear. While overall

consumer confidence is strong, the impact of fiscal and trade policy changes is uncertain, and markdown pressures, market corrections and store closures continue, with a consequent realistic growth expectation that ranges from 1 to 2%. Moreover, according to the last Deloitte's report, a growth reduction of almost 1% is expected for the upcoming years also for Japan.

China, Middle East and Latin America are, therefore, the markets that will be the main drivers of the fashion industry's growth in the coming three years (Deloitte, 2017).

Figure 5: Fashion Industry Sales Growth per Region 2018 Projections



Source: McKinsey & Co., 2018



## PART 2: THE CHINESE FASHION SYSTEM

*“China is simply a different eco-system  
and fashion companies should be  
more aware of this.”*

*Andrea Ghizzoni  
Tencent’s Europe Director*





The aim of this chapter is providing a deep understanding of the main features and peculiarities of the Chinese fashion market.

The Chinese country will be described from a geographic, social, political, and financial perspective. Furthermore, the economy of China will be investigated through an analysis of the main industrial clusters of the country. Furthermore, the Chinese tier-system in which the main Chinese cities are organized will be presented and the influence of the first-tier cities in the Chinese economy will be analysed.

Then, the development of the fashion in the Chinese market will be introduced, with a particular reference to the Italian fashion companies and their modes of entry in the market.

Therefore, the recent increase of Chinese labour cost will be examined with particular reference to its impact on the global fashion market.

Finally, the global market of counterfeit fashion products will be analysed and the impact of China will be investigated.



## 2.1 The Chinese Country

Nowadays the People's Republic of China represents an important and strategic market for many organizations and investors all over the world.

In order to properly enter this market, however, it is necessary to understand the Chinese socio-political and financial environment.

The following section is devoted to the analysis of the Chinese context, starting from a delineation of the country profile, to a description of its history, population and economy.

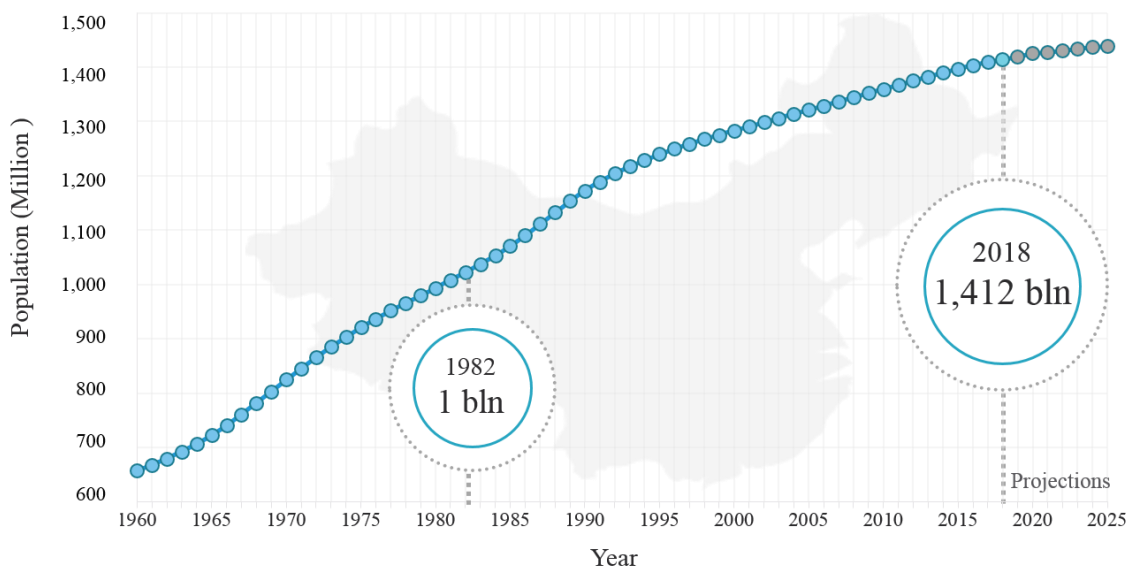
*Figure 1: China Geography in the World*



### 2.1.1 Country Profile

China, officially known as the People's Republic of China (PRC), is a unitary sovereign state with the world's largest population which currently counts 1.4 billion people (United Nations Department of Economic and Social Affairs, 2018).

Figure 2: Population of China from 1960 to 2018 and Projections



Source: Statista.com

The magnitude of the number is even more impressive if compared with the global population that is approximately 7.6 billion people. China represents, therefore, the 20% of the whole population of our planet which means that one out of every five people on the planet is a resident of China (Statista, 2018).

Despite this massive number, the annual growth rate of the Chinese population declined drastically over the last decades, moving from an almost 2% of 1960 to the current 0.43%. It is expected to further decrease over the next years reaching in 2035 a negative rate, typical of most OECD countries (United Nations Department of Economic and Social Affairs, 2018).

Another feature of this Asian super-power is the relatively small youth division of its population. This is partially determined by China's one-child policy which is an ambitious population control program in effect since 1979 and phased out in 2015 (South China Morning Post, 2015).

The official language of the country is Mandarin, or Putonghua, but, due to the huge number of ethnicities that have populated the country, it has become the language of the whole People's Republic of China only after the first half of the 20th century (Chen, 2017).

About 91.6% of the entire Chinese population is composed by the ethnic group of the Han. The rest of the population consists, instead, of other 55 ethnic groups. Although this minority groups are composed by a strict number of people, the area they occupy represents about the 60% of the total Chinese territory due to the fact that they are living in vast area with a low level of urbanization (United Nations Department of Economic and Social Affairs, 2018).

Finally, the Chinese country is spread in an area of 9.6 million square kilometres, which makes China the third largest country in the world, after Russia and Canada (Chen, 2017).

### **4.1.1 History**

China's culture is a profound and precious product of the multi-millennarian history that still influences the country's society and customs.

The early civilization of China dates back to the Xia Dynasty, which lasted from 2,100 BC to 1,600 BC. From that period, the history of China is characterized by the alternation of several dynasties, but the most important one was the Han Dynasty, whose reign started in 202 BC and lasted for more than 4 centuries. This period is regarded as the golden age of the Chinese history, especially in art, religion, politics, technology but also in the economic sphere. One of the major achievements of the Han dynasty on this particular aspect has been the opening of the silk road which increased the trade and economic prosperity of the empire and led to a cultural exchange with Western countries (Donda, 2014).

In 1911 a group of revolutionaries in southern China led a successful revolt against the Qing Dynasty, the last dynasty of the Chinese history. This uprising is known as Xinhai revolution and represents a significant event in the Chinese history, marking the foundation of the Republic of China (Chen, 2017).

The republican period was characterized by the antagonism between the nationalist Kuomintang (KMT), the ruling party, and the Communist Party of China (CPC), the opposition group. This instable political climate exploded in 1949 with the Civil War, causing mass atrocities and millions of people killed by both sides. At the end, the Nationalist government was defeated by the CPC, and forced to retreat to Taiwan with its forces. Since that moment the KMT took the effective control of the island, founding the Republic of China.

The Communist Party of China, instead, was left in control of mainland China and on the 1st October 1949, its leader Mao Zedong proclaimed the People's Republic of China. He implemented a five-year economic and social plan known as the "great leap forward" which caused an estimated 45 million deaths. Moreover, Mao's government carried out mass executions of landowners in the name of the cultural revolution.

After the death of Mao, a more moderate president, Deng Xiaping, came to power but the fact that the president was the Mao's army general Hua Guofeng (Donda, 2014).

This period marked China's transition from a planned economy to a mixed economy with an increasingly open market environment called "market socialism" or "socialism with Chinese characteristics".

In 1978 the Chinese president announced the official launch of the Four Modernizations program which marked the beginning of a vast range of reforms concerning agriculture, defence, industry and technology. This programs increased the role of market mechanisms in the country and reduced the government control over the Chinese economy (Lu, 2012).

The succeeding government of Zhu Rongji implemented another important program for the Chinese economy, pulling an estimated 150 million farmers out of poverty and sustaining an average annual gross domestic product growth rate of 11.2% (Donda, 2014).

Although the PRC needed economic growth to spur its development, the government began to worry that the rapid growth was degrading the country's resources and environment. Moreover, certain sectors of society were not sufficiently benefiting from the PRC's economic development as proven by the wide gap between urban and rural areas. As a result, under the government of Hu Jintao, the PRC begun to implement policies to address issues of equitable distribution of resources. In that period, more than 40 million farmers were displaced from their land, usually for economic development, which led to 87,000 demonstrations and riots across China in 2005. For the vast majority of the PRC's population, however, living standards improved very substantially and freedom increased, even if the control of the Communist Party remains tight (Donda, 2014).

### **4.1.2 Politics**

The politics of the People's Republic of China takes place in a framework of a semi-presidential socialist republic run by a single party, the previously mentioned Communist Party. The State power within the People's Republic of China is exercised through this politic group, the Central People's Government and their provincial and local representation (Donda, 2014).

Since 1993, apart from a brief periods of transition, the top leader of China simultaneously serves as the President of the country, the head of the party, and the commander of the military forces. This office was established in the Constitution of the People's Republic of China in 1954 and successively held by Mao Zedong (Lu, 2012).

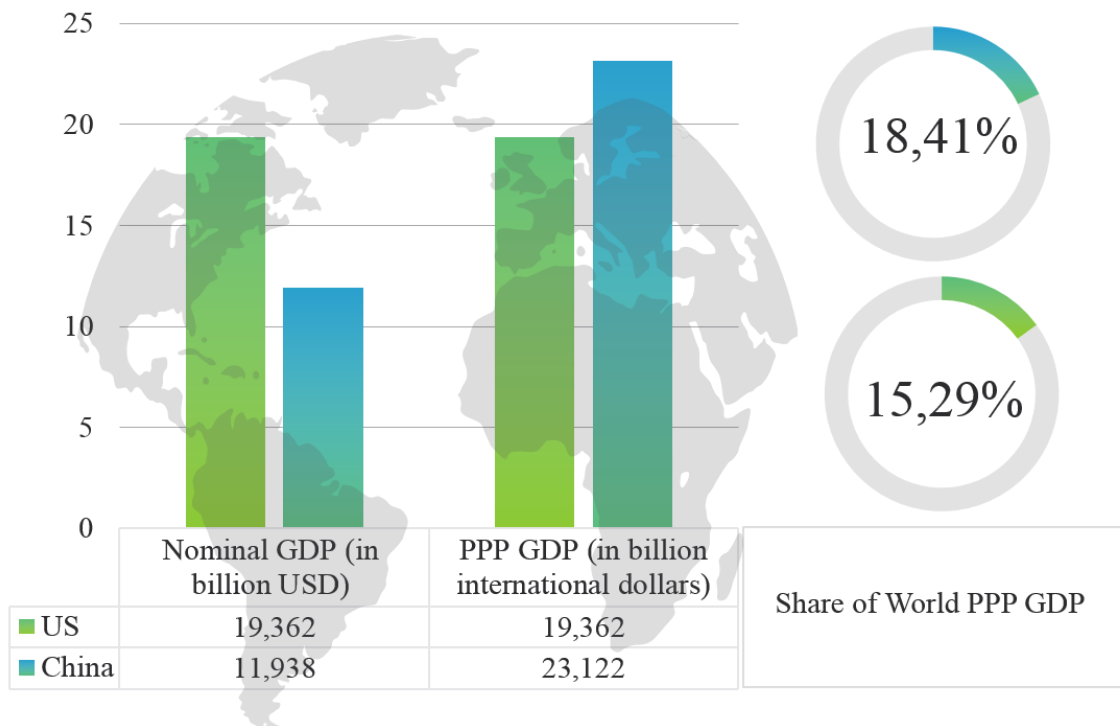
The current President is Xi Jinping, who took power in March 2013. Since assuming power, Xi has introduced several measures to enforce party discipline and to ensure internal unity. He has tightened restrictions over civil society and ideological discourse, and supported the censorship of internet.

Finally, he has also tried to expand China's Eurasian influence through the launch of the One Belt One Road Initiative (South China Morning Post, 2017).

### 4.1.3 Economy

During recent decades, the Chinese economy experienced an astonishing and sharp growth which projected the country to become the current world's largest economy by purchasing power parity and the second by nominal GDP (International Monetary Fund, 2017).

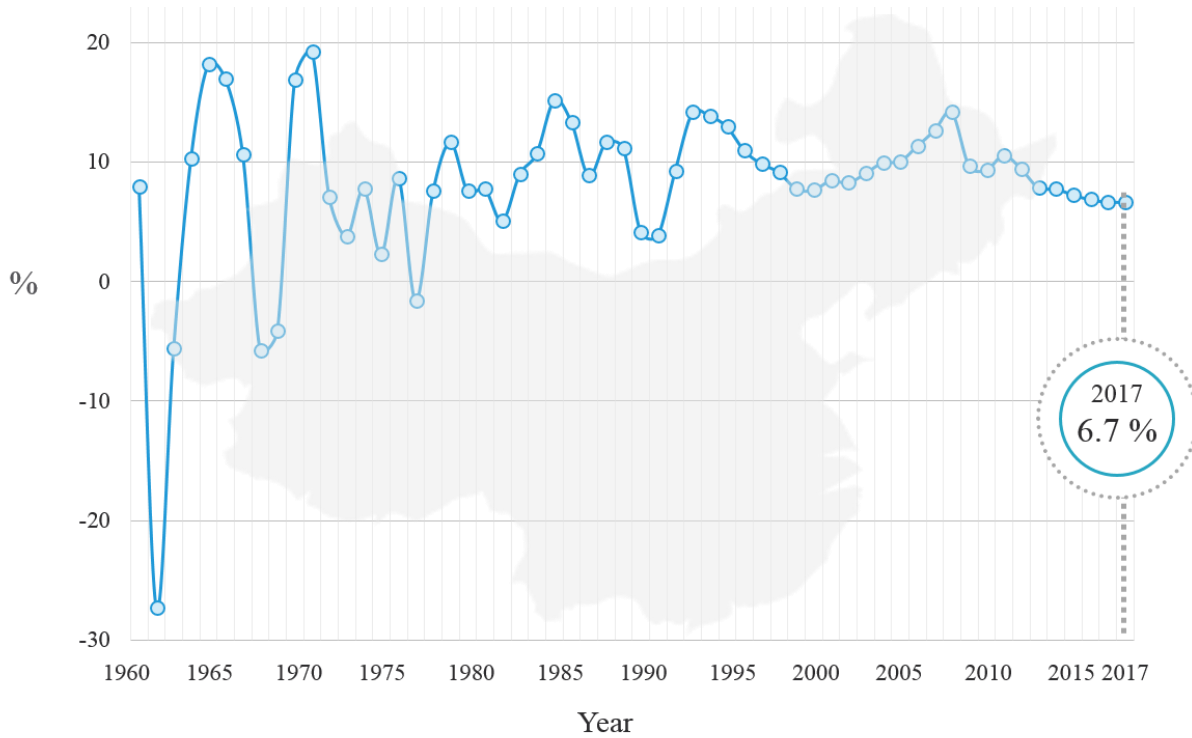
Figure 3: Comparison Between the 2017 GDP of China And United States



Source: International Monetary Fund, 2017

Moreover, until 2015, China was the world's fastest-growing economy, with an average growth rates of 10% over the last 30 years (McKinsey & Co., 2018).

Figure 4: China GDP Growth From 1960 to 2017

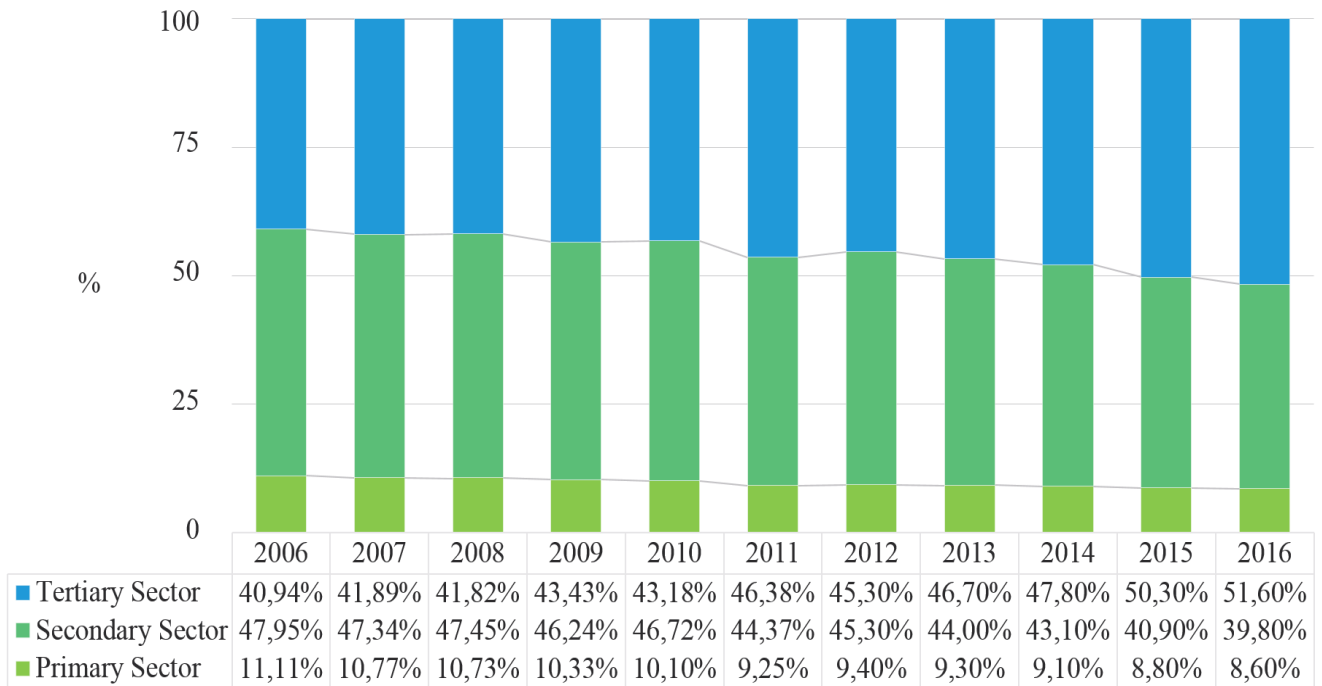


Source: Statista.com

Since the introduction of the economic reforms in 1978, China has become the world's manufacturing hub, where the secondary sector represented the largest share of GDP. However, in recent years, China's modernization propelled the tertiary sector and, in 2013, it became the largest category of GDP with a current share of 51.6%, while the secondary sector still accounted for the 39.8% of the country's total output. Meanwhile, the primary sector's weight in GDP has contracted dramatically since the country opened to the world and represents now the 8.6% of the country's GDP (South China Morning Post, 2017).



Figure 5: China's GDP Breakdown per Sector from 2006 to 2016

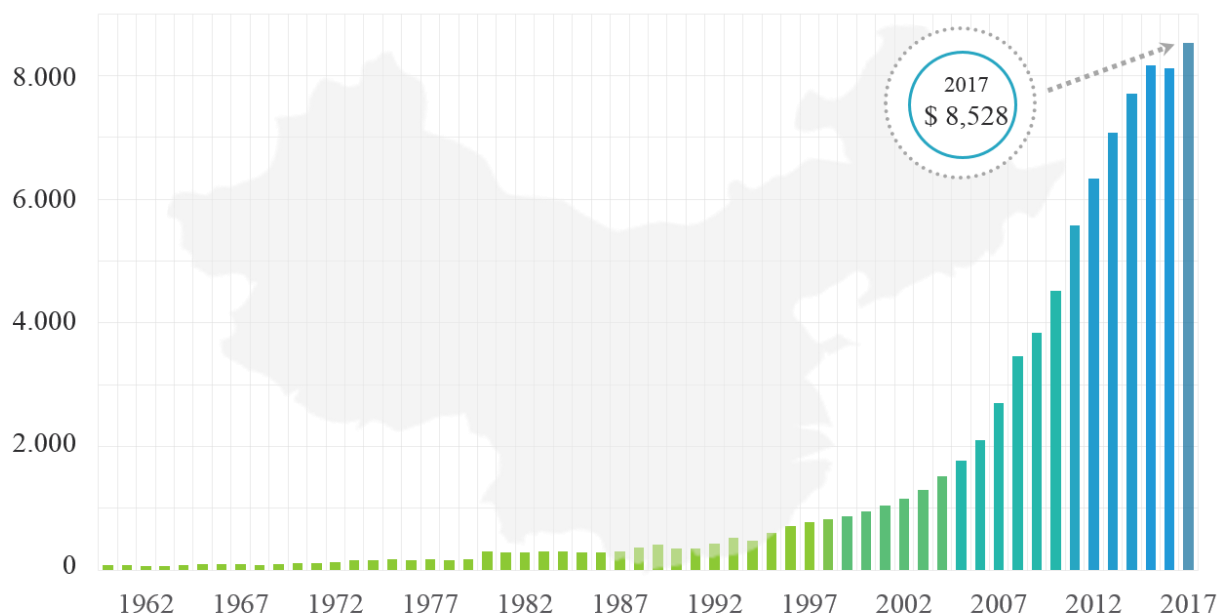


Source: Statista.com

Moreover, the annual per capita income in Chinese urban areas has seen a significant rise over the last two decades. Between 1995 and 2013, it had increased from ¥4,279 to ¥29,547, equal to €3,682.

However, being an emerging economy, China faces a large number of development challenges. One of the most pressing issues is the income inequality, especially the disparity between the country's urban and rural areas. In 2013, the annual per capita disposable income of urban households was nearly three times that in rural areas (International Monetary Fund, 2017).

Figure 6: Annual Income of Urban Households from 1960 to 2016 in USD



Source: International Monetary Fund, 2017

Aside from the inequalities between rural and urban areas, a large income gap still exists between eastern coastal provinces and central regions of China. In economically advanced coastal cities such as Beijing and Shanghai, the average per capita annual income had reached over ¥45,000 in 2013, almost twice the average income of most cities in central and western regions of China.

#### 4.1.4 The Tier Cities

In late 1980, the central government introduced a ranking system of the Chinese cities called *Tier System* aimed at facilitating the implementation and management of infrastructure and urban conurbations throughout the country. Nowadays, the tier system is an extremely important aspect in China, based on the subdivision and classification of the cities according to specific criteria (Keely, 2015).

China has 613 cities divided into 4 tiers defined by the following parameters.

- *GDP*: each city is classified according to its gross domestic profit. More specifically, the first-tier includes cities with a GDP over \$200 billion, second-tiers cities have a GDP between \$199 billion and \$68 billion, third-tier cities have a GDP ranging between \$18

billion to \$38.67 billion and lastly, the fourth-tier includes cities with a GDP level up to \$17 billion.

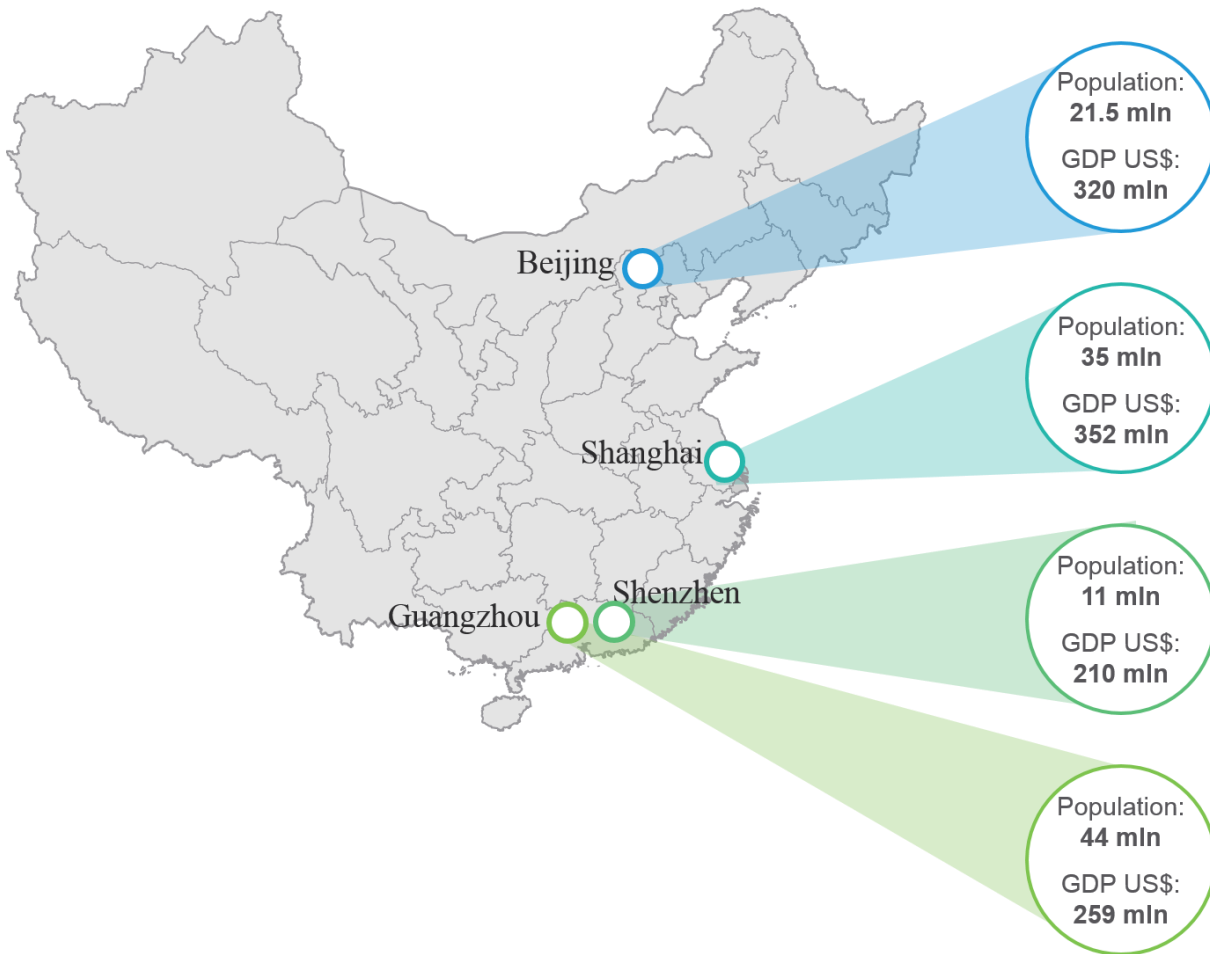
- *Politics*: the political administration of a city represents the second criteria of classification. First-tier cities are directly controlled by the government, second-tier cities include provincial capital cities and sub-provincial capital cities with a lower level of central government, prefecture capital cities belong to the third-tier and the remaining cities are included in the fourth-tier.
- *Population*: the number of people living in urban areas is also taken into account in the subdivision of cities. Cities with more than 10 million people are ranked in the first-tier, cities with a range between 3 and 9 million people belong to the second-tier, the third-tier includes cities with 150,000 to 3 million people while, fourth-tier's cities have less than 150,000 people.

The first tier consists of four cities representing the real locomotive of the Chinese economy. As a consequence of the strategic relevance of these conurbations, they are among the few cities directly controlled by the central government (Chen, 2017).

The four cities included in the first tier are listed as follows:

- *Beijing*
- *Shanghai*
- *Guangzhou*
- *Shenzhen*

Figure 7: China's First Tier Cities Statistics



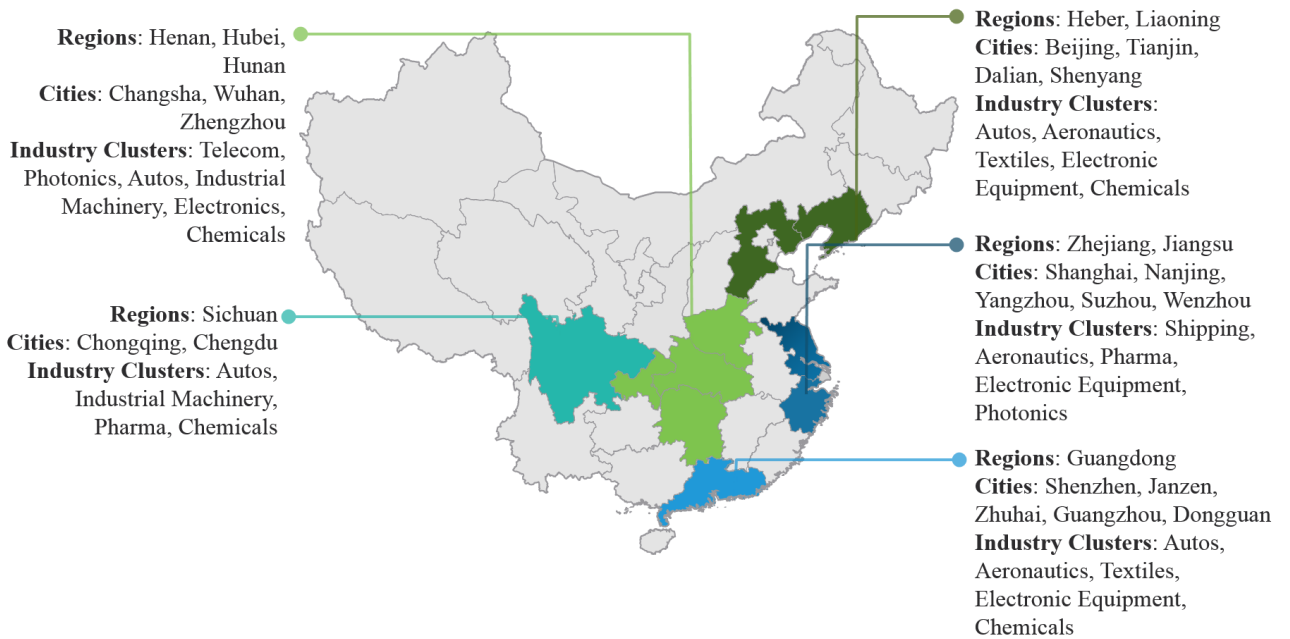
Source: Statista.com

### 4.1.5 Industrial Clusters

China originally began clustering its national industries as a consequence of the directives from Mao Zedong in early 1950. This occurred during the Cold War era when it was feared that either Soviet or American attacks on cities such as Beijing and Shanghai could have disrupted the national industry, centred at that time in these cities. Strategic industries were thus spread across the country to protect against attack and invasion (China Briefing, 2015).

The legacy of this program is that different industrial clusters have developed in different areas of China. The graph below shows the most important manufacturing clusters in China.

Figure 8: 2015 China Manufacturing Clusters



Source: Avg sourcing.com

Some of the cities listed on the map above has become famous as a consequence of their particular industrial cluster. A few examples are the cluster of electronic products located in Dongguan and the transport equipment cluster in Shandong.

Concerning the fashion industry, the most important clusters are located in the region of Guangdong and Liaoning which are among the richest of the country. Moreover, in these areas are also located three of the first-tier cities mentioned in the previous chapter.

The most important clusters are predominantly located in the eastern part of the country, but as the map illustrates, there is also a strong industrial development in more central provinces of mainland China, with the consequent development of specific cluster in those regions such as the cluster of medical products in Chengdu (Barry, 2015).

## **2.2 The Chinese Fashion Market**

The Chinese market is among the most important in the global fashion industry, accounting for almost the 30% of the world's sales of the sector (McKinsey & Co., 2018).

This chapter will provide a deep understanding of the development path of this market, with particular reference to Italian fashion companies. Moreover, the influence of this market in the global fashion system will be investigated in detail.

### **2.2.1 Development of Chinese Fashion**

Fashion, intended as expression of individuality, became possible in China only in the late 1990, which is the moment in the Chinese history when the government began to open up the society to the influence of Western countries and individuals' wealth raised (Donda, 2014).

The first phase of the development of the fashion industry in China was characterized by a particular fascination of the Chinese consumers towards big, recognizable, and international brands, especially those selling sportswear. An example is given by the early movers and famous brands Nike and Adidas, which entered China almost 30 years ago (Lu, 2012).

Their success on the market was mainly based on the fact that these companies offered exactly what the Chinese consumer needed at that time: a big distinguishable logo on items, and comfortable, garments for every day occasions, rather than fashionable apparel.

The preferred entry mode adopted by these first mover' firms was the franchising, which allowed them to safely enter the market, with high level of standardization of retails and low capital invested (Chen, 2017).

The succeeding decade was marked, instead, by an exponential growth of the fashion companies, powered by changes in Chinese consumers behaviour and needs towards this industry.

Demographically, younger generations started to spend more on clothes and apparel, mostly young women living in first tier cities such as Beijing and Shanghai. Concerning the consumers need, the economic developments in China, led to the spread of more casual occasions and events. This generated in the Chinese consumers the need for more fashionable clothes suitable for different situations. This transformation meant for firms the chance to influence their customers' preferences and shape them (Doctoroff, 2012).

A further need of the Chinese consumers, is to define their emotional space, intended as the expression of oneself through fashion. Life goals, different styles, or particular occasions, is, therefore, the influencing factors of the consumer tastes and choices in fashion (Lui, 2011).

In recent years, fashion industry in China continues to grow and to develop an increasingly more local identity, with big international fashion players launching collections specifically thought for the Chinese market.

### **2.2.2 From “Made in China” to “Made for China”**

In recent years, the interest of international fashion companies towards the Chinese fashion market have drastically increased, making China among the most important and strategic country in the industry.

As China grows to be one of the world’s largest fashion markets, in fact, international labels are exploring several strategies in order to engage local customers.

International fashion brands, for example, has begun to design products specifically conceived for the Chinese consumers and often decide to release their global collections first in China.

The Italian brand Diesel is a recent example of this specific approach, aim at increasing the attention of local costumers towards the brand and showing, at the same time, the company interest towards the Chinese market.

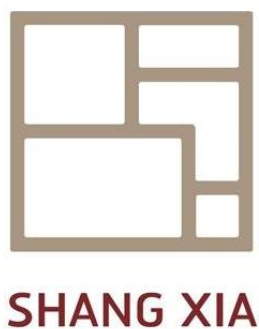
In September 2017 the iconic fashion label held an event in Beijing for the launch of its new collection. At the show the company has invited several personalities of the Chinese star system which helped the company in gaining attention among local customers. The photos and videos of the event, shared on the main Chinese social media has reached an immediately attention with more than 46 million views.

In addition, several international fashion brands have manifested their increasing interest towards the Chinese fashion market with the release of a special collection conceived to celebrate the Chinese New Year.

Aside from these strategies, another approach that has been used by fashion brands in order to explore the Chinese market is the collaboration with local designers.

One of the most influential collaborations in this sphere is the one that determined the foundation of the new Chinese label of Hermès called Shang Xia.

Figure 9: Hermès' Brand Shang Xia



Source: *Shangxia.cn*

The brand was co-founded by Hermès Group and the Chinese designer Jiang Qionger in 2009. It sells clothing, jewellery, tea sets, homeware, and furniture, covering almost all aspects of the Chinese lifestyle. With 10 flagship stores in Beijing, Shanghai, and Hong Kong, the brand is also looking to open new points of sale in second and third tier cities in the Chinese mainland, with the objective of the increasing number of local customers who are starting to look for their own cultural roots (Jing Daily, 2017).

While Hermès has decided to implement a long-term investment in the country, other brands have collaborated with local designers through a more flexible approach.

Early in 2016, for instance, the Swiss company Swatch worked with the Chinese designer Uma Wang on watches that highlight the use of contrasting materials. Moreover, Jewellery maker Swarovski has worked with designers like Masha Ma, Wang Peiyi and Christine Lau for the launch of a Christmas collection (Jing Daily, 2017).

Finally, the specificities of the body size of Chinese consumers has required further adaptation in the manufacturing processes of international fashion companies, with the implementation of new sizing standards specifically conceived for China and Asian countries.

The role of Chinese consumers in the fashion market is, therefore, gaining attention among international maison which has implemented new approaches to market with the creation of products specifically "*Made for China*".



## 2.3 The Italian Fashion Industry in the Chinese Market

The concept of *Made in Italy* is an important driver of success for Italian fashion companies. In the last decades the role of the Chinese fashion market for Italian brands has strongly increased, with a growth of exportation that, between 2004 and 2006, reaches the 206%.

### 2.3.1 Origins of the Italian Fashion

It is common and frequent to associate Italy with fashion, however, the success of Italian fashion industry is quite recent (Lu, 2012).

Since the Italian Unification in 1861, the country felt the need to create a national fashion identity, but several attempts led to failure. The Fascism founded in 1935 the National Fashion Institution based in Turin, but again it was a failure in terms of recognition of the Italian fashion industry in the world. At that time, France and the United Kingdom were leaders in the fashion industry, but strong political enemies of Italy. The second most flourishing fashion market were the United States, but again there were political discrepancies between the two countries. Thus, at that time, it seemed there were no possibilities for the Italian industry to expand globally (Dando, 2014).

Nevertheless, after the Second World War, as the political scene changed, there was a sort of increasing awareness of the Italian fashion identity, which made possible its development and expansion toward international markets.

Historically, 1951 is recognized as the year of the foundation of the so called Italian fashion, when the fashion designer Giovan Battista Giorgini presented his first clothing collection to American buyers. Since that moment the Italian industry of fashion began to grow, creating its own specific identity.

In this period, the Italian concepts of *alta moda* attempted to contrast the French *haute couture*. Textile factories started to increase their volume of production and tailoring began to decline drastically. In that period, Italian fashion began to be perceived as one of the most powerful industry of the country (Merlotti, 2013).

Today, half a century later, fashion in Italy continues to have a great importance, representing a strategic sector in the national manufacturing and a fundamental contributor of the domestic economy.

Moreover, the Italian fashion industry is one of the world's most relevant manufacturer industry in term of exportation.

In 2016 the export of Italian clothing performed positively. The statistics show France,

Germany and United States as the preferred destination of Italian fashion products. China, however, registered the greater increase in terms of exported textile products, exhibiting a growth of 206% from 2006 to 2016 (Monte dei Paschi di Siena, 2017).

The changes in the Chinese consumers perception of fashion, and the enhancement of their lifestyle, has allowed Italian brands to find a space among international players in the Chinese fashion market.

Moreover, China is not merely the main importer of Italian fashion products, it also represents the key supplier for Italian businesses.

The market of Made in Italy fashion products, firstly involved only purchasers of the first tier cities of China, however, in recent years, Italian companies began to extend their attention also towards second and third tier cities. This expansion of target is mainly due to the fact that today first tier represents for fashion brand an almost entirely acquainted market. Differently, second and third tier cities constitute an interesting market, with less competition, lower costs, and a new middle-class which is growing faster every day. The real attractiveness at the eyes of the Chinese consumer towards Italian apparel products is based on the fact that they immediately associate Made in Italy with high qualitative standards and exclusivity traits, creating an aura of exclusivity among Italian fashion companies (Vianelli, De Luca, Pegan, 2012).

The following section analyses the concept of Made in Italy as the key driver of the development of Italian fashion companies in China.

### **2.3.2 The Made in Italy in China**

The success of Italian brands in the Chinese market is explained by how the world and China perceive Italian fashion.

A significant part of the success of Italian fashion companies is owned to the idea of Made in Italy (Vescovi, 2012). In a world of internationalization and globalization of markets, where competition is tough and changes are fast, the so-called *country of origin effect* plays an extremely relevant role. The country of origin concept refers to the perception of consumer regarding products or brands of a specific country. It has been significant in the process of internationalization of the Italian industry. Italian enterprises, in fact, use the idea of Made in Italy to give consumer the perception of the product that reflects Italian values, traditions, and to differentiate their items from that of other countries.

Literally, Made in Italy refers to the country of production of Italian goods, however today it gains a greater significance, becoming synonymous of quality and reliability at the eyes of the world. Furthermore, Made in Italy means creativity, innovation, typical Italian lifestyle. All

these characteristics give strength to the Italian companies, and allow them to create value all over the world.

The value of this concept is mainly due to the combination of globalization and Made in Italy. The first gave rise to a process of standardization of products and services, and which benefits Made in Italy products, enabling them to stand out in the world for their Italian identity result of tradition and history.

There are 5 main aspects related to Made in Italy that attract international consumers:

- *Aesthetic*: it guarantees that stylish and elegant products conform to what is thought to be the Italian lifestyle;
- *Artisanship*: it stands for original product made with passion and extreme dedication to details;
- *Culture*: it refers to the Italian people's affection to their roots, to the history of the country and to the territory;
- *Quality Relationships*: it concerns the people relationship with the society, the importance of the family nucleus, and household, that reflects on the country way of doing business and on the productive processes;
- *Variety*: it is about the richness of Italy, both in a territorial and in a cultural perspective.

There are lots of Italian products that benefit from the concept of Made in Italy: the food industry, the automotive industry, the furnishing industry and the fashion industry are those sectors that are related the most with the Italian identity (Biondi, 2015).

It has been mentioned before that China represents one of the most important market for Italian fashion industry. With over 5,3000 enterprises and 11 million employees, Mainland China represents the biggest textile industry in the world, and it also has the largest consumption of textile products globally. The perception of Made in Italy of the Chinese consumer is associated to that characteristics mentioned above of quality, luxury, design and creativity. In addition Italian brands have gain the connotation of expression of a social status among the population (Guercini, 2011).

According to a report by McKinsey (2018), 50% of the today's Chinese consumer seeks the best and the more expensive product, and this ranks the apparel and fashion industry among the first categories of products in which Chinese individuals like to spend their income.

This new behaviour certainly benefits the Italian industry of fashion, that with its Made in Italy represents a guarantees for Chinese consumers.

An example of the success of Made in Italy in China is given by the ICE-ISTAT statistic of

2016, that registered and exportation of textile products in the PRC of €619 million, with a growth of 29.5% compared to the previous year. This growth gave to many Made in Italy fashion brands the opportunity to invest more in Chinese market and led to the expansion of several Italian fashion companies into Mainland China.

In the next chapter a few examples of the expansion of Italian fashion companies in China will be analysed.

## 2.4 Entry Strategies in the Chinese Fashion Market

The success of fashion companies is influenced by the mode of entry chosen for the Chinese market. Before analysing the main strategies implemented by international fashion firms, however, it is important to underline that a brand, in order to positively enter the Chinese fashion market, should have a strong successful position also in its country of origin.

The image and perception of the brand is fundamental for Chinese and, as a consequence, a label that does not have a robust position in its local market, has low possibilities to gain the interest of Chinese consumers.

The next paragraph will analyse the main modes of entry of international fashion companies in China, with a particular reference to Italian brands.

### 2.4.1 Mode of Entry

The entry modes regarding the Chinese market are consistent with the other international markets and can be divided into three typologies (Vianelli, De Luca, Pegan, 2014):

- *Exporting*
- *Strategic Alliances*
- *Foreign Direct Investment (FDI)*

However, within the FDI strategies, the *Wholly Foreign Owned Enterprise or WFOE* is a popular entry mode for the Chinese market, used by the 65% of foreign organization investing in the market (INS Global Consulting, 2018).

It consists of a limited liability company wholly owned and controlled by the foreign investors that, differently from Joint Ventures, does not require partnerships with native Chinese. This entry mode allows companies to have a great flexibility, high level of managerial control and intellectual property protection. Aside from these advantages, WFOEs require high investment costs for their initial set-up.

Many multinational companies that previously formed Joint Ventures with Chinese investors, has subsequently established WFOE in order to improve both efficiency and corporate control. The choice of an entry mode is, therefore, fundamental in the process of internationalization of firms and describes the strategies that an organization intends to pursue in the Chinese market. Two major dimensions that have to be considered in this decision process are defined as follows:

- *The Control Dimension*: it concerns the degree of control over the foreign operations;

- *The Investment Intensity Dimension*: it refers to the resource commitment to the foreign activities.

Undoubtedly, prerequisites to enter a market as China and to choose the right mode of entry, is to consider the level of acquaintance of the market and the previous experiences of a company. Because of the level of uncertainty that characterized the Chinese market, organizations act very differently in choosing their type and level of investment.

There are several factors influencing the model of entry mode based on the combination of control and investment intensity. Basically these factors can be divided into two groups as follows:

- *Internal Factors* or Firms-Specific Factors;
- *External Factors* or Country-Specific Factors.

*Internal factors* refer to the dimension of the company, the financial resources available, the product characteristics, the brand equity, the firm's philosophy and the risk orientation, the management characteristics and the perception of time.

*External factors*, on the other hand, concerns the cultural differences, the entry barriers, the trends and the dimension of the market, the market competition and the differences of distribution channels.

## **2.4.2 Case Histories: Italian Brands**

This chapters briefly examines the entrance of a few Italian brand in the Chinese country, analysing how the brand is perceived in the country and what mode of entry they implemented in order to gain a position of success in the market.

### **Ermenegildo Zegna**

The first brand that invested in the Chinese fashion market was Ermenegildo Zegna that in 1991 opened his first store in Beijing (Ermenegildo Zegna Group, 2017).

Today, China represents the primary market for the brand, which invested in 106 directly operated stores and 4 wholesalers in the country.

Moreover, in 2016, Ermenegildo Zegna strengthen its relationship with the Chinese market designing a line of formal and casual wear for the Chinese national football team.

## **Salvatore Ferragamo**

Another brand that successfully entered the People Republic's market is Salvatore Ferragamo, which exists in China from 1994 with directly operated stores and distributors in 35 Chinese cities.

In 2011, the luxury brand enhanced the relationship with China by including in the shareholding of the group one of the wealthiest men in the world, the Chinese business man Peter Woo, who gained the 8% of the Italian company (Corriere della Sera, 2011).

Two years later, the Florentine fashion brand, doubled its presence in the country opening new points of sale in Mainland China, Taiwan, and Hong Kong. In November 2015, Ferragamo celebrated two decades of activity in the Chinese market (Salvatore Ferragamo, 2015).

China represents the biggest market for the brand which registered a growth of 12.2% in the first six months of 2017, against the 1.1% increase from global markets (Pan, 2017).

Moreover, in 2017 the brand also started a collaboration with Xiao Wen Ju, a Chinese Victoria's Secret supermodel, in order to leverage her massive popularity among the Chinese new generation (Salvatore Ferragamo, 2017).

## **Dolce&Gabbana**

In December 2016 the luxury brand Dolce&Gabbana registered a revenue of €166 million from the Chinese market and an increase of 9% has been reached at the end of 2017.

Today, Dolce&Gabbana has 44 boutiques in the country and new opening in Guangzhou, Chongqing, Changsha, Dailan, and Beijing are planned for 2018, sign of a prosperous and developing market (Bottoni, 2017).

The company started investing in China with a standardized directly operated retail network, however recently, firm designer and founder Domenico Dolce announced a new strategy involving its Chinese retails with the implementation of new technologies aimed at enhancing the customers experience in late with the digital era that in China is influencing every aspect of the society.

## **Tod's**

The Made in Italy brand Tod's, is facing today a decrease in sales in almost every market, with the exception of the Chinese one.

The group registered in the first trimester of 2017 a growth of 3.6% in China, against a decrease of 4.4% in the other markets, including Italy and United States. (Bennevit, 2017) The brand began to invest in China in 1994 and today it has 64 stores, including directly owned stores, franchising, and outlets.

These cases demonstrate how high-end Made in Italy brands of the fashion industry successfully managed to entry and invest in the Chinese market. The entry modes chosen shows a strong control and high investment intensity, as the majority of them possess directly owned stores. This is due to the fact that fashion brands such as Zegna, or Dolce&Gabbana benefits from a significant brand equity and a favourable availability of resources.

On the contrary, difficulties in investing in a country as China arise for small and medium Made in Italy companies. The lack of resources, and the low predisposition to risk, force these firms to choose modes of entry which give them a weak control over their operations such as the implementation of exporting strategies. Most of the time this approach is realized though the aid of external intermediaries, with a strategy of indirect export. Complexity incurred for small and medium companies because of the lack of control as opposed to the strong power that these external actors gain in managing their businesses in China. Frequently firm found difficult to communicate with their Chinese intermediaries or maybe there are discrepancies between the values and the objectives of the Italian firm and those of the intermediary (Vescovi & Pontiggia, 2014).

These are the reasons why a lot of famous Italian brands and big companies invested and continue to invest in the Chinese fashion market, and why small-medium fashion enterprises still struggle to succeed in China.



## 2.5 Geographical Pricing in China

Geographical pricing, better known as “Geopricing”, is a marketing strategy according to which the valuation of a specific brand’s product, which is globally distributed, is based on the fluctuation of market prices. This approach is helpful in reducing the differences of price between different regions that could be otherwise determined as a consequence of transportation costs and custom duties.

In the last couple of years, this concept has become specifically relevant in the fashion industry and, in particular, in its Chinese context. From the 1<sup>st</sup> June 2015, in fact, the Chinese Government has decided to introduce a particular regulation system for the Chinese fashion market, drastically reducing the value of custom duties for this sector.

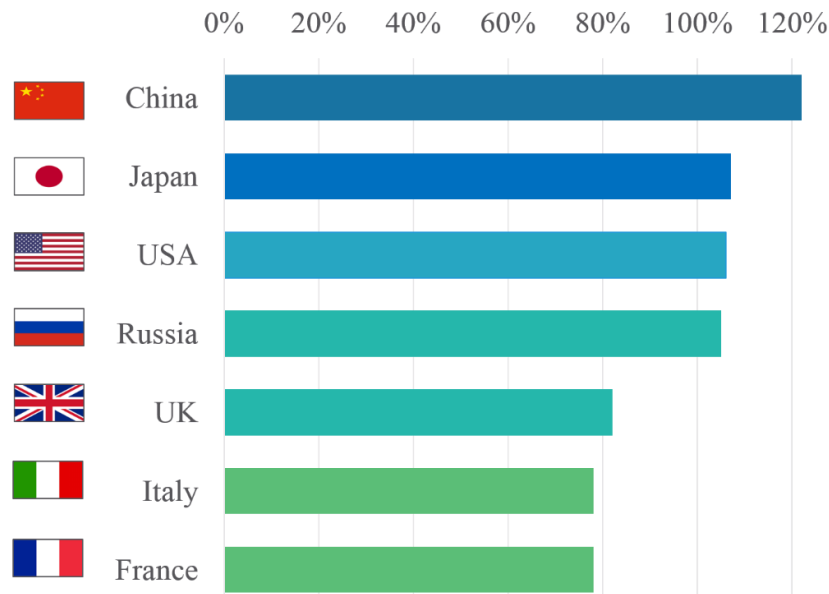
Moreover, in November 2017 this policy has been implemented with a further reduction of import taxes on almost 200 consumer goods categories, including fashion and cosmetics. This regulation aim to allow international fashion companies to reduce the price of their products with the consequent homologation with the international values (South China Morning Post, 2017).

The changes introduced by the regulation are defined as follows:

- Apparel: from 14 % to 7%
- Footwear: from 24% to 12%
- Cosmetics: from 5% to 2%.

The difference of price between Chinese and Western markets, that the presence of these duties determines, is highlighted in the table below.

Figure 10: March 2017 Price Index for Fashion & Luxury Products (100%= Global Average)



Source: Deloitte, 2017

As shown in the graph above, there are significant regional price differences within the fashion and luxury goods market. On average the price of these items are 50% higher in China than in Italy or France. Moreover, this difference can range between 20% and 70%, depending on the brand and product category, with the highest premium applied on luxury products such as jewelleries and watches (Deloitte, 2017).

This situation presents a clear opportunity for Chinese travellers which has given birth to the so-called *shopping mission* of Chinese customers of fashion in Europe. This trend has strongly helped the European boutiques that have benefit from the arrival of huge group of Chinese tourists, whose unique aim in the old continent is buying fashion and luxury items.

The Chinese State Council, however, has understood that, as a consequence of this situation, it was absolutely necessary to reinforce the internal market throughout a manoeuvre aimed at the decrease the duties for this specific sector.

The reduction of these tariffs has allowed several prestigious European and American brands to apply geopricing strategy previously mentioned, with a strong impact on their business models.

The first brand to cut the difference of price between the Chinese and the other markets has been Chanel. In 2015, in a few days the fashion brand adjusted its prices with, in some cases, a reduction of price of €2,000 or €3,000 in comparison with the prices imposed in Europe. This strategy of price adaptation had the immediate consequence of a strong sales increase in the Chinese market. The growth has been mainly driven by all those people that, not having the

opportunity to travel to Europe, decided not to buy their articles at that price, aware of the fact that in Europe it was far lower. The day in which they introduced the new price the line in front of the boutique of Chanel in Hong Kong, the biggest store in Asia, lasted hours. This strategy ended to be necessary for increasing the profits of the Chinese stores that, despite the prestige and success of the brand have among Chinese clients, were suffering a downturn with respect to the European ones. The financial data of Chanel of 2015 revealed a growth of 38%, mainly driven by the Chinese stores (South China Morning Post, 2017).

The same strategy has been subsequently applied by several Italian brands such as Gucci, Prada and Bottega Veneta. However, it is important to underline that, another reason that justify the high retail price of several fashion brands concerns the fact that they want to maintain a luxury brand image. Increasing their price, in fact, luxury fashion companies manage to preserve an aura of exclusivity over their products, avoiding an excessive diffusion typical of mass and value-market brands. (Yang, 2017).

## 2.6 The Role in Fashion Manufacturing

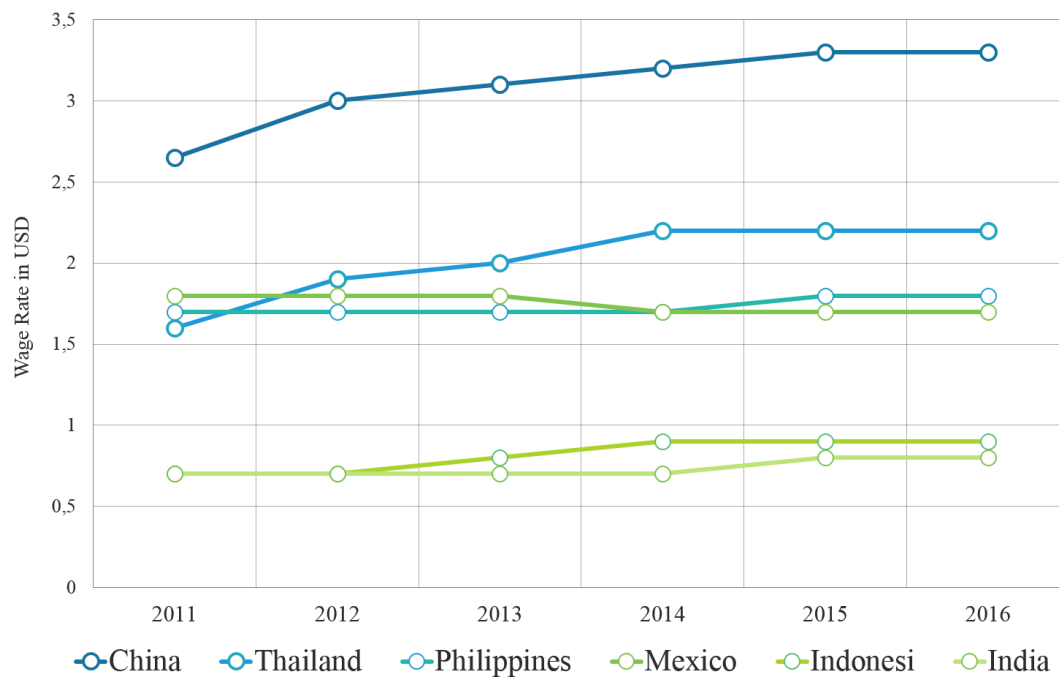
The cheap labour cost has long been considered the main factor behind the Chinese economic power, driving the country to the status of the “world’s factory”.

However, during recent years the situation is drastically changed. Since 2011 the wage of Chinese workers has strongly increased and the central role of China in the global manufacturing is at risk.

In particular, the apparel industry has been strongly affected by this trend, with the result that several fashion companies, such as Nike and Tommy Hilfiger, have undertaken massive investment outside China towards countries where the labour cost is cheaper (Yan, 2017).

According to the last report of Euromonitor International, in 2016 the average hourly wages of Chinese workers reached \$3.30 (€2.90), with an increase of 25% compared to same measure in 2011. Moreover, in 2016 the cost of labour in China was more than 40% higher than other developing countries such as Thailand and Mexico and more than 3 times those of Indian workers. Furthermore, the hourly wage of Chinese has also reached the 70% of those in weaker Eurozone countries, such as Portugal (Euromonitor International, 2017).

Figure 11: Chinese Workers' Wage *Per Hour* From 2011 to 2016



Source: Euromonitor.com

Those statistics indicates that China's traditional competitive advantage based on low labour cost is progressively vanishing.

Several brands closed their production plants in the country at the beginning of this trend, in the late 2012. The fashion brand La Perla, for example, in that period moved its production from China to Portugal and Turkey. Despite the hourly wage in those countries was not lower than in China, the risk of the increasing Chinese wage and the benefit of the proximity of the two countries that allows a better management of the plants, make China no more an attractive investment.

The *outsourcing* decision of Nike, instead, was merely driven by the level of labour costs. In 2014, in fact, the company decided to move part of their production to Bangladesh and Vietnam, where the average wage was lower than in China (Wendlandt, 2015).

Aside from the decision of outsourcing the production plants outside China, another approach that has recently emerged in the Chinese fashion industry is the *reshoring*. The rise of the labour cost in China, together with the fashion customers' increased attention towards quality and sustainability have lead several fashion companies to reintroduce their manufacturing plants in their home country (Veglianti, 2016).

In this scenario, luxury fashion players highlight few advantages coming from an offshore production as consumers are looking much more at quality and they are getting conscious of the role of craftsmanship in each product. In this sector, in fact, quality is a crucial factor that affects the overall supply chain in terms of both higher controls and better time-to-market.

The Italian leather products' brand Piquadro, for instance, in 2012 decided to closed their production plants in China and reshore to Italy.

Despite this critical situation in the fashion manufacturing industry, Chinese have tried to overcome this issue investing in technological innovation, specialisation and quality upgrades in order to help its manufacturing sector to remain globally competitive.

## 2.7 The Chinese Market of Counterfeit Products

At the beginning of the 19<sup>th</sup> Century the iconic fashion designer Coco Chanel said that “if you want to be original, you should be ready to be copied”.

At that time, however, she could not expect the intensive impact that the market of counterfeit products would have had in the fashion industry, and in particular on her brand.

The French brand Chanel is a pioneer in the fight against the market of fake products in the fashion industry. In June 2017 it has won a multi-billion dollar trademark infringement lawsuit against more than two dozen Amazon sellers vending fake goods (Hays, 2017).

In China, however, the problem is even worse than in Western countries due to the fact that counterfeiters in that market are increasingly sophisticated, exploiting procedural loopholes and continuously seeking to invalidate legitimate patents and trademarks (The US-China Business Council, 2016).

It is common, in fact, to find on the central streets of the main Chinese cities, such as Guangzhou, stores showing counterfeits fashion products, as illustrated in the picture above.

*Figure 12: Shopping Mall in Guangzhou Selling Counterfeits Products*

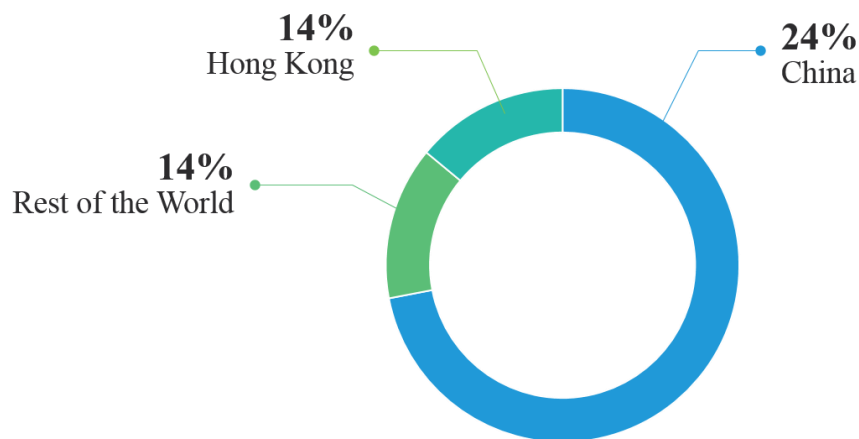


Counterfeit goods constitute one of the biggest threats to the global fashion industry because they absorb sales to the authentic brands and damage their reputation.

According to the 2017 Situation Report on Counterfeiting and Piracy fake fashion goods, this market cost European brands the 9.7% of their total sales every year (European Union Intellectual Property Office, 2017).

The role of China in this trade is massive. According to the 2016 Global Counterfeit Report of the US Chamber of Commerce, it is estimated to be the source for more than 70% of global counterfeiting, amounting to more than 285 billion USD every year. In the counterfeit products market, more than 40% of it regards fashion and luxury products, with a consequent enormous damage for international fashion companies (U.S. Chamber of Commerce, 2016).

*Figure 13: 2016 Share of Global Counterfeit Products Market Per Country*



*Source: U.S. Chamber of Commerce, 2016*

This phenomenon has been intensify by the increasing international reach of China in the main global markets, achieved through several ports that the Chinese government has leased and constructed around the world.

In 2017, China was responsible for about 10% of global trade in goods, as it is home to seven of the ten busiest ports in the world, including the port of Shanghai, the world's largest (European Union Intellectual Property Office, 2017).

Figure 14: China's 2016 Key Ports Around the World



Source: U.S. Chamber of Commerce, 2016

Despite being one of the leading players in world trade, China continues to face significant challenges in the enforcement of intellectual property rights. Even though improvements have occurred in recent years, China's Intellectual Property environment remains challenging and criminal prosecution against counterfeiters is inconsistent in many industry sectors.

Moreover, the phenomenon of counterfeiting has been fuelled by the proliferation of internet and social medias, which have increased considerably the issue and the size of the market of counterfeit products.

In 2016 the French label Chanel has found on the Chinese e-commerce platform Taobao 190,035 unauthorized Chanel products sold at half the price of the authentic articles. The luxury brands have used legal means in order to contrast the activity of counterfeiters but, differently from the case of Amazon, in China legal tools are often slow and ineffective (Hays, 2017).

In the late 2015 Gucci and other luxury brands owned by Kering Group, such as Balenciaga and Yves Saint Laurent, filed a lawsuit at the federal court in Manhattan against Alibaba. The



fashion group accused the online platform to conspire against manufactures, allowing counterfeiters to use the brands' trademarks without their permission.

In August 2017, however, Kering Group and Alibaba announced a ground-breaking agreement that could represent the first important step in the battle against counterfeit fashion products. The two companies have agreed to cooperate in the effort to protect intellectual property and take joint enforcement actions online and offline against infringers in order to provide the best trusted environment in the Chinese fashion market (Kering Group, 2017).

As a consequence, Alibaba has begun to use sophisticated technology, including artificial intelligence, to detect fake products. In 2017 this system has allowed the Chinese company to block more than 380 million suspect listings (The New York Times, 2017).

Supporting the battle against fake fashion products, Alibaba is trying to change the perception of the e-commerce platform as a market place for counterfeit products.

The magnitude of the issue, however, requires a more cohesive action with other Chinese e-shops to be more effective.

Moreover, a stronger support of the Chinese government with concrete regulations aim at reducing the problem both online and offline, is fundamental in order to avoid the further proliferation of the phenomenon in the following years.



# PART 3: DIGITAL MARKETING

*“Ignoring digital marketing is like opening  
a business but not telling anyone.”*

*Anastasia Georgiou  
Social Media Manager of Digital Marketer*



The aim of this chapter is providing a deep understanding of the role of digital in developing a company's marketing strategy.

Firstly, the key phases of the development of a marketing strategy will be examined, with particular reference to digital media channels.

Then, the development of a digital marketing strategy will be analysed and the most important trend of the digital era will be highlighted.

The key social media will be introduced and their role in companies' marketing strategies will be highlighted.

Finally, the influence of key opinion leaders and influencers will be examined with particular reference to the strategies implemented by companies of the fashion industry.



### 3.1 New Trends in Marketing

Marketing is the social process by which individuals and organizations obtain what they need and want through creating and exchanging value with others (Kotler and Armstrong, 2009).

Today’s organizations are increasingly investing in digital strategies, giving more relevance to digital tools, as efficient websites, social media, and online stores.

The shifting through more mobile services, rather than desktop services, is one of the trends that characterize the new way of doing marketing online. Video content and photos published on social media are the base of today’s communication and promotion strategies.

Moreover, real time interactions with consumers are what companies need to do in order to create a proper CRM.

Figure 1: Digital Marketing Tools



Source: Baker and Saren, 2016

### 3.1.1 Marketing Strategies

Marketing managers that want to develop a successful marketing plan need to conduct a careful analysis of the market, which can be divided in the four following phases (Tuten and Solomon, 2015).

#### **Situation Analysis**

The first phase is a deep analysis and evaluation of the situation in which the company operates. It starts from the observation of the domestic environment of the company, which means the internal environment.

This analysis takes into consideration several aspects. It examines the organization core values and in which way they can affect marketing activities, how marketing supports the organization mission, its objectives and the past policies adopted by the company. It also concerns the company resources and how the firm communicates with its potential customers.

The other environment to analyse is the external one. In this phase marketing managers observe the market in which companies desire to position their products, focusing on the dimension of the market. Furthermore, the consumers' and competitors' characteristics are also analysed, together with the environmental trends that may arise from the social, economic, technological and regulatory forces.

The last phase in the examination of the environment is the SWOT analysis, which defines organizations' appraisal of their internal strengths and weaknesses and their external opportunities and threats.

#### **Marketing Objectives**

The aim of the second phase is to define the marketing objectives, outlining the marketing activities which allow the company to accomplish its goals and achieve its planned tasks.

Firms may pursue different type of objectives:

- *Profit*, when a company's objective is to maximize profits;
- *Sales*, in the case of firms that seek to increase their turnover;
- *Market share*, refers to the ratio of sales revenue of the organization to the total revenue of all organizations in the industry;
- *Quality*, when a company's first concern is to offer a certain level of quality;
- *Customer satisfaction*, when the interest of a firm is primarily directed to the fulfilment of its customers;



- *Employee welfare*, in the case of companies aimed to provide good working conditions for their employees;
- *Social responsibility*, refers to those firms that manage to balance the conflicting objectives of stakeholders.

### **Definition and Development of the Strategy**

The third phase is the definition and the development of the marketing strategies.

This stage is extremely important and it starts with the study of the consumers' behaviour in terms of purchase, usage and disposal of companies' products. Therefore, firms proceed to the market segmentation process, which identifies and subdivides a large market into segments that have similar needs, wants, or demands characteristics.

Through the segmentation process a firm determines the need of the potential segment, and as a result, it identifies the segment, using different approaches to segmentation. Organizations might follow a geographic approach, a demographic approach, a psychographic approach, or a behavioural approach.

The next step of this phase is to individuate which segment is most attractive, that means choosing which targets and segments are the most profitable.

At this point, companies have enough information in order to proceed at the design of the model of marketing mix that matches the expectations of customers in the target segment.

The traditional marketing mix comprehends the so-called 4Ps:

- *Product*, which means to define companies' core product, choose line mix strategies, take decisions in terms of brand, label, packaging of the product, and take into consideration the importance of complementary products or services;
- *Price*, which refers to the pricing policies;
- *Promotion*, that concerns the message that companies want their products to send, the approaches to advertisement, publicity, public relations, promotions, and the all the forms of communications (i.e.: social media);
- *Place*, that means to evaluate the best way to reach the consumers, by which channels, through which intermediaries, and finally how to distribute the product, once the ideal locations have been identified.

## **Implementation and Control of the Strategy**

The fourth phase of a marketing strategy is the implementation and control of the marketing plan.

This is the concrete part of the process, because it refers to all the activities and practices related to the marketing mix.

Furthermore, in this phase, firms need to give their managers, employee, and all the organizational divisions, specific tasks, well defined responsibilities, timelines, and budgets, necessary to reach the marketing objectives.

The last step concerns the evaluation and the analysis of the results. This means that companies need to find the right instruments to measure their performances.

This is an important part of the marketing plan because by measuring an organization effective performance, the organization itself can understand if the work done and the strategies adopted are efficient or, on the contrary, if they should be changed.

## **3.2 Digital Marketing**

Digital marketing is a form of direct marketing which links consumers with sellers electronically, using interactive technologies like mobile applications, social media, emails, websites, online forums and interactive television (Kotler and Armstrong, 2009).

### **3.2.1 Internet and Society**

Today internet is essential among individuals and society: almost everybody has a smartphone, a computer at home, or a laptop at work or at school.

The actual version of the Internet is called *Web 2.0*, and it allows users to interact, communicate, and gather information. It represents, nowadays, the most important media of communications, and it is a two-ways instrument for exchanging information, which makes it different from the previous Web 1.0 (O'Riley, 2005).

The fact that the information is moving from and to both sides, the companies or governments, and the people, lead to a form of information sharing that consequently gives rise to what is called *horizontal revolution* (Tuten and Solomon, 2014).

This massive presence of the Internet in the entire society, has led to a deep transformation in the society lifestyle.

### **3.2.2 Definition of Social Media**

The number of social media users in the world is growing every day, with increasingly more people that feel the need to share their life moments, their status, or simply their ideas (Bauman, 2016).

This aspect is relevant from the point of view of individuals, but also, from the perspective of organizations, that have the opportunity to use social media channels for their marketing strategies.

The concept of social media, strictly connected with the Web 2.0, refers to all the communications channels where users can interact, share contents, and collaborate. Social media are continuously evolving and rapidly developing, hence the business environment may appear quite complex to firms.

The key word for social media is participation. It does not matter which area of social media is taken into consideration, social community, social publishing, social entertainment or social

commerce, people are always allowed to participate, in terms of communication, creation, content-sharing, socialization, playing, buying and selling products.

### **3.2.3 Traditional marketing and digital marketing**

Traditional marketing, as mentioned at the beginning of this chapter, is the process by which companies create, communicate, distribute and exchange offerings that has a certain value for customers, partners and the society.

The objectives of marketing need to be pursued through a marketing mix that comprehends the 4Ps mentioned above: product, price, promotion and place.

In the era of Web 2.0, it would be appropriate, however, to add a fifth word to the marketing mix, which is *participation*. The level of customers' engagement is, in fact, the first difference between traditional and digital marketing. However, the most important distinction that has completely changed the strategies of organizations is represented by the channels of communications that digital marketing uses.

Traditional marketing utilises channels of communications that allow information to flow only in one direction, from the organization to the public. Some examples of traditional media are the television, the radio, magazines and newspapers, and outdoor advertising.

In this type of communication, the interactions and the exchanges of feedback among clients and organizations are minimum. The direction of these channels of communication is, therefore, from the top, represented by the firm's leadership, to the bottom, represented by the consumer. Digital marketing, instead, uses a wider channel of communications: *the Internet*.

Firstly, marketing managers began using the Internet just for the last phases of the marketing mix, the promotion and the distribution, leaving in second place media such as television and radio.

During recent years, Internet has developed rapidly and managers, at first sceptical and convinced that it was only a momentary trend, started to be more concerned about the power of the Web. Therefore, they gradually began to transform their marketing mix adapting the whole strategy to a more technological approach.

Today, choosing a digital approach to set out a marketing strategy is, therefore, the most advantageous choice. The first advantage is referred to the expense and the access of digital marketing channels. Using traditional media may be, in fact, extremely expensive for a company. Differently, social medias and the other online platforms are more cost-effective, giving firms the opportunity to send their messages at lower costs, reaching a more extensive range of people.

Another advantage concerns the training and the number of people involved. Traditional media require specialized skills and training, while social media require limited skills.

Also timing is relevant when talking about social media, as communications can be instantaneous. Moreover, contents on social medias are more flexible than on the traditional marketing channels: once a message has been created it can not be edited or changed, differently from online digital contents, that can be modify in every moment.

However, a point in favour for traditional media is credibility. A famous newspaper has, indeed, more reliability than virtual conversation.

Often companies underestimate the value of social media, just considering them an easy and simple way of doing marketing, and this approach can be counterproductive in a marketing strategy. Digital marketing strategies, in fact, require the same attention, analysis, and planning of traditional strategies, and a deep understanding of the way in which firms' business can benefit from the social media growth.

### **3.2.4 Digital Customer**

Individuals are extremely important in the marketing field as the aim of organizations is to discover and satisfy the needs of customers.

In this section the focus will be on digital consumers and their behaviour, which has to be always analysed and keep updated due to the continuous change of the Web 2.0.

Internet today is embedded in the life of the majority of developed countries' population. Almost every person, in fact, has already researched something on the Web, posted a content on social media or communicated with friends through digital mobile applications.

Moreover, when people post, comment or simply become part of a digital space, in fact, leave some footprints, which in this case are called social footprints.

The totality of these footprints are registered, and put together, creating the individual's digital identity, which is the representation of the individual life on online and social platforms, called *lifestream* (Tuten and Solomon, 2014).

The target of a company digital strategy can be composed by two types of individuals, the *digital natives* and the *digital immigrants* (Prensky, 2001).

The first group identifies all the people "born digital", that is that part of the population which perfectly knows the digital language, which is always connected through online digital platforms. Differently, the so-called digital immigrants are those people who have grown up without the presence of the Internet, hence they have started adopting the new technologies as they started developing in the world societies.

The different digital culture of these two groups requires, indeed, the definition of different digital marketing strategies with the use of a different approach and different media channels.

### **3.2.5 Social media marketing strategy**

In order to create an effective digital marketing plan, in recent times organizations are investing a lot more resources and money into the sphere of social media.

In this case, it is important to differentiate companies just using social media from companies that include them as a specific part of their marketing strategies.

A *social media marketing plan*, can be divided into four phases: the discovery phase, the pilot project phase, the creation phase, and the measurement phase (Packer, 2011).

#### **Discovery Phase**

The first step of the *discovery phase* concerns the identification of the company's social media objectives and goals, defined coherently with the whole business's objectives and goals. Subsequently, the social consumer segment has to be chosen and analysed, researching the related social media habits.

This phase is particularly relevant in the definition of the company's social media plan. Identifying the proper target market, in fact, is the key to establish strong customer relationships.

#### **Pilot Project Phase**

In order to accomplish the objectives chosen in the discovery phase, in the *pilot project phase* the company has to identify the resources available for the digital marketing strategy and choose the right social media channels. This phase, in fact, is dedicated to the exploration of online channels and social media platforms and allows organizations to gain experience and confidence with social media sites.

#### **Creation phase**

The *creation phase* is the most important part of companies' digital marketing strategy, through which they begin to concretely communicate with their target consumers.

In this phase companies define the content of their digital marketing campaign, identifying the information that is more valuable for the firms' customers and defining the types of content to share. Moreover, companies also have to define the communication style of the digital marketing strategy which will become the organizational voice. By doing that companies need

to consider their target market, and make sure that the chosen organizational voice reflects the values and the culture of their business.

### **Measurement phase**

In order to be successful through digital marketing strategies, organizations should *measure* their strategies effectiveness and efficiency through data such as number of likes, shares, comments, click per view and many others. Learning from mistakes, and also from achievements, comparing the actual results and the desired results, are good instruments to measure how well a company's strategy is performing.

If there are discrepancies between the companies' goals and the results obtained, firms should consider to modify their strategy and improve their performances.

## 3.3 Social Media Platforms

As explained in the definition of digital marketing, internet is a massive channel of communication and exchange of information.

One of its features is the presence of digital spaces where users interact called *social media*.

The most important media channels for the development of a company's digital marketing strategy are analyzed in the following chapters.

### 3.3.1 Facebook

Facebook was launched in 2004 by its founder Mark Zuckerberg. Initially it was limited to the Harvard University students, later it was expanded to other colleges in Boston; gradually it became popular and available to most university in the United States and Canada and corporations.

*Figure 2: Facebook's Official Logo*



Facebook was launched in 2004, and today, with 2.1 billion active users, it is positioned as the first social media platform worldwide (Zephoria Digital Marketing, 2018).

Facebook is a social network where users can create a personal profile, make friends by adding other users, post an opinion, publish photo, video, share contents, comment and express feelings about what they see on the platform pressing the reactions' button.

Facebook, in a digital marketing strategy, represents a huge profit potential. Into this platform, in fact, marketing managers have the opportunity to generate awareness about their products and services.

By using Facebook as a marketing space, organizations can gain a strong advantage: they can establish direct relationships with their consumers, in the form of dialogue with clients.



Moreover, Facebook allows firms to post contents that generate a response and consequently a feedback about their brands.

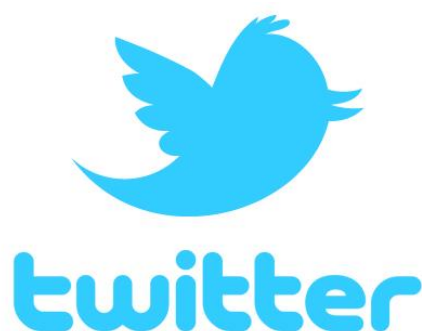
A further advantage is that this social network reaches a relevant mass of people, so critics, suggestions, appreciations, are coming from a huge part of the market.

The difficulty for marketing managers that want to use Facebook as part of their strategy, however, is to stand out from the crowd. In fact, as the social network can attract millions of individuals, it also allows millions of companies to use it, and that means that in order to distinguish from others, managers need to put special efforts on creativity, originality, freshness, and, most important, deep knowledge of their potential customers' behavior and bias. A significant introduction recently made by the Facebook team is the marketplace function, launched in Europe on August 2017. In this virtual space people can sell, buy, or exchange every sort of item. Organizations still do not mention this function in their social media strategy but the potential of a purchasing space might be vast.

### 3.3.2 Twitter

Twitter is a social network created by the American company Obvious Corporation that allows users to post text messages with limited length of 140 characters called *tweets*. Twitter has introduced the *hashtags*, which are words that permit a sort of grouping by putting together messages with the same tag.

*Figure 3: Twitter's Official Logo*



Each user on the platform has a profile with the possibility to follow other users' accounts.

Including Twitter into a social media strategy is fundamental because it allows organizations to communicate direct messages to their followers. However, as the characters in the tweets are limited, marketing managers cannot share complex sentences or expect extensive responses.

From the individuals' perspective, this platform is a useful tool to obtain information about brands and products, and make positive or negative comments about them.

### 3.3.3 Instagram

Founded by Kevin Systrom and Mike Krieger on October 2010, Instagram was born as a social network where users could share their photos with particular filters and describe them with captions and hashtags, browse other users' photos and express their appreciation, with the "heart" button.

*Figure 4: Instagram's Official Logo*



On the platform people can also share short video, called *stories*, with a limited length that disappear from the users' profile after 24 hours, and send direct messages to other users.

Nowadays the users of Instagram are increasingly grown and the social network reached 700 million of users (Aslam, 2018).

Instagram in a digital marketing strategy can be useful in the case of a brand that wants to show to a large amount of people its products.

Firms can choose to let consumers see their finished product, the production process of goods, or just some peculiarities of the company. On this social network fashion companies publish photos of their latest collections, how they produce their product, and what are their main values.

### 3.3.4 Chat Apps

Chat Apps are other important media platforms in a company's digital strategy.

In Western Countries people usually think about chats solely as an exchange of messages between friends, colleagues and known people.

As a consequence, both WhatsApp with 1.3 billion monthly active users and Facebook Messenger, are still not included into companies' digital marketing strategies (Statista, 2017).

*Figure 5: WhatsApp's Official Logo*



The situation is drastically different in the case of WeChat, which is chat app developed by the Chinese colossus Tencent in 2011, that counts 980 million monthly active users (Statista, 2018). The services provided by this social media includes both instant messaging, commerce and payment services. The peculiarity of this chat app that makes it appealing to marketing managers is the fact that it has also a section dedicated to its social network, where users can share their photos, videos, thoughts, and follow other users.

It represents, therefore, a good opportunity to organizations that want to establish a relationship with individuals, by promoting their brands, sharing messages, or even giving direct information about events, sales and discount to their followers.

Even if WeChat appears as a perfect field for social media strategies, it still faces major difficulties in going outside China and penetrating the international markets.

The features of WeChat and its application in the fashion market will be investigated in detail in Part 4 of this thesis.

### **3.3.5 YouTube**

YouTube is a website through which users can upload, view and comment videos. This online platform also allows users to subscribe the so-called *channels* and create personal playlists that can be shared and followed by other users. The monthly users of YouTube have reached 1.5 billion people (Matney, 2018).

Using this social media in a digital marketing strategy can be appropriate when organizations' products are quite complex and consumers need an explanation of the benefits of the products

through a video. Moreover, it also allow companies to share viral and engaging contents that can boost the awareness and popularity of a specific brand.

In recent times, YouTube has introduced into its website the possibility to insert short advertisement messages. For instance, users that want to see a new music video or the videos of their preferred channels are forced to also watch the advertising video and can not skip it for some seconds.

Every day these social medias influence individuals' life, and individuals which join these digital communities are increasingly growing, as shown in the table below.

This situation makes social media platforms a fundamental and strategic tool of the company's marketing strategy, in particular in the view of their growing popularity, as shown in the table below which displays the growth of social media users from the early stages of their development to February 2018 (Statista, 2018).

Figure 6: Growth of the Number of Monthly Active Users of the Main Social Medias from Early Stage to 2018

	MONTHLY ACTIVE USERS	
	EARLY STAGE	2018
Facebook	100 mln (2008)	2.1 bln
Twitter	6 mln (2008)	328 mln
Instagram	1 mln (2010)	700 mln
WhatsApp	200 mln (2013)	1.3 bln
WeChat	195 mln (2013)	938 mnl
YouTube	20 mln (2006)	1.5 bln

Source: Statista

### 3.4 Influencers and Key Opinion Leaders

Nowadays, an important element of a digital marketing strategy is represented by *influencers* and *key opinion leaders* (KOLs).

An influencer is a user that has an enormous numbers of followers, or fans, in various social network platforms. As a consequence, when an influencer publishes a content, shares a photo, or a video, she, or he, receives an extremely high number of views, comments, likes, and reactions. The high number of reactions comes from both the followers of the influencer and the people that are not followers but see the post in the Instagram's *popular page*, or on the *trends* of Twitter. This high reach makes influencers the perfect individuals to collaborate or work with when implementing a company's social media marketing strategy.

Choosing the right influencer, however, means identifying a person with charisma, but also an individual who has the capability to embody and transmit the firm's values and messages.

Moreover, companies need to analyse the influencer's followers, verifying if they are their first potential consumers. A bad choice in terms of influencers could, in fact, results in a failing marketing strategy.

An example of an Italian influencer is Chiara Ferragni, a blogger that on February 2018 had 11.7 million followers on Instagram from all over the world. She counts collaborations with almost every fashion designer, from Dior to Prada, Tod's, Superga, Repetto, and with brands such as Pantene, colossus of hair products, among others.

The success of the Italian influencer in the digital panorama is marked also by the several partnerships on her multi-brand e-commerce website Theblondsalad.com, and by the popularity of the e-commerce of her own apparel and shoes line "Chiara Ferragni Collection".

Moreover, in September 2017, she opened her first physical "Chiara Ferragni" store in the centre of Milan.

The role of KOLs is very similar to that of influencers, with the only difference that the followers' admiration lies on the fact that KOLs are seen as expert of a particular field or a certain topic.

In China the role of KOLs, mostly represented by influential public people, is an important and powerful marketing tool for brands. This aspect will be analysed in detail in Part 4 of this thesis.



# PART 4: DIGITAL MARKETING IN THE CHINESE FASHION MARKET

*“You can create the best product in the world but  
without a brand where will you go? Nowhere.”*

*Gildo Zegna  
Chief Executive Officer of Ermenegildo Zegna*





The aim of this chapter<sup>1</sup> is providing a deep understanding of the digital marketing strategies implemented by fashion companies in the Chinese market.

The most important phases in developing and implementing a marketing strategy will be analysed with reference to China's fashion market

The key digital trends that are affecting the Chinese fashion market will be examined and their influence on international fashion brands will be investigated.

Then, the social media channels of the Chinese market will be analysed and their potentials for fashion companies will be examined through concrete examples.

Finally, the role of digital marketing agencies for fashion companies investing in China will be analysed through the case of Young Digitals. The company is based in Padua and provides digital marketing services to the excellences of the Made in Italy that wants to enter the Chinese market.

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<sup>1</sup> This chapter is based on secondary data and primary data collected from phone calls, e-mails and interviews with managers of Tencent (see Appendix A), Young Digitals (see Appendix B) and Diesel (see Appendix C) collected between December 2017 and February 2018.



## 4.1 Marketing Strategies in China

China is a peculiar and unique country whose idiosyncrasies have to be considered by international companies in defining their marketing strategies.

Despite the growing size of the Chinese fashion market, gaining a position of success is a challenging objective for both luxury and mass-market fashion companies.

This chapter analyses the most important aspects that an international brand should consider when approaching the Chinese market with a particular focus on the marketing strategies implemented by fashion companies.

The great debate in international marketing strategies concerns the fact that when companies decide to enter a foreign market, they have to choose whether to standardize their strategy or to adapt it to the specificity of the destination market (Ryans, Griffith, & White , 2003).

Firms that follow a standardization approach simply adopt their local marketing mix to an international level. This is due to the fact that they see the globalization trend as a homogenization of the consumer needs and wants.

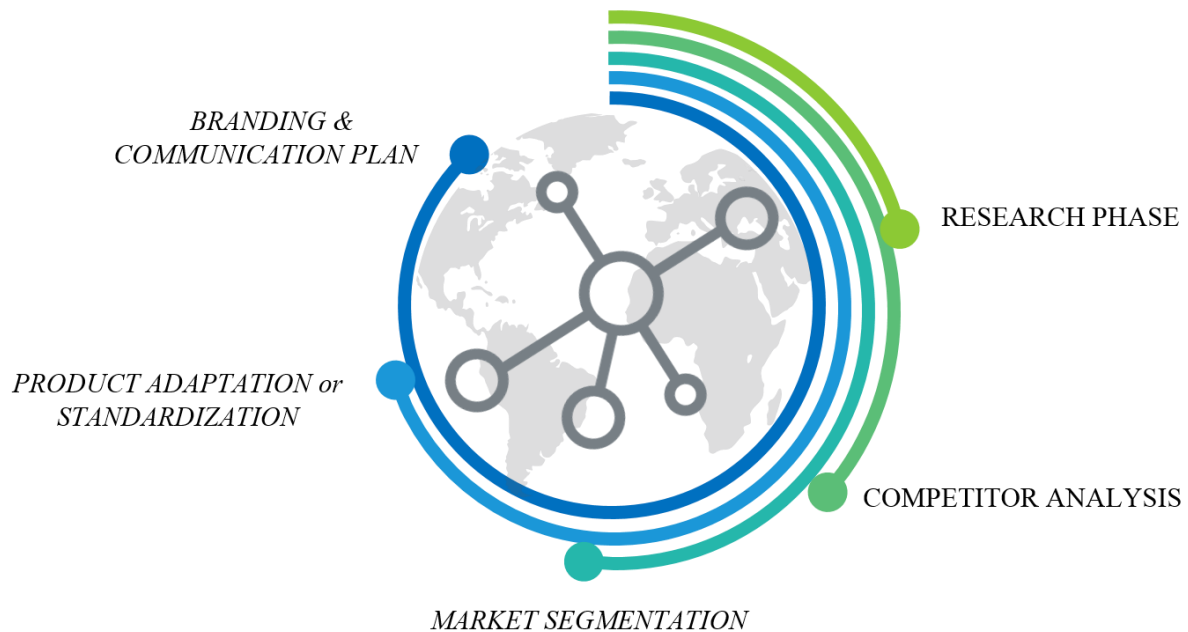
On the contrary, companies choosing an adaptation approach believe that, despite the increasing globalization, countries maintain their cultural background and thus their differences between each other, especially in terms of consumer behaviour (Vescovi & Pontiggia, 2014).

Organizations deciding to enter the Chinese fashion market need, therefore, to decide which approach to choose in their marketing strategy, considering the cultural differences with China and the level of acquaintance of their products.

In general, due to the strong peculiarity of this market which deeply distinguishes it from the rest of the world, the most used strategy among fashion companies is the *adaptation approach*. In order to effectively enter the Chinese market, companies need to increase their level of knowledge about the country and adapt their marketing strategies according to the specificity of its market.

The main phases that firms need to follow in developing their international marketing strategy for the Chinese country are shown in the figure below.

Figure 1: The 5 Phases of International Marketing Strategies



Source: Kotler, Keller, & Ancarani, 2014

#### 4.1.1 The Research Phase

A firm's marketing strategy in China starts, as in the other markets, with the *Research Phase*. The peculiarities of the Chinese market, however, makes this phase more important and strategic than in the rest of the world.

When entering China, international companies need to develop a deep knowledge about the country's political, social and cultural environment. Moreover, knowing the Chinese culture is also relevant for understanding the local consumers' behaviour and creating a linkage with useful local contacts. Firms that have local contacts with a deep understanding China's specificities, in fact, are facilitated in running their business and implementing their marketing strategies. They can, in fact, better comprehend the Chinese market and its bureaucracy, such as the taxation system on their products or the entry barriers present in a specific sector.

Fashion companies, for instance, can not simply assume that the perception about their products in their own country will be the same in China. Adopting the home-country's marketing strategy in China could be, in fact, a fatal mistake for a company, especially if the two cultures are very different or do not share the same values.

## 4.1.2 Competitor Analysis

The second phase of the implementation of a marketing strategy in the People's Republic of China is the *Competitor Analysis*.

Firstly, a company entering China needs to analyse who are the other players in its market, their size and the main characteristics through which their brands are known among local customers. Secondly, the firm needs to investigate on how long these competitors have been in China, and most important, on how much Chinese are familiar with the competitors' products.

Once the company has done this analysis of the competitive environment, it has the capacity to determine whether there is a place for itself in the Chinese market, and if its products are required by the Chinese demand.

## 4.1.3 Market Segmentation

The third phase of an appropriate marketing strategy in China, is the *Market Segmentation*. Segmentation is very important, because it allows companies to identify, evaluate and target their potential consumers. As mentioned above, a deep knowledge of consumers' needs and preferences is the key to a successful strategy.

The market segmentation can be based on different criteria such as geographic, demographic, psychographic and behavioural measures. For the Chinese market, the demographic and geographic approaches to segmentation are primarily used.

The demographic segmentation refers to the division of customers into groups depending on their gender, age, income or other individual specificities. This approach in China is very useful, especially when companies target their potential customers by their income-level, where high income level's groups configure themselves as consumers of high-end fashion or haute couture, and on the contrary low income level groups are potential customers for cheaper clothes like fast-fashion or mass-fashion. The segmentation and targeting of Chinese individuals by income-level is relevant nowadays especially because of the fact that recently China has seen a great expansion of the middle-class group. This group, characterized by higher salaries and low debt, is mostly composed by the younger Chinese generations, which are more consumption-oriented than the previous ones.

Additionally, according to McKinsey & Company (2018), the continuous growth of the middle class's group, expected to represent about 550 million people by 2022, will led to the creation of new market opportunities, both for international and domestic fashion companies. Therefore, in order to benefit from this situation, fashion companies need to be able to change or adapt their marketing strategies to this new evolving situation and environment, characterized by a

middle class individual with more sophisticated tastes, and with different behaviour from the past.

The second approach mentioned before, concerns the geographic segmentation, which means to divide the population by geographical areas. For instance, China can be divided into three major areas according to the tier system mentioned in the Part 2. Therefore, an apparel company selling luxury brands should prefer to target the city where there is a higher share of high and middle-class individuals such as first and second tier cities. Differently, a mass-market fashion brands should approach areas with a lower income level such as third tier cities.

#### **4.1.4 Product Standardization or Adaptation**

Fashion companies investing in China also need to define a specific product strategy, choosing between the standardization of their products or the adaptation of them to the local market. Standardization means that a company decides to keep unaltered all the product's characteristics such as colours, size and style.

On the other hand, an adaptation approach implies the adjustment of some features of the company's offering.

In defining their product strategy fashion companies should consider that a successful product in the European or American market does not ensure a success also in the Chinese market.

The sizing standards that all fashion companies investing in the Asian market has to apply to their collection, for instance, is different from the rest of the world as a consequence of the different body size between Western and Asian customers.

This approach, however, could be not enough in the fashion industry. Also an adaptation of style and shape of clothes is often required in order to positively approach the market and conquest the target customers.

#### **4.1.5 Branding and Communication**

The fourth phase of the international marketing strategy concerns *branding and communication*.

The brand consists of every name, phrase, design and symbol that companies use to identify their products and distinguish them from those of their competitors (Keller, 2013).

The brand of a company is, therefore, a sort of flag that gives consumers a first presentation to the product.

Branding in the Chinese market is a complex topic due to the relevant entry barriers present. The first aspect that should be considered concerns the fact that even if a brand is well known internationally, China could have a low level of awareness about it. Hence, the company needs to be able to position the product by using an *ad-hoc* communication strategy, in order to improve the knowledge of the product and encourage the purchasing.

Additionally, in defining the communication strategy of an organization it is fundamental to do not underestimate the cultural and language barriers that arise when operating in the Chinese market.

As it is composed by a name, a phrase and a design, in fact, a brand carries messages and meanings. It is evident that in a new market such as the Chinese one, brands might have to adapt to the local language, in order to carry the initial significance, and also adapt to the local culture, in order to be appreciated and well accepted by prospective customers.

An index of a successful brand management is when consumers remember the product name, and sometimes the Chinese language can be an obstacle for companies that want achieve this goal.

An example of a good branding strategy is given by the American brand Reebok that changed its name for the Chinese market in *Rui Bu* which literally means fast steps.

As for the cultural aspect, exporting a product in a country very much different from a firm's home-country may require a research about the foreign countries traditions, values, even superstitions or popular beliefs.

For instance, China is well known for its traditional calendar, which also has zodiac signs different from the Gregorian calendar. Each year is represented by an animal and 2018, for instance, is the year of the dog. For this occasion, many high-end fashion labels have decided to launch a special collection conceived for the Chinese market, where the dog is the symbol represented in a lot of garments and accessories.

Gucci, Louis Vuitton, Dior and Dolce&Gabbana are just some of the companies that presented bags, shoes or jewels, with the zodiac animal, showing knowledge about the Chinese culture, and attention to the Chinese consumers.

However, not all these giants of the global fashion industry have always achieved their desired outcome in implementing this strategy.

For instance, the Dior campaign of 2017, which proposed a bracelet with a precious charm shaped in the form of a little rooster, the zodiac animal of that year, was a total failure in terms of branding and communication management. The targeted people for this product, which were wealthy women, didn't appreciate the jewel. The fashion company's management, in fact, did a good marketing research about one aspect of the Chinese culture concerning the interest of

the people in the traditional zodiac signs, but did not complete the research related to the meaning that the above mentioned animal has in the Chinese culture. The Chinese translation for rooster is, in fact, *ji*, which is also the vulgar word for prostitute. As a consequence, it was unlikely that a young woman would have decided to purchase a product with such an ambiguous symbol.

Understanding the whole aspects of the Chinese culture is, therefore, essential in order to implement the company's communication strategy in the most effective and successful way.



## **4.2 The Chinese Digital Environment**

Nowadays, the Chinese market is characterized by a diffuse influence of digital services which affects every aspects of people' life (Ghizzoni, 2018).

As a consequence, the Chinese digital-centric environment has also widely impacted the way in which companies develop their marketing strategies with a consequent deeper focus on social media channels.

### **4.2.1 Digital Trends**

During the last decade the way of doing business in China strongly changed and the motivation mainly arises from the Chinese economic boom that has led to changes in the consumers' behaviour along with a wide diffusion of technologies which are influencing every sector of the economy, fashion included.

These factors enable companies to plan marketing strategies differently from the past and from the rest of the world, increasingly embedded in the digital world.

Firms entering the Chinese market are surrounded by a digital environment with huge differences from their home countries.

A key peculiarity of the digital environment in China is related to the particular behaviour towards technology of Chinese people.

The number of Internet users in the country has grown of more than 200 million in less than 5 years, reaching now the value of 731 million people, which makes China the region with the world's highest number of internet users (Statista, 2018).

Companies need to leverage on this aspect with a massive use of internet and social media channels in their marketing strategies. A prominent part of the Web 2.0, in fact, is represented by social media. Chinese social media users are the most active in the world and underlining most of the time they use contemporaneously more than one social media platform.

Additionally, Chinese digital consumers are characterized by a massive usage of mobile technologies, which is another aspect that companies can exploit in their marketing strategies as will be explained in the next paragraphs.

### **4.2.2 Governmental Regulation**

Big social media players, from Facebook to WhatsApp, which are widely known in Western countries, are barely considerable in the People's Republic of China.

Before analysing which platforms attract Chinese population the most, however, it is necessary to understand the Chinese political context which is influencing the online environment.

It has been already mention in the Part 2 that the Chinese government, represented by the Communist Party, exercises a strong control on the economies and business affairs of China. This has led to the implementation of strict policies especially regarding publications and communication channels, with the consequent spread of some forms of censorship which have also touched the Chinese digital environment.

In May 2017, President Xi Jinping, in fact, strengthened the tightening on the Web control with the introduction of a new Cyber Security Law. This regulation has allowed the government to take possession of every digital data of people living and working in China, even data from foreign clouds (LaRepubblica, 2017).

From a marketing perspective, the government censorship policy affects both traditional communication channels, such as television or newspapers, and new digital channels, such as social networks, chat Apps and web search engines.

The threat of a divulgation of undesired information, therefore, has let to the rise of barriers for the majority of Western websites, leaving space to made in China substitutes to conquest the digital environment. Some of the first websites blocked by the government regulation have been Facebook, WhatsApp, Twitter, Instagram, YouTube and Google. Since few months ago there was the possibility to surpass the so-called “Great Firewall” through the use of VPN connections. On August 2017, however, the government has blocked all these escamotage, making the use of those social media impossible even for Western tourists (La Repubblica, 2017).

## 4.3 Social Media Platforms

On the basis of the above mentioned political situation, and the importance that social media have in the Chinese fashion environment, the next paragraphs will analyse the most important online Chinese platforms that international fashion companies need to consider when entering the country's market.

### 4.3.1 WeChat

WeChat, in Chinese *wèixīn*, which means *micro messages*, can not be simply defined as a social network, a chat app or an online marketplace: it is the perfect combination of all these digital platforms.

*Figure 2: WeChat's Official Logo*



It was initially launched as a mobile application allowing users to communicate with text and vocal messages, very similar to the Western WhatsApp.

The founder and current owner of WeChat is the huge Chinese society Tencent that developed this instant messages app in 2011.

Today WeChat has changed a lot since its founding, extending its features to a vast range of services and configuring itself as an omnichannel platform (Ghizzoni, 2018).

Along with the instant messages function, in fact, users are enabled to utilise it as a social network, sharing photos, videos or merely their thoughts in a section called *moments*.

WeChat also gives users the possibility to purchase products and services, or just utilise it as a payment method with the WeChat Pay function.

Nowadays WeChat has 980 million users and it is ranked in the first place of Chinese social media for number of monthly active users (Statista, 2018).

Moreover, WeChat represents a very powerful tool in the Chinese fashion system. Today, in fact, 92% of luxury and fashion brands has an official account on WeChat, and benefits from the added value services guaranteed by the platform.

It is interesting the case of the brand Gucci which enjoys an excellent reputation among Chinese consumers. Gucci was one of the first brand that joined the WeChat community and in 2017 the company decided to transit from its “subscribe account” to a new “service account” to benefit completely from the new service-oriented feature offered by the platform that allows firms to better communicate with consumers and establish more direct and efficient relationships with them through direct messages, targeted promotion and a more virtual and digital-oriented experience.

The figure below shows on the left the message Gucci published on its “subscribe account”, which was an invitation to follow the new “service account” by scanning the QR code.

Figure 3: Gucci on WeChat



Source: WeChat.com

Moreover, WeChat can be used by fashion companies for the launch of flash-sales and capsule collections. Dior, for example, used it for the launch of its 2018 Saint Valentine special line of bags.

Another recent example of the higher engagement that WeChat Store can give fashion

companies is the virtual reality which represent a big plus in the digital shopping experience of fashion consumers. For instance, the luxury Italian watch manufacturer Panerai launch on February 2018 a project for the reproduction, in virtual reality, of their boutique in Florence. Through this service, Chinese customers can use their smartphone to visit the exact reproduction of the real boutique, go outside to take a look at the Cathedral and see all the items exposed in the real boutique. Moreover, they can gain instant information about the product, choose and buy their favourite watch as they would have done in the shop in Italy.

### 4.3.2 Sina Weibo

Sina Weibo, in Chinese *xīnlàng wēibó*, which means *micro blog*, is an online platform created by Sina Corporation in 2009.

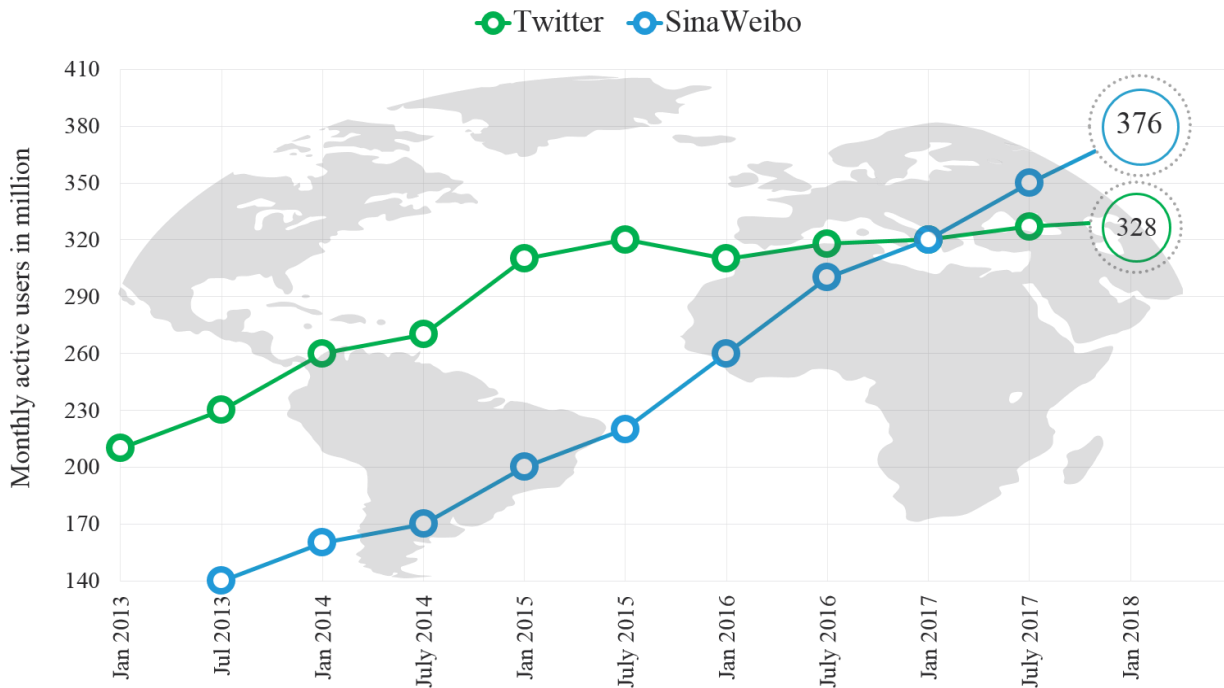
*Figure 4: Sina Weibo's Official Logo*



This site can be considered the counterpart of Twitter, as it allows users to share their own opinions on various subjects with a limited amount of characters.

At the beginning of 2017 this social media overtook Twitter and after one year, in January 2018, it reached 376 millions of monthly active users. This trend is shown in the chart below.

Figure 5: Comparison Between the Number of Monthly Active Users of Sina Weibo and Twitter



Source: Statista

Differently from Twitter, this social media is also widely used for sharing images and videos, and, consequently, it also represents a potential counterpart of Instagram.

Along with WeChat, also Sina Weibo is another relevant tool in fashion marketing.

Firstly, it is the second most used social media in China. This means that almost every individual has a Sina Weibo account, representing therefore a wide audience for brands that need to be known by their Chinese potential consumers. Secondly, it allows companies to quickly and instantaneously respond to customers' questions, which creates relationships with the buyers, and is helpful for firms that want to understand their consumers taste with the aim of a more accurate segmentation of the market (Gentlemen Marketing Agency, 2017).

For instance, several Italian fashion brands, such as Versace, Fendi and Prada, implement their communication strategy through Sina Weibo.

Versace, for instance, frequently publishes contents through its account, with the aim of promoting its products in particular through the endorsement of international or local celebrities. The figure below shows the latest Versace campaign posted on the company's Weibo account, featuring the Taiwanese singer Cai Yilin, known internationally as Jolin Tsai.

Figure 6: Versace on Weibo



Source: Weibo.com

The strategy of Fendi on the platform is deeply different. The company uses the social network to simply propose followers its new collections, which gives them the possibility to express their opinion about some items, and at the same time enables the brand to gain followership and precious information about how its products are perceived.

### 4.3.3 RenRen

RenRen, in Chinese *rénrénwǎng*, which means *everyone's website*, is a website created in 2005 by the Oak Pacific Entertainment.

Figure 7: RenRen's Official Logo



Similar to the American social network Facebook in colours, logos and design, RenRen has rapidly become popular in China in particular among college students. However, in recent times, the website is facing a decline, mainly because of the massive predominance of WeChat and Weibo.

On January 2018 RenRen registered 254 million monthly active users, therefore it is no more an interesting or strategic marketing tool for fashion companies (Business Statistics, 2018).

#### 4.3.4 YouKu TuDou

The website YouKu TuDou, in Chinese *yōukù tǔdòu*, which means *potato net*, represents the biggest Chinese video site, replacing the censored YouTube.

*Figure 8: YouKu TuDou's Official Logo*



The difference between the Chinese platform and YouTube lays in the fact that the first is less amateurish than the latter. Users utilize it for gaining specific information from professionals but also as a streaming or downloading platform for movies, TV series, or TV shows. With 500 million monthly visitors, YouKu TuDou represent a good social media marketing platform for companies that want to reach a vast audience in China.

Youku TuDou is part of the social media marketing strategy of Prada since the early stages of its developments as video sites. In 2010, in fact, the fashion brand was among the first luxury brand to use the online platform, publishing videos to present its new collection to the Chinese market which reached in few minutes a strong popularity (Gentlemen marketing agency, 2017).



## 4.4 E-commerce

China is the largest and fastest growing e-commerce market in the world (Deloitte, 2017).

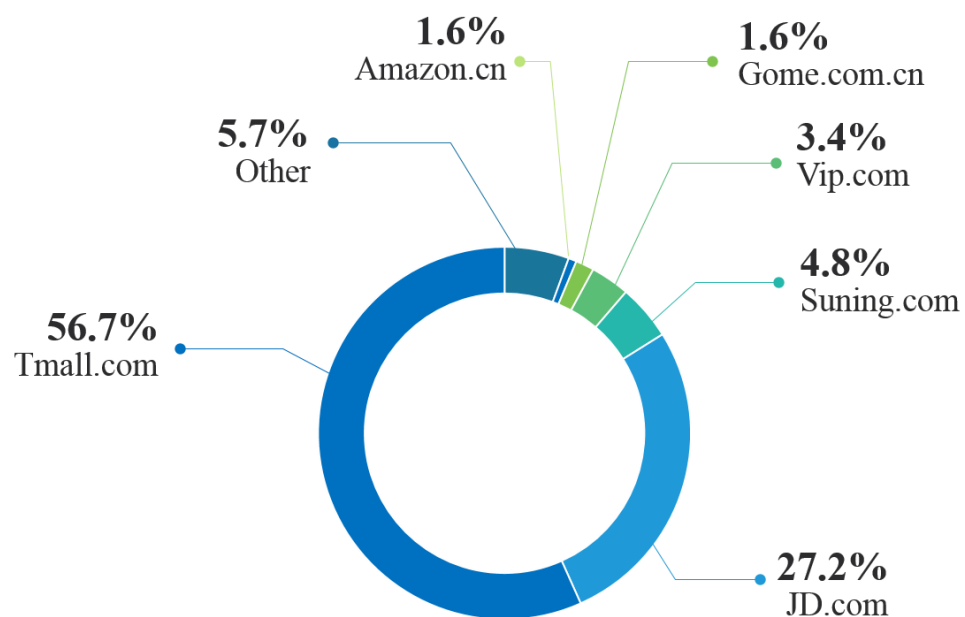
According to the China's National Bureau of Statistics (2017), in 2016 online retail sales reached the value of ¥5.16 trillion which corresponds to €630 billion.

Moreover, online sales strongly increased between 2016 and 2015 with a 26.2% growth that more than doubled the performance of overall retail sales.

In order to effectively enter the Chinese fashion market, therefore, the importance of e-commerce platforms can not be neglected.

In particular, Tmall is the largest B2C platform, counting for the 57% of B2C e-commerce in China, followed by its competitor JD.com with the 25% (Statista, 2017).

Figure 9: 2016 Market Share of B2C E-Commerce Platforms in China



Source: Statista

It is interesting to observe that the giant success of Alibaba and JD.com in China, renders impossible the growth of international players such as Amazon, which represents only the 1% of the China's e-commerce business. Moreover, the recent market regulations affecting in China the digital environment constitutes another deterrent for a foreign enterprise as Amazon.

Aside from these two popular Chinese e-commerce websites which also domain the online sales of the fashion market, several e-shops specifically developed for fashion and luxury products

has spread in the Chinese digital environment.

The following chapters will analyse the most important Chinese e-commerce platforms used by fashion companies in their digital marketing strategies.

#### 4.4.1 JD.com

JD.com, in Chinese Jīngdōng, which means *alarm*, is a Chinese e-commerce company founded in 2004 by Fortune Global 500 and headquartered in Beijing.

*Figure 10: JD.com's Official Logo*



As mentioned above, this e-commerce is widespread in China, and on September 2017 it counted 267 million active users (Statista, 2017).

Moreover, JD.com is the world's leading company in trading high tech products and has the largest drone delivery system in the world.

Despite fashion and luxury products do not represent its main business, the platform is an important tool for fashion companies entering the Chinese e-commerce market.

Many companies of the global fashion industry opened an account on the platform back in 2015, as the eyewear conglomerate Luxottica. Other brands, instead, just entered the e-commerce platform in 2017, such as the Italian brand Emporio Armani which opened on September their first official shops on the platform (Jing Daily, 2017).

Moreover, in order to further boost its position in the fashion and luxury market, in October 2017 JD.com announced a deal with the prominent British luxury e-commerce website Farfetch with the aim of launching a new platform specifically thought for the fashion and luxury market (Jing Daily, 2017).

## 4.4.2 T-Mall

Tmall, in Chinese Tiānmāo which means *sky cat*, formerly known with the name Taobao Mall, is the most popular Chinese website for B2C online retail, launched in 2008 by the giant Alibaba Group.

*Figure 11: Tmall's Official Logo*



Burberry was among the first international luxury companies to open an account on this on-line platform in late 2014, immediately followed by Calvin Klein, Hugo Boss and MaxMara (South China Morning Posto, 2014).

Nowadays the presence of fashion and luxury brands on this e-commerce platform is widespread and most fashion brands has an official account on this online shop.

Moreover, in order to strengthen its position in this market, in August 2017 the company has opened a e-shop specifically conceived for luxury fashion. The online platform, called Luxury Pavillion, allows brands to deliver experiences and services typically reserved for shoppers offline. Those shoppers can benefit from personalized homepages, customized product recommendations and virtual contents.

## 4.4.3 Secoo

Founded in 2008, Secoo is one of the largest Chinese multi-brand luxury B2C sites. It currently operates under a partnership with Tencent in order to create data profiles for their more than 3 million registered shoppers.

Secoo is specialized in luxury clothing and accessories for men and women from famous brands including Burberry, Miu Miu, Hermes, Rolex, and Bulgari.

Additionally, to cater to Chinese consumers' growing desire for a high-end lifestyle, the platform introduced cars from brands such as Bentley and Porsche as well as yachts and personal jets on the site. Secoo's popularity is partly due to the fact that it offers payment methods specifically designed to be efficient for Chinese consumers, such as WeChat Pay.

#### **4.4.4 Mei.com**

Launched in 2010 by Thibault Villet, Mei.com is a headliner in China's luxury e-tail space for its leveraging on VR technology and experiential luxury.

This flash sales site was able to expand its reach when it forged a partnership with Alibaba in 2015 to be on Tmall. It also gave Alibaba the sponsorship of an established platform that had earned the respect of the more than 280 luxury brands that worked exclusively with it.

#### **4.4.5 Meici**

Meici, which literally means *Western beauty*, is a Shanghai-based luxury fashion e-commerce platform launched in 2008 by the Sanpower Group.

Meici has emerged from the mass of e-commerce platforms for its minimal black-and-white homepage design that organizes shopping categories by women's, men's, and kids' fashion. The attention to kidswear of this platform responds to the growing expenditure that Chinese parents are willing to make for their children.

Meici also manages an e-magazine called "Mzine" that offers customers the latest fashion tips and recommends fashion items to its audience.

#### **4.4.6 5Lux.com**

5Lux.com is an e-commerce platform that provides a comprehensive list of luxury goods to its visitors, from clothing and electronics, to food, wine, and stationery.

In addition to international luxury brands like Rolex, Louis Vuitton and Gucci, 5Lux also hosts Coach, Kenzo, Tod's, Kiehl's, and many other renowned, but more accessible brands.

The platform works with many of its brands to support a business model where customers can receive the items purchased on the platform at the brand closest offline store.

Moreover, to respond to the gift-giving culture typical of China, 5Lux has a page where consumers can browse gifts based on gender, price, occasion, the receiver's hobbies, and even their shipping location.

## 4.5 Influencers and KOLs

The use of influencers and key opinion leaders, are fundamental tools in a marketing strategy directed to the Chinese market.

Once an organization has chosen the right channel of communication, therefore, it has to understand which are the personalities that have more leverage in the chosen channel.

The next step is to find out, among all the possible influencer, which one is the best to encourage the consumers purchasing the products.

For instance, establishing collaboration with a well-known and admired celebrity in a channel such as WeChat or Weibo, might increase the trust into a product, a service, or even an entire company, more than publishing an advertisement or any sort of communications in a channel such as the official press.

The role of KOLs is relevant for every typology of business organization, however for fashion industry or luxury brands, it represent an essential of a social media marketing plan.

One of the most famous Key Opinion Leader of the luxury fashion sector in China is Thomas Ye, better known in the digital world as “Gogoboi”. He has more than 100,000 views per each of his articles on WeChat and about 7 million followers on Weibo. The Chinese blogger entered the fashion world very young, beginning as an editor of Grazia China. Today, he is one of the most requested influencer by luxury brands.

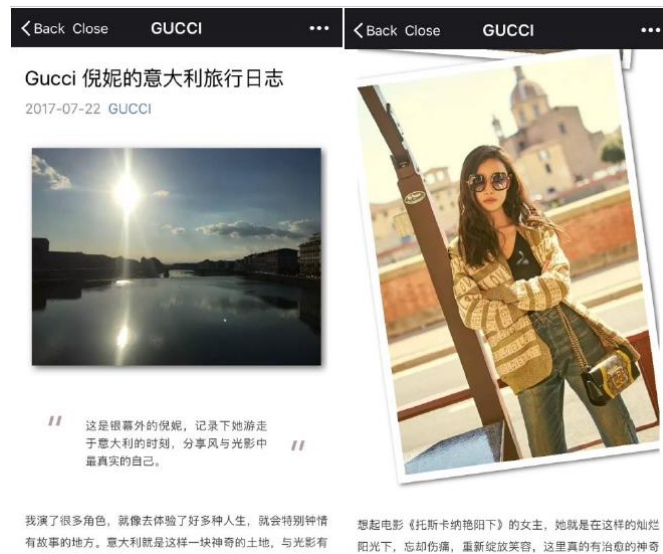
Among his collaborations there are brands as Louis Vuitton, Cartier, Dior and Furla.

Another strategic KOL for fashion industries in China is represented by the journalist Cheng Yang. Since 2013 she runs a website called Shiliupo.com, where the topics vary from international gossip to European fashion trends.

To the present day, Yang’s websites counts more than 100,000 views per article, mostly addressed to first-tier cities readers. The influence the woman has on her followers has been widely recognized by several companies, which frequently invite her to their events. In 2017, in fact, she participated to the Dior Spring Show, and to the Cannes International Film Festival. The Italian company Gucci, for instance, implements a detailed KOLs strategy which has allowed the brand to be one of the strongest performer into the WeChat platform.

In July 2017 Gucci posted on its account a sort of travel journal around Italy with lots of pictures, starring the Chinese actress Nini that poses around the country wearing the brand clothes and accessories.

Figure 12: Gucci WeChat campaign featuring Nini



Source: wechat.com

Another example of use of charismatic personalities on social media is that of Prada. The enterprise features the famous actor of “Balzac and the little Chinese seamstress” Chen Kun for a campaign that present the brand items in a series of pictures taken in the Prada headquarter and stores in Milan.

The index of a good social media marketing strategy that uses KOLs are the ratio of reads, likes, reports, remarks and sentiments. Statistics prove that Chinese consumers appreciate to see famous people with clothes and accessories of their dreams. This seems to inspire them, giving a good perception of brands, and making them more willing to buy the sponsored products. Moreover, using KOLs and influencers, allows companies to increase brands awareness and guarantees a high position in the market (Jing Daily, 2017).

## 4.6 The Role of Communication Agencies in China

All the strategies mentioned above are not always easy to implement for enterprises.

The poor experience, the lack of knowledge about the Chinese culture and habits, or the understandable difficulties with the language are just some of the problems a company might deal with when planning a social media marketing strategy in China, especially in presenting new collections and campaigns.

In order to plan an appropriate strategy, several companies rely on Chinese communication agencies.

The case examined in this paragraph is that of the Italian communication agency Young Digitals. Young Digitals is a digital marketing agency born and based in Padua since 2010.

The agency runs projects at global level for Made in Italy firms, focusing on export, via digital communications. In particular, the agency highlights how today's global digital market is shifting towards East Asia, or better, the People's Republic of China. That is the reason why Young Digitals operate largely in this country.

When collaborating with Made in Italy fashion companies managing business in China, the first step the agency does, is to understand what brands want to communicate to the Chinese consumers, how they want to be perceived by the Chinese buyers, and which messages and values of the companies comply with the Chinese values and culture.

For the second step, the agency chooses the best channels of communications and platform, on the basis of the brand's target market.

The last step is the implementation of concrete marketing actions into the digital world

According to Young Digitals, digital branding strategy in China requires the four following steps:

- *Existence*
- *Trust*
- *Distribution*
- *Relevance*

Existence means that the firm has to be present in the market, thus it has to be found by potential consumer in China. Trust, instead, refers to the fact that if the Chinese market is not familiar with the brand, it is a firm's responsibility to establish relationship and get closer to the new consumers, using for instance communication channels as Weibo or WeChat.

Distribution in China today concern primarily offering an e-commerce service. For this reasons,

being on websites such as JD.com is significant, because it gives the opportunity to Chinese consumer to purchase products easily. Lastly, relevance refers to the fact that in China competition is intense, thus companies which want to succeed need to focus on distinguishing themselves. This is made possible by using broadcast services and local influencers to attract the Chinese consumers.

The following example is helpful to understand how and at which level of a marketing strategy, communication agencies work with enterprises.

One of the many brands Young Digital's cooperated with is the Italian eyeglasses brand Police. Police has its own website, a global page, created and managed by the headquarter.

However, when it comes to manage pages directed to the Chinese market, Young Digital's comes into play. The agency, firstly targets the market, through an adaptation process, that means using different social media platforms and websites. Secondly, the agency manages the production phase for Police brand, which means take photos, choose proper images, create graphics and, of course collaborate with the right influencers. For instance, the Police campaign made by Young Digital's for the Chinese market was made entirely on Weibo, the perfect social media platform in China.

The way of promotion of the brand's sunglasses was that of a "give-away", which in a country as China represents a good opportunity for businesses. Moreover, Police chooses a good influencer, the football celebrity Neymar, who also sign the sunglasses. Chinese people love football, and seeing a star like Neymar wearing Police sunglasses, in the context of a "give-away", and on a social media like Weibo, were three elements that made this campaign a success that reached over 5 million people.

In conclusion, the role of communication agencies is to help, act for, and protect the brands when they are exposed to international markets, reminding that different cultures, behaviour, and government, are relevant in social media marketing strategies.



## PART 5: DIESEL'S CASE STUDY

*“Diesel pioneer the idea of luxury denim, and we still drive this market. But our marketing encompasses more: the consumers love the brand, the life-style and the mentality of Diesel.”*

*Renzo Rosso  
Founder of Diesel*



The aim of this chapter<sup>2</sup> is providing a full understanding of Diesel marketing strategies with a deep focus on the digital marketing approach implemented by the company in the Chinese market. The key digital media channels used by the brand will be analysed and the main strengths and weaknesses of the company's strategy described.

Moreover, the brand awareness and market penetration of Diesel in China will be examined through a market research conducted in the cities of Guangzhou and Hong Kong. The influence of the digital marketing strategy on the data collected will be investigated and a possible explanation will be given.

Finally, a few suggestions for the improvement of Diesel's digital marketing strategy in the Chinese fashion market will be proposed.

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<sup>2</sup> This chapter is based on secondary data and primary data collected from phone calls, emails and interviews (see Appendix C) with Diesel managers between December 2017 and February 2018.



## 5.1 Company Overview

Diesel is an innovative international company specialized in denim apparel and founded by Renzo Rosso in 1978.

The firm started its business as a pioneer in denim and casual wear, but in recent years it has evolved into the world of premium and high-end urban fashion, becoming an alternative to the established and more traditional luxury fashion brands. Moreover, Diesel has become part of the worldwide youth culture due to its surreal viral advertisement content such as in the “*Be Stupid*” or “*Go With The Flaw*” campaigns, which have contributed to the brand’s success in the global fashion market.

The fashion label is currently sold in over 80 countries with more than 5.000 points of sales and over 300 flagship stores.

*Figure 1: Diesel's Official Logo*



*Source: Diesel.com*

### 5.1.1 Corporate Activity

The history of Diesel started in 1976 when the founder Renzo Rosso utilized a loan from his father to purchase a forty percent holding in the clothing manufacturing company he was working in, changing the brand name in Diesel.

Later on, in 1985, he decided to purchased also the remaining interest of the business from his partner, becoming the president of the denim company and the sole owner of Diesel.

In 1990 Diesel sold the license to market and distribute its lines of apparel in specific regions to the American apparel manufacturer Russ Togs Inc. and the Japanese fashion manufacturer Mitsubishi Fashion Co. These agreements have allowed the company to expand its business outside the Italian border for the first time, directing its attention toward the growing markets of the United States, Mexico and Japan.

In 1995 Diesel's founder decided to extend its business beyond the world of traditional retail and embrace the digital revolution that was starting in that period with the launch of one of the first retail websites in the fashion industry. The first Diesel jeans to be sold online were available in Finland and Sweden, followed by other markets in the following years.

In 1996 Diesel moved its retail and distribution strategy to a higher level, opening its first flagship stores in New York, San Francisco, Rome, and London, and increasing its points of sale in multi-brand retail stores. This approach has been strategic for the company in order to enhance its position in the global fashion market and increasing the worldwide level of brand awareness of the label.

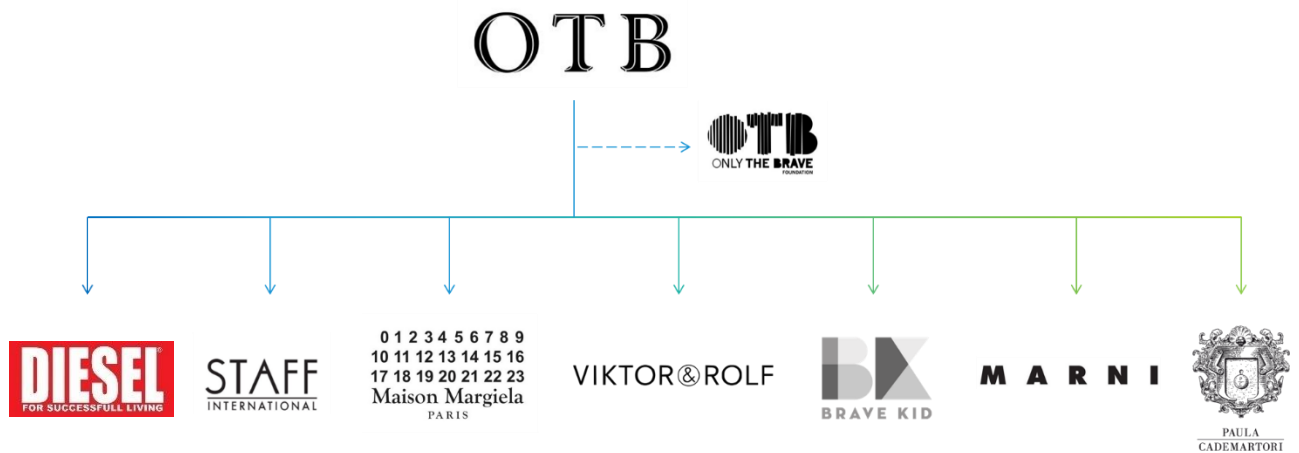
The wide success and increasing expansion of the company in that period, has been underlined also by the main newspapers and media, as in the case of the front-page title of The Wall Street Journal, who referred to Diesel as "*the label of the moment*". Moreover, in the same period the company also won the award for Italian company of the Year presented by the Bocconi Institute (OTB Group, 2018).

In 2002, Renzo Rosso decided to expand his portfolio of brands purchasing additional fashion companies managed under the holding company Only The Brave. OTB is currently the owner of several iconic fashion brands aside from Diesel, such as Staff International and Brave Kid. Additionally, OTB Group is also the majority shareholder of the labels Maison Margiela, Viktor&Rolf, Marni and Paula Cademartori which are renowned brands of the fashion and luxury industry.

Moreover, in 2008 Renzo Rosso founded the OTB Foundation, a non-profit organization with the mission to rebalance social inequalities and contribute to the sustainable development of less advantaged areas and people throughout the world.

The holding company currently employs more than 7.000 people worldwide and has a turnover of €5,2 billion (OTB Group, 2018).

Figure 2: OTB Group Organization



Diesel S.p.A. currently has three product lines consisting of three labels:

- *Diesel*: it is the traditional label of the Renzo Rosso's company, targeting the premium market of the denim and urban wear segment;
- *Diesel Black Gold*: it is a new brand of Diesel which made its debuts in 2008 at the New York Fashion Week, showcasing high-end collections of men's and women apparel;
- *Diesel Kid*: it is the company's label launched in 2010 targeting the premium market of kids' apparel, featuring bright colours and fashion designs.

Since its foundation, however, Diesel has not simply expanded its product line, but has moved beyond apparel into accessories, fragrances and interiors.

The company life-style, in fact, has been reinterpreted through several licensing agreements with firms that are leader in their specific sectors. The company managed to maintain, at the same time, the high standards of quality and design innovation that characterized its brand.

These partnerships include *Diesel Shades*, which is a collection of both fashion sight and sun glasses developed with the Italian eyewear company Marcolin.

The brand has also launched a line of watches and jewels named *Diesel Time Frames* and Jewellery, produced and distributed by the American jewellery leader Fossil.

Moreover, since 2007 the company has released a line of fragrances called *Only The Brave* thanks to an agreement signed with the luxury product division of L'Oréal.

In 2009, Diesel also launched also a new Home collection called *Successful Living From Diesel*, through which the brand's core values of rebelliousness, irony and irreverence, have been translated into a textile collection characterized by an innovative and creative design. The collection includes a wide range of products realized in partnership with several companies

specialized in home decoration and furniture such as Foscarini, Moroso, Zucchi, Seletti and Scavolini.

In addition, Diesel has also recently developed new licences like the iconic Italian car *Fiat 500 by Diesel*, a line of bicycles developed with Pinarello and a collection of motorcycle helmets named *Diesel Movie Helmet* launched with Ducati.

### **5.1.2 Brand Values**

The identity of the iconic fashion brand Diesel is inherent in its own name.

It has been chosen by Renzo Rosso because at the time of the company's founding, diesel fuel was considered an alternative form of energy and also the brand was conceived by its founder as an alternative taste in fashion. These values have been maintained as central in the company's brand bible and they continue to be an integral part of the company communication strategy.

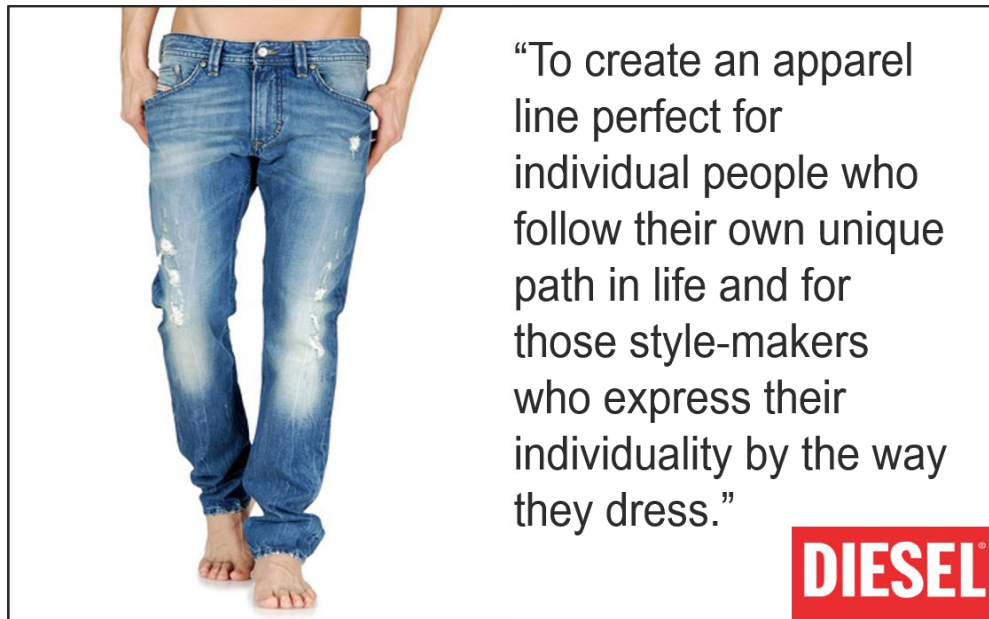
The most important values that identify the brand Diesel, coherently with its heritage and the personality of its founder, are listed as follow:

- *Alternative*: the brand proposes itself as an alternative to the traditional luxury, a different and fresh style for premium and high-end fashion;
- *Fun*: Diesel ironic taglines and humorous tones in communicating to its target consumers are a constant that has accompanied the brand since its founding;
- *Rebel*: the brand proposes its collection to individuals that are willing to take risks and change, going against monotony and stereotypes;
- *Young*: the label targets young customers aged between 16 and 30, through collections characterized by a fresh and modern style.

Moreover, Diesel supports the idea that every ordinary individual is capable of dressing uniquely and still being part of a lifestyle community, as underlined by the company's mission statement above.



Figure 3: Diesel Mission Statement



Source: Diesel.com

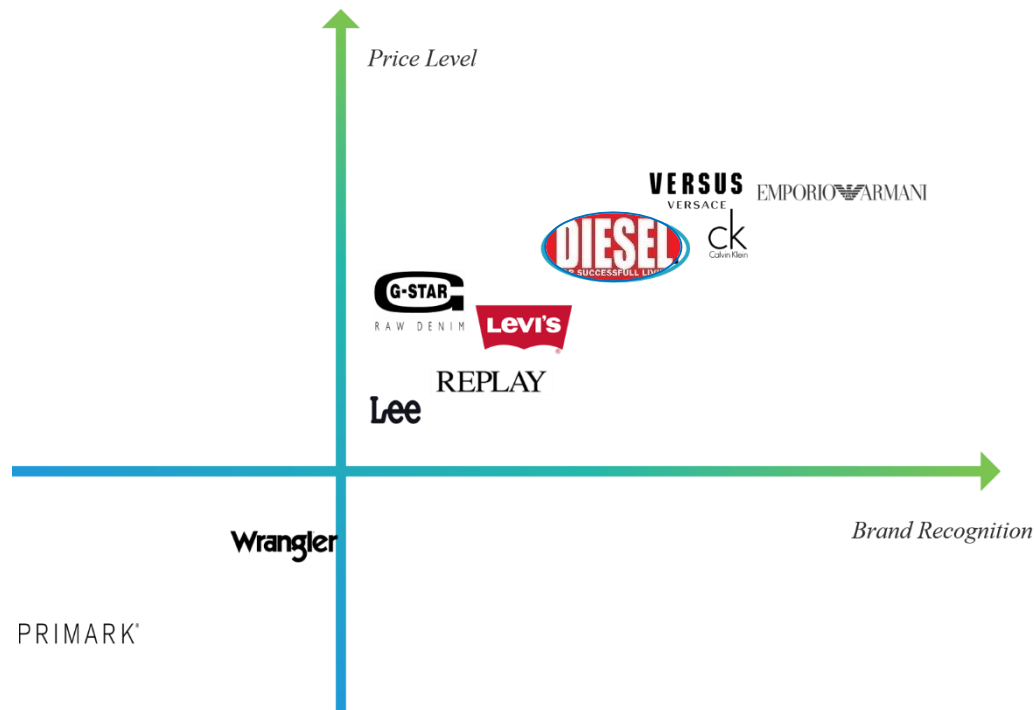
Additionally, the brand does not simply sell clothes for profit, but wants to enrich its consumers with a new experimental experience, using topical and social issues such as aging, obesity, violence and religion in order to emotionally touch its target. As a consequence, its consumers are identified as intelligent and articulated individuals who purchase lifestyle rather than solely fashion trends. The premium price for Diesel products is, in fact, not attributed only to the high quality of the brand’s collections but as a result of the carefree and fun lifestyle experience sold by Diesel in its marketing campaigns.

### 5.1.3 Brand Positioning

Diesel primary market segment is represented by people aged between 16 and 30, which is the group of consumers that better represents and embraces the brand’s rebellious nature.

The target chosen by the brand and the fact that Diesel has moved from a jeans only brand to a more urban fashion brand, has positioned the company in a very crowded market, as shown by the company profile below.

Figure 4: Diesel Competitive Profile



The main competitors of the company in the premium market are the Italian labels Replay, the American denim company Levi's and the Dutch leader of urban clothing G-Star Raw.

Despite the continuous innovation of most of these labels in the field of product development and the launch of new styles and "cuts" of jeans, their main weaknesses are the lack of brand personality compared to Diesel's rebellious and provocative message.

On the higher level of the diagram, rather, brands that are stronger in term of brand positioning and personality are present: Calvin Klein, Versus Versace and Emporio Armani, which has recently included the former Armani Jeans.

Despite the minor role of Levi's in the Diesel competitive profile mentioned above, the brand is often mistakenly recognized as one of the company's main competitors. This is a consequence of both an historical initial competition between the two brands and a mistaken perception of Diesel market position.

When Diesel entered the market of the USA, in fact, it made a statement by opening a flagship store in New York right across from Levi's store, creating in the American brand its very first competitor. However, the Diesel decision of positioning itself as an alternative to luxury and the fact that this American legendary brand has lost most of its appeal and hipness, making Levi's a non-serious competitor anymore.

## 5.1.4 Financial data

Diesel financial results have always been characterized by stunning growth and successful performance up until the loss of €8 million that appeared in the 2016 balance sheet of the fashion label.

During the fiscal year 2016, in fact, the company suffered a net loss of €8.4 million, representing a deep step back in comparison with the net profit of €3,7 million of 2015 (Business Insider, 2017).

This negative result, however, is not related to a negative performance in term of sales which increased from €413.2 to €456 million. This growth represents both an important result and reassurance for the company's founder, which in 2016 decided to start a strategy aiming at protecting the brand premium credentials through the so-called *brand premiumisation*. This approach, which is still new among Diesel competitors, has been implemented through the presence of a group of sales representatives in every location where shoppers can find a Diesel product. This Rosso's mini-army has had the task of evaluating the performance of the brand in the shop using a number of standardized criteria and marking the point of sales with a score. According to the value derived by this methodology, the performance of the shop has been boosted and improved by Diesel and, just in few cases, the store has been eliminated from the company's distribution network. The budget line that has, therefore, mainly influenced the company negative performance has been, instead, the sales and administrative expenditures. Its value has, in fact, increased from €128 million in 2015 to €146 million in 2016 as expected by the implementation of this new distribution strategy. Moreover, the fiscal year 2015 benefits from the heading "other income and costs" for €17.7 million that in 2016 measures a negative value of €517,000.

Additionally, the overall turnover related to the selling of the brand's products stood at €396.2 million in 2016, showing a marked rise of €348 million with respect to the preceding year. This value has been mainly driven by the incorporation of the shoes and bags divisions since the autumn 2016. Assuming the performance of this division, however, the overall turnover of 2016 continues to reveal a strong growth of €1.6 million in comparison with the preceding year. The growth of Diesel's overall turnover has been mainly driven by the increase of the sales performance in online channels, which progressed from €16.4 to €17.9 million.

Differently, the performance of traditional retail channels has evidenced a downturn of almost €28 million. This data is particularly relevant with reference to this thesis, reflecting also in an financial light, the strategic relevance that the world of digital is gaining within the company.

Concluding, the company's financial performance appears, therefore, still stable as losses can be merely considered as a consequence of strategies that aim at improving the brand's performance in the coming years. According to a recent interviews of Diesel's founder Renzo Rosso, the expectations for the brand performance are positive and net profits are projected to resume its trend of growth from the beginning of 2018 (La Repubblica, 2017).

### **5.1.5 The Importance of Made in Italy**

Diesel's founder has always supported and strongly sustained the uniqueness and importance of Made in Italy manufacturing globally.

Despite recent downturns and strong global competition, in fact, the company continues to produce a high percentage of Diesel collection in Italy. All of its denim's products are, in fact, produced exclusively in Italy, in order to maintain the authenticity and heritage of this iconic brand.

Moreover, in order to support in the Italian textile industry a tangible way, in 2013 the company signed an agreement with Ifitalia-BNP Paribas Group, granting its best Italian suppliers easier and speedier access to credit at preferred interest rates, in line with those provided to the OTB Group. This project aims at favouring the worthiest partners of the company, and contributes to the development and improvement of the overall performance of Made in Italy.

As mentioned in the previous chapters, Made in Italy is a renowned guarantee of quality and prestige all over the world, particularly appreciated and admired in the Chinese fashion market. The Italian heritage of Diesel, therefore, represents a strategic value for the company that should be exploited in their communication campaigns directed to the Chinese market.

## 5.2 DIESEL in China

Diesel entered the Chinese market in 2006 with a flagship stores in the prestigious Shopping Mall of Plaza 66 in Shanghai.

Since this first approach to the Chinese market, the company has decided to strongly increase their points of sale in the Asian country due to the growing relevance of the Chinese market in the global fashion context.

Currently, the company counts 25 flagship stores in Mainland China and 6 in the autonomous region of Hong Kong.

The majority of Diesel's retail store are distributed in first-tier and in second-tier cities, which include the wealthiest Chinese cities and that, therefore, are more in line with the target customers of Diesel and its positioning as premium and high-end fashion label.

Unlike many other fashion companies that create collections for different geographic markets, the company of Renzo Rosso develops a single, global collection with few local adaptations.

In order to engage consumers of the local market, the company has launched special capsule collections and collaborations with local personalities with the aim of improving the involvement of Chinese customers and showing the brand's care for the local uniqueness of the market.

Recently, the brand collaborated with top creatives and influencers that strongly helped to expose the brand to consumers previously unfamiliar with the Italian label. A specific example of Diesel adaptation to the Chinese market is represented by the capsule collection "Diesel X Chris Lee" developed with the singer of the Chinese star system Chris Lee.

The Chinese market in which the company operates is a context that evolves very fast, with a generation of millennials and younger people who are ready to try new styles beyond the traditional luxury. Moreover, according to former creative director of Diesel Nicola Formichetti, Chinese customers offer a great potential for the company because they are looking for "something unconventional and out of the ordinary" (South China Morning Post, 2017). Diesel's approach to the market as an "alternative to luxury", therefore, perfectly fits the peculiarities of the Chinese market.

The above mentioned specificities of the Asian country led the company to choose the Chinese city of Beijing for the launch of its new campaign "Go With The Flow" in September 2017. This event has been particularly relevant for the company, marking a new beginning for the Italian brand after the negative results of the previous year. The choice of the Chinese city for

this important event underlined, therefore, both the relevance of this Asian country for the company expansion strategy and the brand increasing attention toward this strategic market.

## 5.3 Diesel Digital Marketing Strategy

Diesel's core values mentioned previously are inherent in the company's digital strategy.

The rebel and young style together with the fun and provocative approach to the market are, in fact, milestones in their global digital communication campaigns.

The image of Diesel conceived as an "alternative to luxury" is the message that the brand wants to spread worldwide through their digital communication strategy.

Their approach towards the sphere of digital began earlier than its competitors. In 1995, in fact, the company was one of the first fashion companies to launch their own website.

Since that time, the company's focus towards Web2.0 has grown continuously, making digital marketing a core aspect in Diesel's global market approach. Its relevance is expected to grow even further in the coming years.

Nowadays, the company has an official website that presents the brand in all its aspects, from the history of the firm, to its brand values and philosophy.

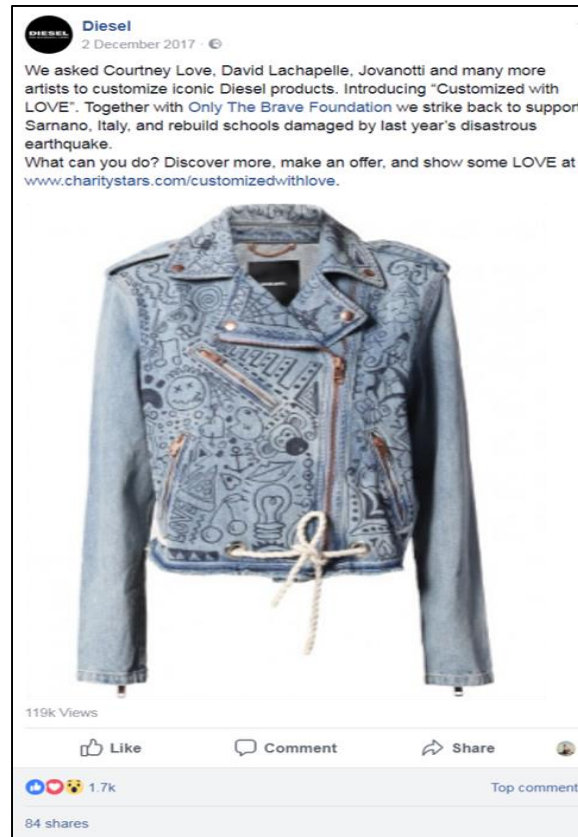
Recently, the digital marketing revolution has also affected Diesel's traditional marketing channels that has always been central in fashion industry's marketing strategies.

Print marketing channels used by the brand until a few months ago are, in fact, planned to be practically removed from its marketing budget in favour of digital media platforms. In particular, advertising on print magazines will be entirely substituted by online ones which will cover a progressively larger share of marketing expenditures. This decision is a consequence of the fact that print advertising is no longer an effective strategy in order to engage Diesel target consumers, which spend an increasing share of their time on online platforms. Digital channels are, in fact, the new trend of the time we are living in, where individuals get information, connect with other people and purchase fashion products.

Social networks are another extremely significant tool in shaping a company's digital marketing strategy. Diesel uses the most popular ones in order to exploit the potential that fashion media marketing has shaped in the current digital age.

The company has a Facebook account, where contents are shared with its 4,6 million followers. The company benefits of several advantages from being on this online social networks. Diesel, through its digital marketing managers, can update its profile daily, get closer to consumers and be more responsive. Moreover, the company can boost its products' awareness through visual advertising and viral contents concerning the launch of its new collections.

Figure 5: Diesel Facebook Account: “Customized with Love” 2017 Capsule Collection



Source: Facebook.com

In addition, the brand of Renzo Rosso also marks its presence on Instagram with 1,3 million followers. The Diesel's Instagram page gives the brand the opportunity to show its new collections and products through photos and engaging live videos.

For instance, in the late 2017 the brand has released a Capsule Collection for AC Milan which was launched on its Instagram page, rigorously marked with the hashtag #dieselXacmilan. The day in which the collection has been officially launched the company's Instagram followers have been updated with live videos and contents presenting the whole football team.



Figure 6: Diesel's Instagram Account: "Diesel X AC Milan" Capsule Collection



Source: Instagram.com

The brand does not use its Instagram account solely to promote its collections but also to share important messages with its community.

The company's account on this social media has been often utilized for the launch of viral contents involving topical and social issues in order to emotionally engage its followers and transmit positive messages to the society.

Coherently with the philosophy of the 2018 "Go With The Flaw" campaign, in September 2017 Diesel deleted all the images of its Instagram profile in order to begin with a new, fresh start. In a statement explaining this social media strategy, Renzo Rosso has asserted that the reason was based on the fact that, in his view, perfection is boring, especially on Instagram where everybody seeks perfection, uploading only perfect photos, perfect pictures and perfect life. Diesel's founder, therefore, decided to delete everything which could be associated with the concept of perfection for an "imperfect new beginning" (South China Morning Post, 2017).

In accordance with this approach, one of the first pictures uploaded on the account was a man, blind in one eye, but that, in that flaw, maintained his own unique beauty.

Figure 7: Diesel Instagram: Go With The Flaw Campaign



Source: Instagram.com

In addition to the previously mentioned social media platforms, Diesel also has an account on the video channel YouTube.

The usage of this channel is significant for the company's digital strategy. It, in fact, allows the brand to share contents that are certainly more descriptive and attractive than simple photos, boosting even more its brand awareness on digital platforms.

For instance, the company can establish a closer relationship with potential consumers presenting a new collection through a video on YouTube. This is the case of the video uploaded by the fashion brand on January 2018, presenting the Diesel Black Gold 2018 Fall/Winter Collection show at Milan Fashion Week.

Figure 8: Diesel YouTube: Diesel Black Gold FW18 Show



Source: Youtube.com

In addition, the channel has been used by Diesel for the upload of other types of videos, more focused on the young, fun and alternative features that characterized the label of Renzo Rosso. For instance, in the late 2017 the brand has begun an ironic winter campaign which have as main character a sheep wearing a leather jacket with the tagline “Say No To Uncool Wool”. The aim of the video campaign is showing how even a sheep has decided to get rid of its “uncool wool” in order to dress Diesel’s products.

Figure 9: Diesel YouTube: Say No To Uncool Wool Campaign

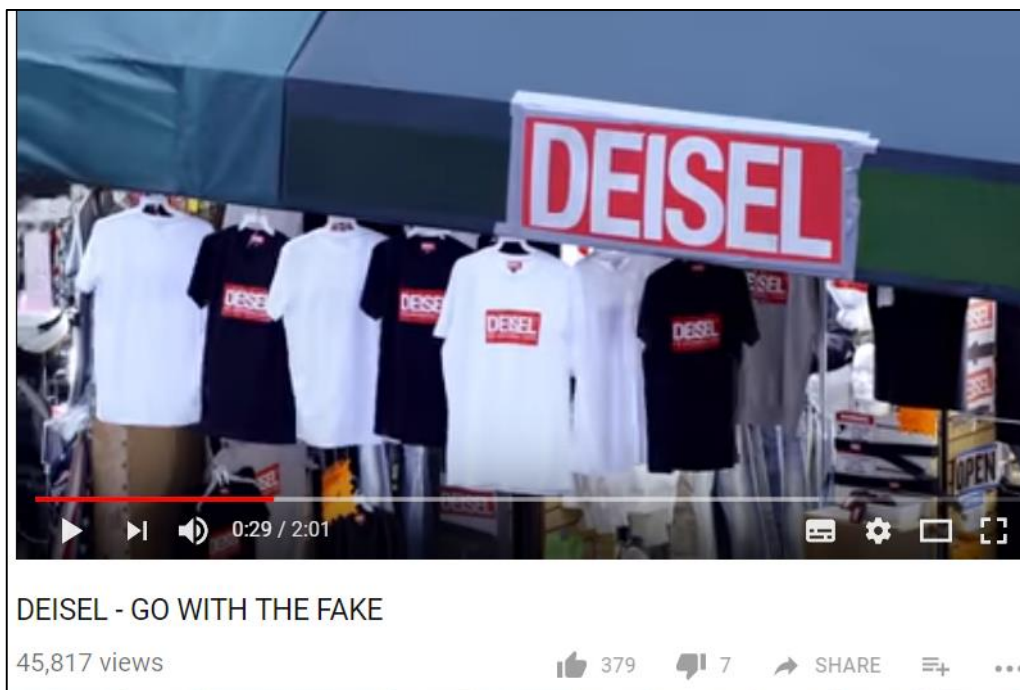


Source: youtube.com

In February 2018, Diesel has upload on Youtube, and then shared it on its other social media platforms, a viral video content touching the critical issues of counterfeited fashion products. The video shows the opening of a “Deisel” store in Canal Street in New York, a notorious market place of counterfeits products. The shop exposes real Diesel products which have been simply marked by a label that is slightly different from the original one. The comic reactions of customers to “Deisel”’s clerk protestants that the cheap articles were actually authentic, has been filmed by the company and uploaded on the digital platform. The video ended with the explanation that the products were actually high quality Diesel items merely with an intended error on its logo.

In this unconventional way the company has reached its aim of posing an high attention on the problem of counterfeits products, promoting at the same time its new campaign *Go With The Flaw* that wonderfully fits with the concept behind the Deisel product.

Figure 10: Diesel YouTube: Diesel – Go With The Flaw

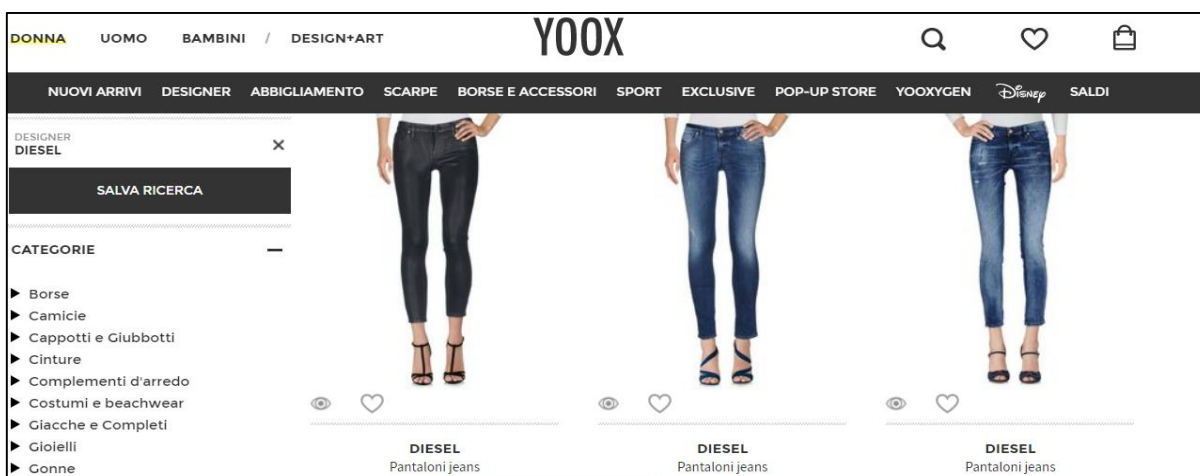


Source: youtube.com

Coherently with the brand's digital revolution, Diesel has an e-commerce website for all its collections, where consumers can easily purchase products, without going into brick and mortar stores.

The brand is also present on the Italian high-end online store Yoox.com and in other multi-brand online shops such as Asos.

Figure 11: Diesel Account on Yoox



Source: yoox.com

## 5.4 Digital strategy in China

Diesel has also rolled out its digital marketing strategy described above in the Chinese market. Despite the strong idiosyncrasies of this country, the fashion label has managed to maintain its brand values and DNA untouched.

In order to engage Chinese customers digitally, the brand is present in China with a website totally translated into Mandarin, an e-shop directly operated by the company, several accounts in the most popular Chinese e-commerce websites and two Chinese social network accounts. The entire digital strategy of the company is oriented and target the Chinese consumer, from the messages communicated in their advertisings to the exploitation of the local promotional tools.

### 5.4.1 Website

Diesel Chinese website has been conceived to satisfy the peculiarities of the local market.

In addition to the entire translation in Mandarin, the webpage offers relevant features and services specifically developed for Chinese customers.

First of all, both the layout and the promotional messages shown on the Chinese webpage are deeply different from those directed to the other countries in which the company is active. From Italy to India, from USA to Russia, the webpage of the brand remains, in fact, exactly the same, with the only exception for the language that is translated in the local one.

The difference with the Chinese website, instead, is immediate at first sight. The images that appear in the homepage display contents are strongly oriented to the Chinese consumers, underlying the brand's respect for this market.

The first picture shown regards, in fact, the detail of a special capsule collection – *New Lunar Year Capsule Collection* – launched for celebrating the Chinese New Year. It displays the image of a dog, symbol of the 2018 new year, featured in a Diesel typical aura of rebellion and printed on a special line of sweatshirts.

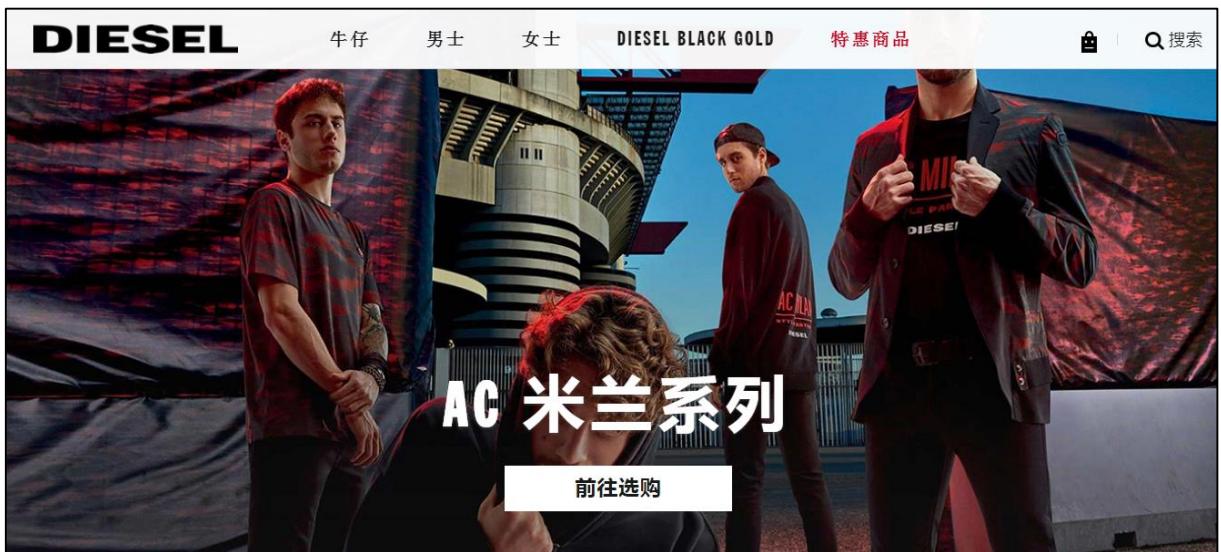
Figure 12: Diesel Chinese Website: Homepage – New Lunar Year Capsule Collection



Source: [diesel.cn](http://diesel.cn)

Scrolling the page, the second project shown is another recent capsule collection of Diesel for AC Milan that, differently from the other markets – including the Italian one –, in the Chinese website appears in the homepage as a consequence of the renowned unbridled passion of the Chinese for Italian football teams. Additionally, this advertising can be used as a tool to underline the Italianess of the brand which represents an added value in the Chinese fashion market.

Figure 13: Diesel Chinese Website: Homepage – AC Milan Capsule Collection



Source: [Diesel.cn](http://Diesel.cn)

These elements, if compared with the differences with the other company's websites, underline the relevance and increasing attention of Diesel towards Chinese consumers and a deep understanding of the idiosyncrasies that make the Chinese market different from the rest of the world.

Another important feature that is present in the company website is an efficient newsletter available and accessible to Chinese consumers who might need information or assistance. Although the communication via newsletter is totally in Mandarin and contains an entirely dedicated platform, the service is not very useful for Chinese consumers, which does not take a liking to email services, but prefers communications via mobile phone and social networks. This peculiarity, however, has been considered by the company through a connection, positioned close to the newsletter button, to the two Chinese social networks on which the company is active: WeChat and Weibo. Consumer can get immediate access to the social medias account simply scanning the QR-code provided, which appears clicking on the logo of the two social media. This function is essential in order to have the certainty that the client will be redirected to the official account of the brand and not to one of the illegal sellers that are still widely diffused in China.

Figure 14: Diesel Website QR-code for WeChat



Source: [diesel.cn](http://diesel.cn)

An important feature that shows a brand's care for its Chinese customers, but that is not present in the Diesel website, is the store locator system connected with a Chinese mapping service. As mentioned in the "Part 4" of this thesis, the "Great Firewall" imposed by the Chinese government has blocked all Western online platforms that have not accepted the Chinese



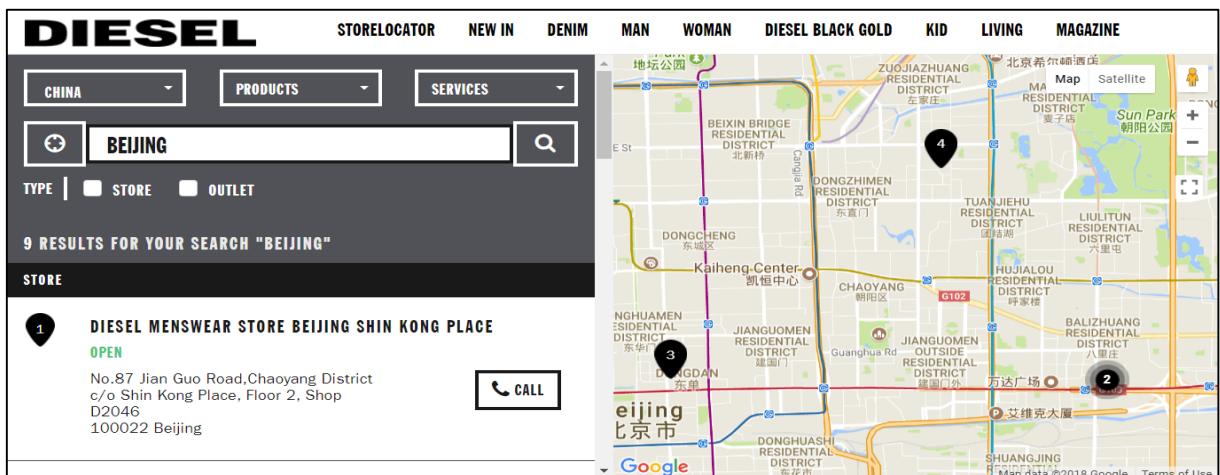
ensorship, including Google and all its developed services such as Google Maps.

Diesel would have demonstrated its attention to its customers by offering a detailed store locator which uses the desktop and mobile web mapping service Baidu Maps, as most fashion brands have already done.

In its international website Diesel uses, instead, even for Chinese market, the location service provided by Google Maps which is entirely useless considering the non ability of utilizing it in the area of China.

Moving on to the Chinese specific webpage, instead, the service has been completely deleted and replaced by an simple list of the 25 Diesel stores located in China. This choice underlines the understanding of the uselessness of keeping Google Map service, as in the international website. However, not replacing it with a proper map is not a good approach for engaging Chinese customers that are used to expect all the digital services that the technology can give them, also in the fashion industry.

Figure 15: Diesel Distribution Network in Beijing- International Website



Source: diesel.com

Figure 16: Diesel Distribution Network in Beijing- Chinese Website

店铺名称	联系号码	店铺地址
Diesel-北京西单汇店	010-8306 3059	北京市西城区西单北大街110号北京老佛爷百货二层L2-6店铺
Diesel-上海新世界大丸百货店	021-3330 7686	上海市黄浦区南京东路228号新世界大丸百货2A-26店
Diesel-北京王府中环中心店	010-65268368	北京市东城区王府井大街269号院1号楼3层314号
Diesel Flagship-北京三里屯店	010-6416 2337	北京朝阳区三里屯路11号院N4号楼N4-17a&N4-28单元

Source: [diesel.cn](http://diesel.cn)

## 5.4.2 E-commerce

Diesel's e-commerce platform is a mono-brand website directly operated by the company. A company's internal office is in charge of provide technical services and managing the tools connected to the online platform.

With regards to e-commerce, however, the Chinese market clearly shows its preference towards multi-brand online shops. In this scenery, Diesel has also established partnerships with multi-brand e-commerce marketplaces like Secoo.com, Xiu.com, T-mall and JD.com.

### Secoo.com and Xiu.com

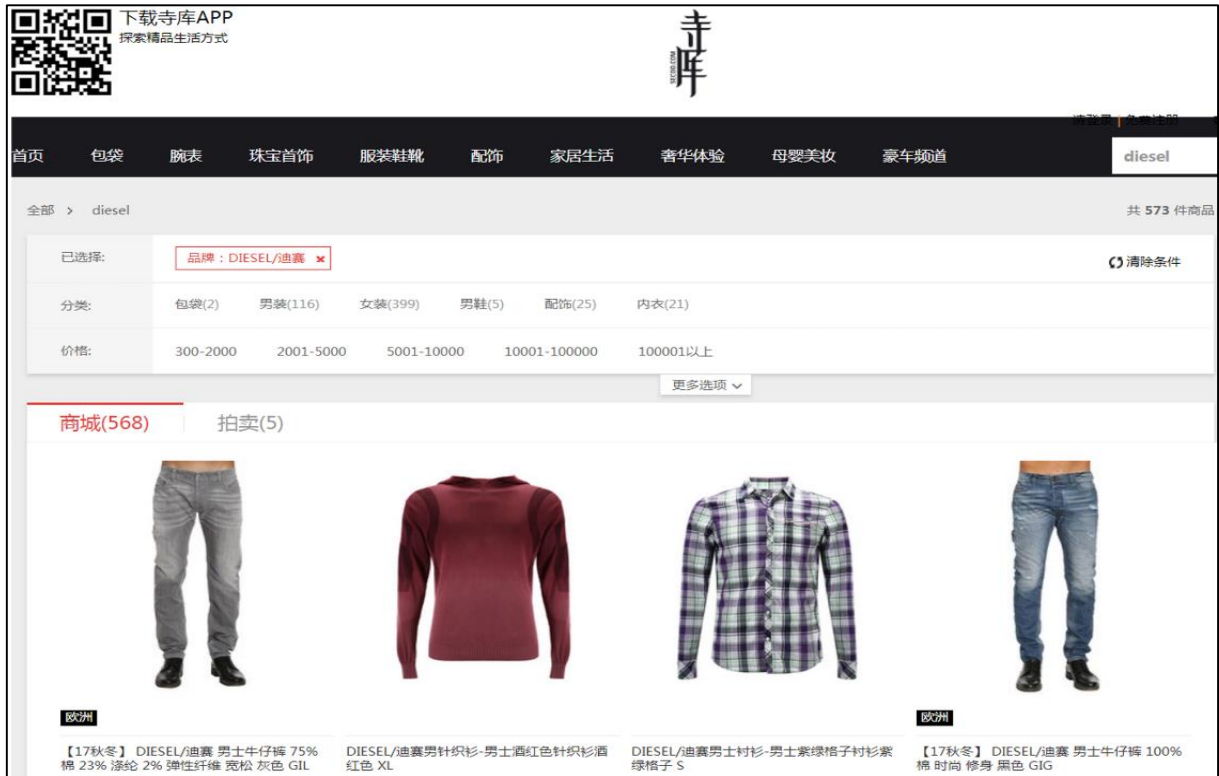
Secoo.com and Xiu.com are Chinese online platforms specifically developed for fashion and luxury. These online shops give Diesel the advantage of gaining authoritativeness among its customers due to the high quality of articles exposed and to the platforms exclusive reputation. Furthermore, the presence on these websites facilitates Chinese consumers' purchasing processes, payment methods, assistance services and transactions.

Finally, the present on these e-commerce sites determines for the company an higher visibility and good standing among fashion luxury brands, increasing the reputation and brand awareness of the brand.

In particular, on Secoo.com Diesel sells its entire collection of labels: Diesel, Diesel Black Gold and Diesel Kid. The company also trades on the platform a refined line of home accessories developed through the co-branding agreement with the Italian brand of furniture and ornaments Seletti. On this online shop, however, the brand has not opened an official account as most of

its competitors have already done. Its products are, therefore, just listed randomly. Moreover, the logo of the brand is not even shown on the platform, not contributing to increase the recognisability and awareness of the brand in the market.

Figure 17: Diesel Products on Secoo.com



Source: secoo.com

Finally, Diesel is still not present in other key online shops conceived for luxury and fashion brands where, instead, most of its competitors are already active.

An example is the e-commerce platform Meici that has become a headliner in China's fashion and luxury e-commerce for its leveraging of VR technology and experiential shopping. The presence on this platform would have undoubtedly enhanced the Diesel customers' experience and strengthened its relationship with the generation of digital natives that expects from fashion brands the most sophisticated digital experience.

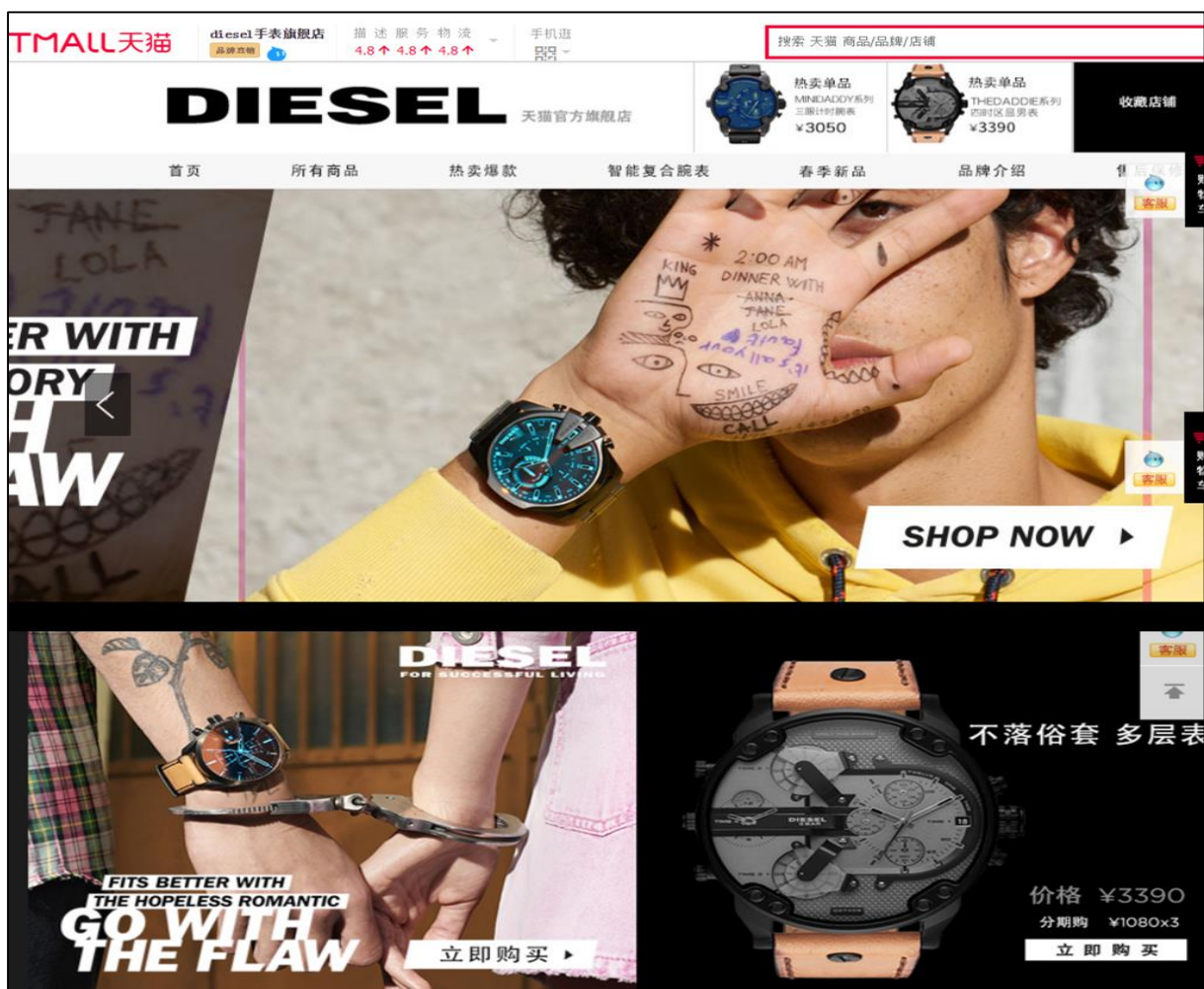
### T-mall and JD.com

T-mall and JD.com are platforms which are less used in luxury and high-fashion because of their focus on marketing off-price products and of the problem of fakes that on those websites is more widespread than in the online stores mentioned above.

As a consequence of these critical issues, Diesel has decided to limit the range of products available on T-mall solely to its line of watches.

Moreover, the account on this platform is not properly maintained as can be shown by the fact that most advertising seem simply copied from the western online platforms, without even translating the main taglines. Even the video contents shown in the platform are in English without Chinese subtitles, representing a relevant mistake if considered that almost all users of that platform do not understand English. In any case, using the local language is a better strategy to engage customers for a specific market.

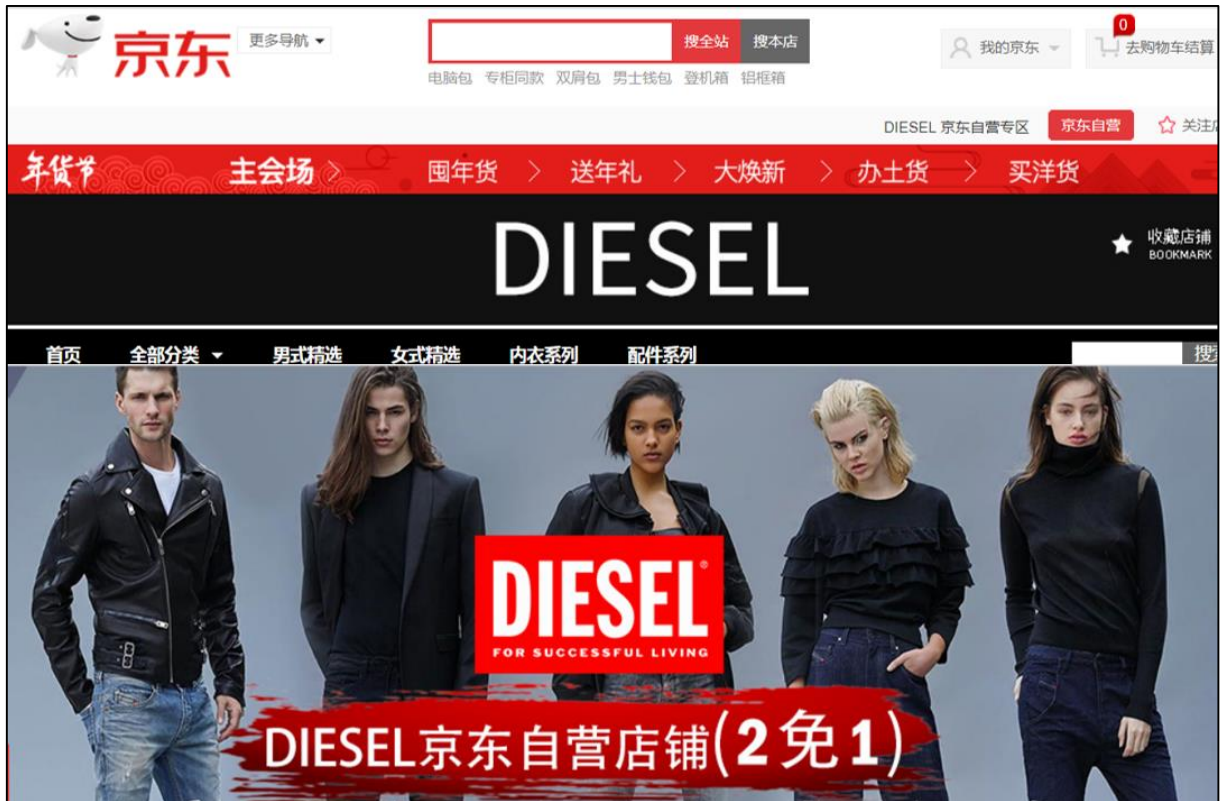
Figure 18: Diesel Account on T-mall



Source: tmall.com

Differently, on JD.com the company has decided to sell all its collections through an official account with the only exception for the line of watches, already present on T-mall official account.

Figure 19: Diesel Account on JD.com



Source: JD.com

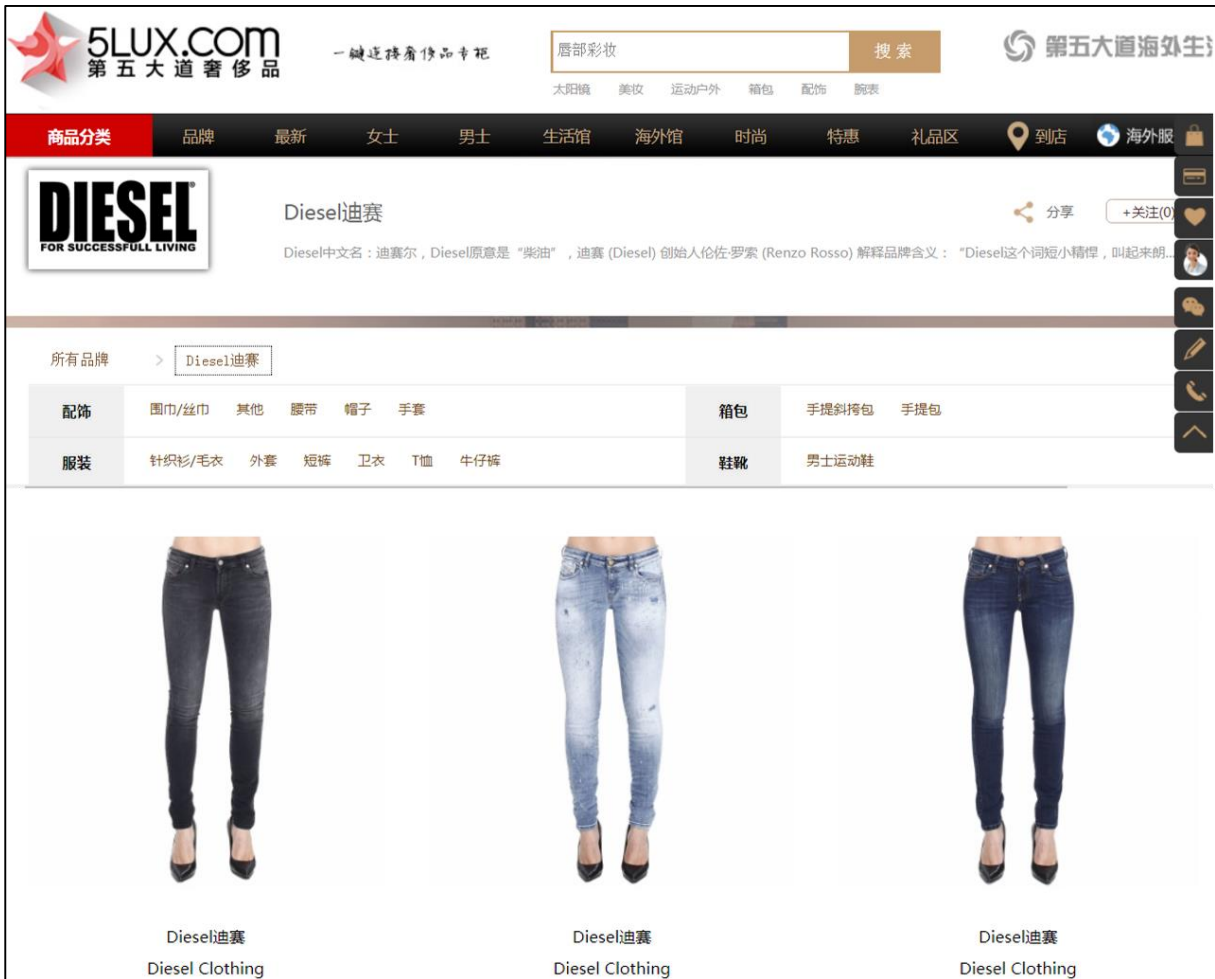
Despite this choice of selling all its collection on the platform, it is still easy to find articles, and in particular jeans, displayed with the Diesel logo, but not related to their official accounts and without the label of guarantee that T-mall provides for authorized and certified products.

This is a sign of how the problem of fake products is still a critical issue in the Chinese context and, therefore, the necessity of enhance the brand's presence on more exclusive and certified platforms such as those examined previously.

### 5Lux.com

Finally, in addition to the above mentioned platforms, the company has also opened an account on the innovative platform called 5Lux.com. It represents the midway between offline and online shops, giving customers the possibility to choose to either receive their products at the closest offline store of the brand or directly at home. This business model has solved once and for all the critical issue of fashion counterfeits products in e-commerce. Having the possibility to receive the product in an official shop of the brand, in fact, gives customer the guarantee of the authenticity of the article they have purchased.

Figure 20: Diesel Account on 5Lux.com



Source: 5Lux.com

### 5.4.3 Social networks

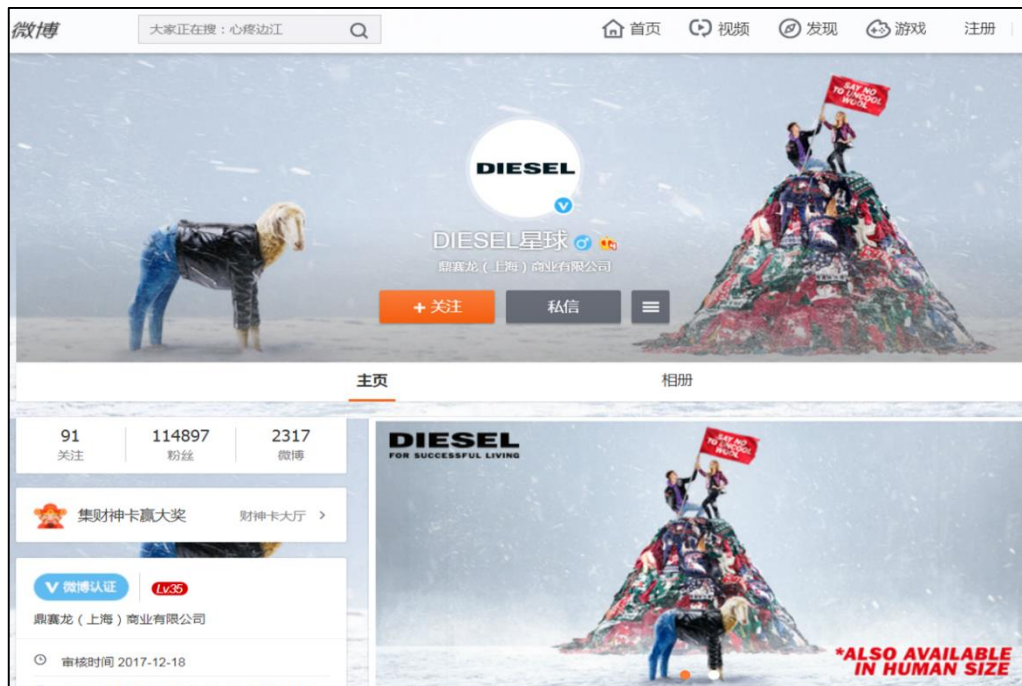
Diesel is also present on the most popular and frequently used Chinese social networks: WeChat and Weibo.

The presence of the company on these two platforms has a central relevance to the brand's communication strategy. They represent, in fact, the most used source of information, messaging service and, in the case of WeChat, payment tool by Diesel target customers.

#### Weibo

Diesel's Official Account on Weibo is updated on an almost regular basis, with, on average, one post every week. In order to improve the brand visibility on these crowded platforms, however, this frequency of upload should be improved with the aim of gaining followership and improved awareness among its users.

Figure 21: Diesel's Account on Weibo: Homepage



Source: weibo.com

An approach often used by Diesel on this platform consists by posting pictures of famous personalities of the Chinese star system photographed wearing Diesel's products. This strategy is perceived as more natural and authentic than paid brand ambassadors and allows the brand to use an exponential number of influencers fitting a wider range of local customers.

An example is Chinese singer Ma Tianu who has participated in a famous music festival wearing a Diesel's shirt from the Spring/Summer 2018 collection. The picture of the singer was immediately uploaded by Diesel's media managers on Weibo with a detailed description of this apparel item worn by the celebrity

Figure 22: Diesel Account on Weibo: Ma Tianu



Source: Weibo.com

Despite this attention towards the local market, there are still a few aspects that the company could improve in order to have improved and stronger visibility through Chinese social media. A lack of attention towards the Chinese markets can be seen in the fact that, as in the case of T-mall, several posts still include content and taglines entirely written in English, which represents not only a barrier for the majority of Chinese users, but a sign of a lack of attention towards the needs of the market.

Chinese users pay a lot of attention to these aspects and always expect a high level of digital engagement for fashion brands. This deficiency on Diesel's account is underlined by the current low number of followers which are now 114,897. This is a low number compared for example with the 576,465 followers of the Levi's or the 317,146 of Armani.

### **WeChat**

Diesel's presence on WeChat allows the company to benefit of several strategic advantages. This social network, in fact, has permitted the fashion label to develop an efficient customer relationship management, an appropriate advertising program, and a stronger e-commerce position compared to mentioned above.



Figure 23: Diesel's Account on WeChat: Homepage



Source: wechat.com

Gaining followers on this Chinese social network, however, is difficult due to the fact that users are not inclined to follow a brand they are not entirely engaged with because of the notifications that, otherwise, would bother them. Increasing their attention towards a Diesel communication campaign is, therefore, fundamental in order to increase the level of brand awareness and engagement of Chinese customers.

Moreover, the uploading of content on a regular basis is an aspect that should be properly implemented also on this social network. The number of brands active on the platform is immense, therefore, in order to gain attention and carve out a space on this social media, it is important to develop a plan for a more regular upload of contents.

The whole Diesel social media strategy in China has been implemented through a strong collaboration with local partners who manage the digital channels in cooperation with the headquarters and subsidiaries of the firm. This partnership with Chinese intermediaries is necessary because of the barriers that an Italian company needs to confront with in a country such as China.

The censorship in the digital world is certainly the first obstacle for a firm operating on the

Chinese social networks. In this sense, however, Diesel has local offices which enable the company's access to the Chinese networks.

#### **5.4.4 Influencers**

Influencers represent a focal and strategic communication tool in the Chinese fashion market, more important than other areas of the world.

Considering this factor, Diesel has adopted an approach focused on the use of KOLs which aims to gain at highest return and visibility. The use of Chinese influencers on social networks such as WeChat and Weibo, in fact, exposes fashion companies to extremely high traffic. Diesel, therefore, has decided to improve this role to personalities that are extremely popular in China in order to maximize their investment in the market.

These people are typically celebrities of the Chinese star system as in the case of the new "face" of Diesel in China.

The singer Chris Lee, who has become a favourite for several fashion powerhouses including Jean Paul Gaultier, Gucci and Karl Lagerfeld, is the protagonist of the 2018 Diesel's *Go With The Flaw* campaign for the Chinese market.

The announcement of this collaboration has been made on the Instagram account of brand's former creative director Nicola Formichetti, and reposted in the Chinese social media. The content of the post features a video which shows part of the collection and the Chinese singer posing with Diesel clothes and talking with the Diesel creative director.

Figure 24: Diesel Weibo: Campaign Featuring Chris Lee and Nicola Formichetti



Source: weibo.com

The campaign, which has been launched on the Diesel's website, WeChat, Weibo, and through top international social networks, has shown the adaptation of the brand's social media marketing strategy to the Chinese market, both in terms of choice of the brand ambassador choice and content.

The singer has also collaborated with Diesel for the release of a special capsule collection called *Diesel X Chris Lee*. Each item in the collaborative collection is unisex, in order to underline the androgynous style of the singer.

On September 2017, the singer was one of the special guests at a Diesel's event held in Beijing to promote the capsule collection and release a short film for the *Go With The Flaw* campaign.

Figure 25: Diesel Weibo: Short Film of Diesel X Chris Lee



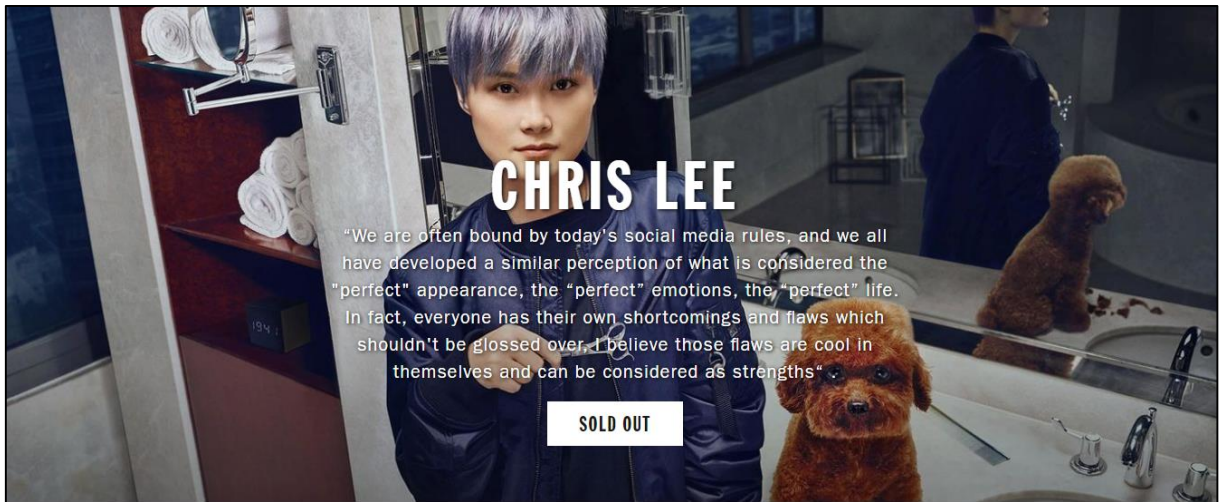
Source: weibo.com

The story narrated in the video and with Chris Lee as main character, had the objective of celebrating imperfection. It shows the popular singer, famous for having a square face and not the ideal oval of Chinese, trying to make a nice hair cut to her dog. The puppy, however, ends up with a strange cut that makes its face looks squared. The tagline that appears at the end of the story “Go With Square Face, Go With The Flaw” supporting the value of diversity and of self-acceptance.

The pictures of Chris Lee during the event and the short film have been published on Diesel’s Weibo and WeChat accounts, reaching an immediate great success. The hashtag #dieselxchrislee (translated in Chinese) has, in fact, tracked 64.8 million views and 400,000 discussions on Weibo. Moreover, Diesel was mentioned 189,000 times on WeChat the same day, with an increase of 194% from the average data.

Finally, another factor that underlines the importance of this type of partnership in the Chinese fashion market and the effectiveness of this specific Diesel’s promotional campaign is represented by the fact that the capsule collection *Diesel X Chris Lee* was sold out in just a few hours.

Figure 26: Diesel X Chris Lee Capsule Collection Sold Out



Source: *diesel.com*

## **5.5 Brand Awareness: Survey Analysis in Guangzhou**

This chapter will illustrate the results of a market research conducted in the city of Guangzhou which aim to investigate how the brand Diesel is perceived in the Chinese market.

The same survey has been presented also in the autonomous region of Hong Kong in order to analyse if the absence of the “Great Firewall” that bans in Mainland China most Western social media, could have an impact in increasing the brand’s awareness levels.

Finally, the comparison between the two market researches will be examined and few conclusions will be improved.

### **5.7.1 Market Research Methodology**

The level of awareness of the Diesel brand in the Chinese market has been tested in the area of Guangzhou using, as market research technique, the survey methodology.

Guangzhou, better known in the Western countries with the name Canton, is the capital of the Guangdong region, in southern China, located 120 kilometres north west of Hong Kong. Situated at the heart of the most populous metropolitan area in mainland China, Guangzhou is a strategic city for the Chinese economy and one of the five first-tier cities of the country, as mentioned in the chapters above.

The survey has been presented to the interviewees in both the English and Chinese languages as shown in the Appendix D of this thesis. The Chinese part of the survey has been written with the assistance of Li Difei, professor at the Confucius Institute of Padua.

The aim of this market research investigates the level of awareness and market penetration of Diesel in the Chinese market.

In the survey, the brand is compared to other international fashion companies active in the Chinese fashion market and identified as Diesel competitors. The objective of this comparison is to identify the brand’s most relevant competitors in the Chinese fashion market, determining if their communication and marketing strategies are more effective than those implemented by Diesel in terms of brand awareness and market penetration.

Finally, the channels through which the brand is becoming familiar for the interviewees will be analysed, in order to understand the weight that online platforms have had in gaining market recognition.

The survey has been conducted between June and July 2017 to two different groups of people aged between 18 and 30, which corresponds to the Diesel’s core target.

- **Group A:** It is composed by 41 students of Guangzhou State University. The sample has a gender composition of 54% female and 46% male. The survey has been answered between the 22<sup>nd</sup> of June and the 4<sup>th</sup> July 2017.
- **Group B:** It is composed by 23 random individuals interviewed in front of the Parc Central Shopping Mall in Guangzhou. The sample has a gender composition of 48% female and 52% male. The interviews have been conducted on the 2<sup>nd</sup> of July 2017. The Chinese student Kylie Chan was present during this process in order to reduce the barriers that could have arisen as a consequence of the cultural and language differences between interviewer and interviewees.

In the city of Guangzhou, Diesel has a flagship store located at the second floor of the Parc Central Shopping Mall, the place where the interviews of the Group B were performed. The shop, shown in the picture below, perfectly represents the brand's retail strategy, expressing the Diesel DNA through an accurate display of its pillars of denim, leather and military elements.

*Figure 1: Detail of the Diesel Flagship Store in the Parc Central Shopping Mall, Guangzhou*



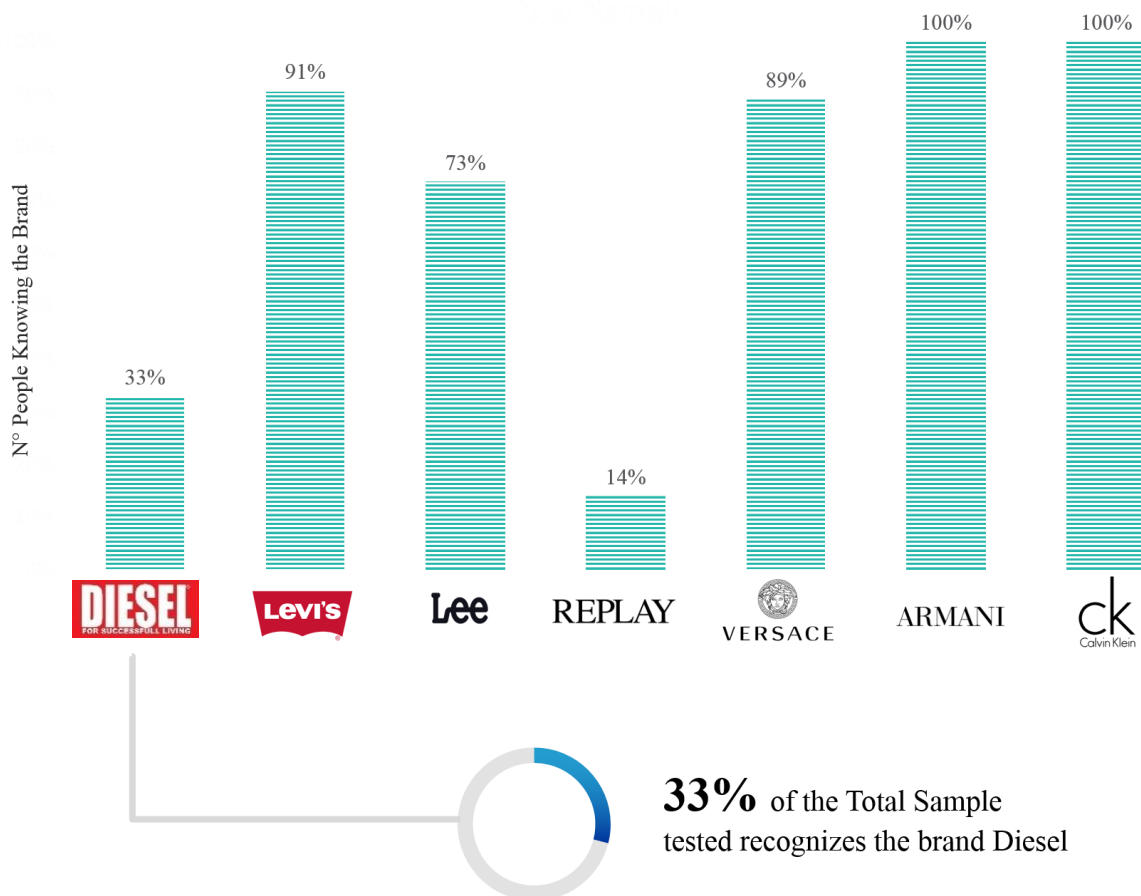
## 5.7.2 Survey Data Report

The data collected through the survey of the two groups are shown in detail in Appendix E. The statistics do not show relevant differences between Group A and Group B, therefore the two samples will be examined together. If a substantial variance between them emerges, the samples will be analysed separately and a possible explanation to the related trend given.

The survey analysis revealed a low level of *brand awareness* for the Diesel brand in the sample. Only 21 people out of a total number of 64 interviewees, assert to have already heard of the

brand Diesel, with a measure of brand awareness of 33%. The data is even more relevant if compared with the same measure observed for the Levi's, Calvin Klein and Armani brand: the percentage of brand awareness, in this case, ranges between 91% and 100%, as shown in the table below.

Figure 2: Total Guangzhou Sample Answers to the Question 1.a of the Survey: "Which of the Following Brands Have You Already Heard of?"



This difference in the level of brand awareness between Diesel and its main competitors can be tracked back to a more incisive and efficient communication strategy of the aforementioned brands in the analysed area.

An increase of 10 percentage points emerges in the level of brand awareness of Diesel in Group B if compared with the data of the Group A. Considering the similar demographic characteristics of the two groups and the proximity of the location in which the two samples has been interviewed, this variance is presumably related to the fact that the survey of Group B has been conducted in the proximity of a shopping mall where the Diesel flagship store is



located. The percentage growth, therefore, can not be related to an higher effectiveness of the company communication campaign, but to a better familiarity of interviewees with the brand due to a proximity to the store that led the brand to be more familiar for the people that are used to walk in that area.

Among the people that already knew Diesel, however, the idea related to the brand is mostly confused and not clear. All the interviewees answered that they knew a little about the brand, that their opinion is somewhat favourable about the brand and that are not sure if they would suggest it to a friend. This data shows how, even for the those that have already heard of the brand, the communication has not been effective enough to developed an idea of the company among its prospect customers.

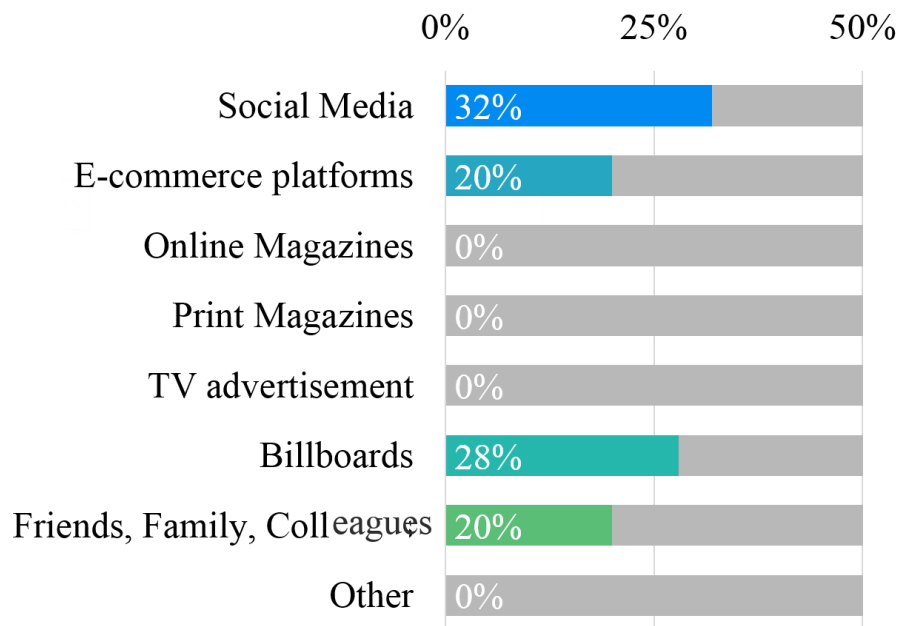
The aforementioned unclear understanding and perception of the brand values determines the result that none of the 21 people that have already heard of the brand has ever bought a Diesel product. The market penetration among the sample analysed is, therefore, null for the brand of Renzo Rosso. The situation is very different for the other brands examined.

Levi's, Armani and Calvin Klein were purchased by a number that range between 2 to 4 people with a market penetration that, in the case of Levi's, reaches the 7% of the sample analysed.

Moving now to the channel through which most of the people have heard of the brand, the expectation is that almost all of them have heard of it through social media or online platforms, which are, as mentioned in the previous chapters, among the most utilized sources of information for the Chinese. Differently, instead, just the 32% of them have heard of the platform from social media. The other channels identified were billboards through which 20% of people interviewed had heard of the brand, followed by e-commerce platforms and friends, family or colleagues both asserted at 20%.

The advertisements of Diesel in online and print magazines such as GQ China have, therefore, not increased the attention towards the brand for the sample analysed.

Figure 3: Guangzhou Sample Answers to Question 5 of the Survey: “Where have you heard of the brand Diesel brand?”



Among the brands perceived as being competitors of Diesel, all the interviewees that already knew the Diesel brand answered that Levi’s is its main competitor in the local market, followed by the 24% of them indicating Calvin Klein and an high value of 76% answering S135 which is a popular Hong Kong’s brand of jeans with a manufacturing site in Guangzhou.

This data shows how the brand perception is still asserted at a lower level than what the brand aims to achieve. Proposing its collections as an alternative to luxury, the brand pointing to compete, therefore, with the labels Versus Versace or Emporio Armani. The brand of Renzo Rosso, instead, is perceived in the Chinese market at a lower level in term of market positioning, being indicated by the vast majority of interviewees as a competitor of Levi’s and S135, characterized by a level of price far lower than Diesel.

Figure 4: Guangzhou Sample Answers to Question 10 of the Survey: “What Brands Do You Perceive As Competitors for the Brand Diesel brand in your Area?”



### 5.7.3 Comparison with the Hong Kong Market

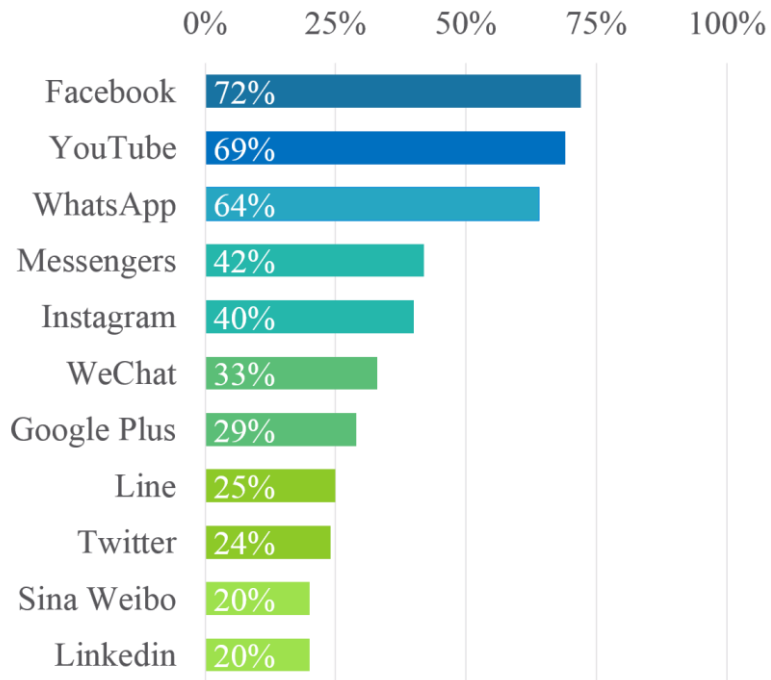
One of the key challenges of fashion media marketing in China is represented by the ban of most Western social networks and online platforms. Therefore, international brands investing in China are forced to implement their marketing strategies on *ad hoc* social medias specifically conceived for the Chinese and which differ deeply from those they are used to in their home countries.

In order to understand the possible influences of this aspect on the level of awareness of the Diesel brand, a market analysis using the same survey has been conducted in another Asian country that is similar to China in term of proximity, but deeply different in term of social, political and also digital context: *Hong Kong*.

Hong Kong is a Special Administrative Region of the People’s Republic of China benefiting of particular autonomies from the central government. It is located in the south of the mainland China Guangdong region, which includes the city of Guangzhou, where the previous market research has been conducted.

In this region Facebook, Instagram and YouTube are accessible and, furthermore, has been identified as the most used online platforms, with a penetration rate asserted respectively at 72%, 69% and 42% of the population of active media users, as shown in the table below (Statista, 2017).

Figure 5: Penetration of Leading Social networks in Hong Kong for Q1 2017



Source: statista

The survey has been conducted the 6<sup>th</sup> of July with an unique sample of 17 people interviewed at the Elements Shopping Mall, located in the Hong Kong city centre, inside the highest tower of the city. At the third floor of this shopping mall, Diesel has a flagship store as shown in the picture below.

Figure 6: Outside and Inside of the Diesel Flagship Store at the Elements Shopping Mall, Hong Kong

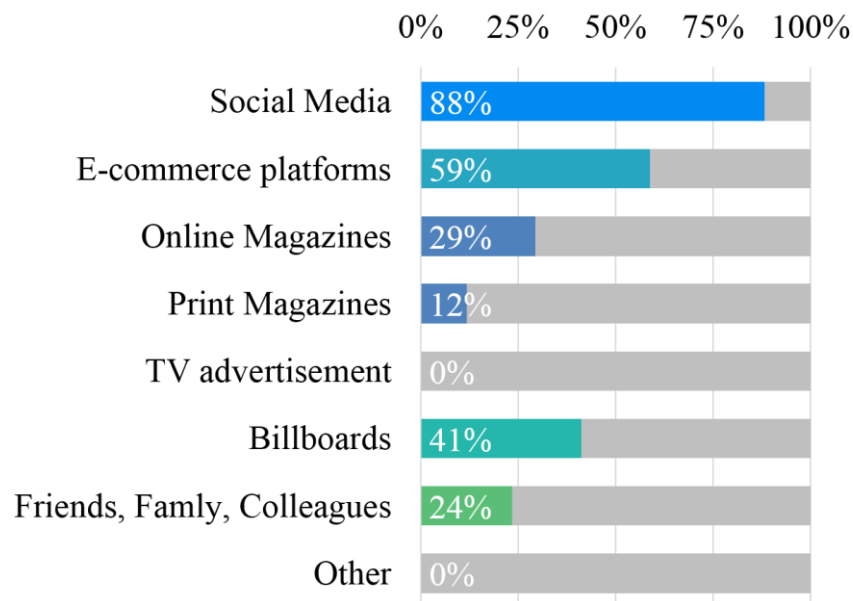


The data emerging from the analysis of the present market research shown, as expected, a deeply different context compared to the Mainland China.

Firstly, the Diesel brand is known by the whole sample interviewed differently from the survey conducted in Guangzhou where only 33% of the interviewees asserted to be aware of it. This factor, however, is less impressive if considered that even the other brands indicated as competitors are known by almost the entire sample.

The second main difference, refers to the channels through which the interviewees have heard of the brand. The impact of social media and online platforms is, in the Hong Kong sample, far more relevant and the people interviewed asserted to have heard of the brand from several different communication channels, differently from what emerged in Guangzhou where most of the interviewees answered with just one channel. This factor can be identified as an index of the fact that the communication plan and marketing strategy is more pervasive and the prospective customers receive stimuli from the brand from different communication channels.

Figure 7: Hong Kong Sample Answers to the Question 5 of the Survey: “Where have you heard of the Diesel brand?”



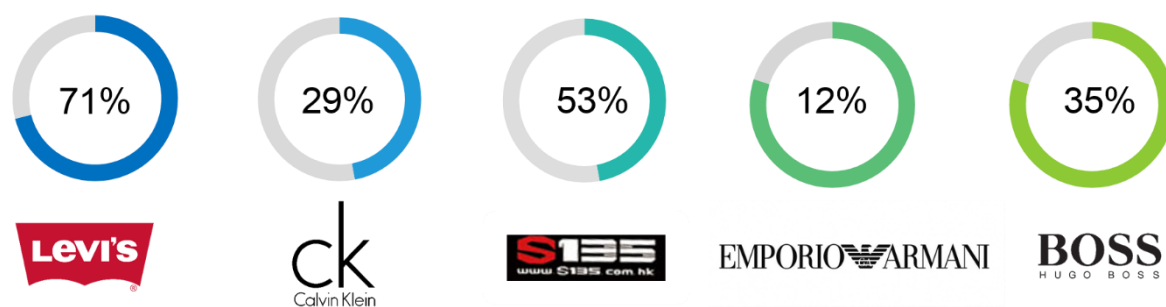
The channel that received the highest percentage are the social media that were indicated in the answer of the 88% of the sample’s answers. It is immediately followed by e-commerce platforms and billboards with, respectively, 51% and 41% of the preferences. Interesting is also the fact that online magazines now have an important role in promoting the brand collections and communicating its news to the market. This specific channel, in fact, reached a score of

29%, different from the preceding survey than survey where it reached zero.

Concerning the market penetration for the sample analysed in Hong Kong, 2 people answered that they have purchased a Diesel product, which in our sample represents the 12% of the total. This is a strong increase compared to the Chinese sample where no one of the interviewed asserted to have already purchased a Diesel product. This factor is the direct consequence of the higher brand awareness of the brand in this market and the more persuasive communication strategy performed by the company in this area.

Concerning the brands that the interviewees indicates as competitors of Diesel in their area, a high percentage is still obtained by the Levi's and S135 brand. Here, however, also the Calvin Klein and Hugo Boss brands scored high and, finally, the name of Armani Jeans – now absorbed with the Emporio Armani brand - appears in the answers of two interviewees.

*Figure 8: Hong Kong Sample Answers to Question 10 of the Survey: "What Brands Do You Perceive As Competitors for the Diesel brand in your Area?"*



This data illustrates an important achievement for the brand, showing how it is perceived with a higher brand positioning for at least part of the sample analysed.

Finally, the higher awareness and understanding of the Diesel brand in this market is underlined by the fact that the company's brand values here are better identified. The words fun, rebel, alternative and sexy have been highly used, next to the popular jeans or denim, to describe the brand of Renzo Rosso. Differently from China, where most of the interviewees associated the brand just with the words denim or jeans, in Hong Kong a deeper consciousness of the Diesel core values, therefore, emerged.

In conclusion, a higher level of brand awareness, penetration rate and brand knowledge has arisen in the in Hong Kong survey. The higher relevance of social media and online platforms, indicated by the interviewees in choosing the most relevant Diesel communication channels, is presumably responsible for the higher awareness and penetration in this market.

## 5.7.4 Digital Marketing Strategy Suggestions

The analysis of the key Diesel digital marketing channels for the Chinese market, together with the data collected through the above market research, has revealed several critical issues in their communication strategy. These findings are listed as follow:

- *Low level of brand awareness;*
- *Low level of market penetration;*
- *Improper and lower perception of Diesel's brand positioning.*

The low level of *brand awareness* of Diesel, underscored by the negative results of the survey conducted in Guangzhou, could be increased through an increased usage and effective presence of the company on the main Chinese online platforms. This approach could be implemented through the purchase of advertising spaces on the main social networks and e-commerce platforms in order to gain followership and awareness among Chinese users.

Another strategy that the company could implement in order to increase its visibility in the crowded Web 2.0 space, where every fashion brand has to fight in order to emerge, could be an improved management of the company's official accounts on WeChat and Weibo through increased customization and viral content, together with a more frequent upload of posts, articles and news. Additionally, the company could improve its presence on online magazines which are very popular among Chinese fashion consumers, in particular with Millennials that represents the Diesel's core target.

Secondly, in order to boost the company's *market penetration*, the suggestion is to continue and increase the company's focus on online platforms, whose relevance in the Chinese market is increasing every year with an e-commerce share of total retail sales that exceeds the value of 20% (Statista, 2018).

The company could exploit the full potentials of the main e-commerce platforms launching, for example, an official account on T-mall upon which the entire Diesel collection should be available. Differently from its main competitors which sell also their apparel lines on the platform of apparel, in fact, Diesel still limits its presence solely to the line of watches not exploiting, therefore, the full potentials of this online store.

Moreover, in the social networks' posts of the company there are no links to the brand online store or e-commerce pages, whose existence would strongly increase the traffic to these online shops. An easy and inexpensive method through which Diesel could reach this objective is the addition of a simple link to the e-store websites to both WeChat and Weibo posts that would immediately redirect the company's followers to its official e-commerce pages. Moreover, this approach, providing instantly the webpage of the collection that the customer is interested in,

avoids the risk that the online shopper might not find the product or find an unauthorized seller, typically promoting fake items, that would not lead a return to the brand.

Additionally, in order to increase the brand penetration of the fashion label, the company could also acquire advertising spaces on the main online platforms enhancing, at the same time, the level of brand awareness of Diesel among online shoppers.

Finally, concerning the third issue related to the company's *market positioning* which is perceived lower than the level desired by the fashion label, Diesel should improve its premium credentials on digital platforms through an increase of its presence on the main luxury fashion e-commerce websites. This approach would allow the brand to better benefit of the aura of exclusivity that characterized specific e-commerce platforms such as Meici.

Furthermore, the company could promote premium fashion and luxury events that better fit the brand's higher market position, engaging strategic influencers and KOLs that would boost the perceived level of brand positioning, sharing their presence on the main social media platforms. Finally, the strategy of premiumisation that has been recently implemented by Diesel's founder to its retail distribution network in order to boost the company brand perception to a higher level of the market, could be applied also to the brand's digital stores. E-commerce is becoming more important every year, in particular in the Chinese market, therefore an accurate analysis of Diesel's online stores is fundamental in the view of the digital era in which we are living. Through this approach, as in the case of retail stores, each online store would be assessed on various criteria in order to evaluate each shop with a specific score. If the platform does not obtain the desired grade, Diesel should try to improve it with various approaches and, only as last resort, the shop could be excluded from the brand online distribution network in order not to damage the online shoppers' perception of this iconic fashion label.



Figure 9: Suggestions for Diesel's digital strategy improvement



According to the budget forecasted to the digital marketing area for the Chinese market, Diesel should decide on which combination of the three above mentioned critical issues to focus its attention. Moreover, the company should establish the approach to be followed together with the related time-line.

However, an optimal outcome could be achieved with the simultaneous use of all the aforementioned improvements as a consequence of the synergies between the digital channels analysed.



# CONCLUSIONS

In the last decade, fashion marketing has experienced a profound transformation and it is still constantly evolving. The Web 2.0 and the advent of new technologies such as virtual and augmented reality, are the main drivers of this revolution.

The fashion industry needs, therefore, an appropriate digital marketing strategy in order to improve customers' engagement and brand experience, together with facilitating their access to companies' latest collections. Being present on the main social networks, working on good websites, and opening targeted e-commerce pages, are just a few of the implementation of marketing strategies that today's fashion companies have to pursue.

This digital approach to marketing is a trend that is shaping the whole global fashion market however, the country on which the digital revolution had its biggest impact is undoubtedly China.

In China, cultural, social, economic, technological, and political forces are shaping the digital market differently from other countries. Foreign fashion companies aiming to expand their business in the Chinese digital market need, therefore, to be mindful of the political restrictions, the consumer digital-centric behaviour, and the different social media channels present in China.

WeChat, with its 980 million monthly active users, is the social media that is having the biggest impact in the Chinese fashion market and whose influence is expected to further increase in the near future. Aside from the advantage of an online platform that allows companies a better and more personal engagement with its customers, WeChat is offering the potential of a seamless path to purchase where shoppers never need to leave the comfort of the mobile app. This represents a key improvement for Chinese customers which already utilises this mobile app in almost every aspect of their lives.

The future of the Chinese fashion market is, therefore, the full integration between social media and e-commerce platforms and companies should be aware of the benefits that this innovation would lead to their business, both in term of sales, brand awareness and market penetration.

Despite the expectation of a key role of WeChat also in the sphere of e-commerce, nowadays the traditional websites continue to be the most used by Chinese online shoppers.

The online fashion market in China is characterized by the presence of a multitude of different e-shops, each providing different services and focusing on different targets. Even though Tmall and JD.com are also widely used in the fashion industry, recent trends outline the increasing preference of e-commerce platforms specifically conceived for fashion and luxury products.

In implementing their digital marketing strategy, companies should consider the importance of being also present on these more targeted platforms. 5Lux and Seeco are two e-commerce platforms specifically conceived for the Chinese fashion market that, despite a lower traffic than the two e-shop mentioned above, allow firms to benefit of the aura of exclusivity that characterizes them and which better fit the image of fashion brands.

Finally, in order to succeed in the Chinese fashion market, it is fundamental for international brands to emerge from this crowded market, distinguishing their image and values from the mass. The use of influencers and viral contents are the approaches that better help companies in gaining recognition and popularity on the web.

The Italian brand Diesel has implemented its digital marketing strategy aware of the specificities of the Chinese market mentioned above. Despite its level of brand awareness and market penetration is still low compared with its main competitors, the company has managed to implement a proper balance between a standardization approach, of values, messages and attitude, and an adaptation approach of its social media strategy.

The expectation is that the digital marketing's implementations suggested in the previous chapter would help Diesel in strengthening its position on the Chinese fashion market and gaining a higher followership among local customers.

Concluding, fashion marketing has changed and is continuously changing in China as all over the world. It is an organization duty to be forward-looking, taking the risk of following innovative trends and understanding the new needs and wants of digital consumers in order to succeed in the future market.

# APPENDIX



# APPENDIX A: Interview with Wechat

## INTERVIEW WITH WECHAT

*At Tencent\*'s Headquarters in Milan*

*\*Tencent is the company that owns and developed WeChat*

by CRISTINA CASAGRANDE

Interviewed:



ANDREA GHIZZONI  
*Tencent's Europe Director*



02/02/2018

**In the current digital age, the use of e-commerce and social-networks is become fundamental in every industry, including fashion. How Tencent, and in particular WeChat, are innovating this specific sector?**

Tencent is innovating the concept and the use of internet for the fashion industry, in particular in the sphere of social-networks.

In Western Countries, brands are used to the idea that social-networks are just a tool for communicating, chatting, sending contents. WeChat, instead, has drastically changed this concept. It is become a tool through which people live, and brands use this platform to provide specific services to their followers.

For Tencent it is no more a concept of the number of followers gained in a day but of the number of services the company can provide for its actual and prospect users. Among these services we have the traditional share of contents but also the provision of assistance, the supply of information, the engagement, the launch of special promotion, the purchase of products and the management of monetary transactions. This innovation that we are providing to the fashion industry comes, therefore, from different dimensions: online, offline, during an event, in the middle of the street.



*"WeChat is not just a social network, it is a tool through which people live."*

For us everything has to be connected in a unique experience before and after the purchase. I think that this omni-channel presence and the enhance of the customer experience, are the real innovation we are providing to this sector.

**Despite the wide spread and success of WeChat in China, some brands of luxury and fashion seem to be still afraid of this platform and are not opening their accounts on the App. What could be the reasons behind this resistance?**

An example of what you just mentioned is Céline that, although was already active in the Chinese market, decided to open its account on WeChat just few months ago.



I think that the main reason behind this behaviour lays on the lack of knowledge of the potentialities of this platform and, consequently, they do not trust us and do not invest on WeChat. Sometime it is also related to the fact that on WeChat users can find also several fake accounts of the brand but, it is important to understand that they are on WeChat as well as they are on the e-commerce and internet in general. So the first thing brands should understand is the difference between a marketplace such as Alibaba or Amazon and WeChat. We are not just a platform to sell products, first of all we are a platform where the brand can engage with its customers.

The second reason could be a lack of awareness on the deep differences between the Chinese and the European, American or in general Western, fashion market. Western brands have a sort of tendency to simply transfer or copy what is a successful model in Europe to China but these markets are drastically different and this type of approach can not be successful in China. Moreover, the channels that are typically used in Europe are banned in China, so the approach that works in Europe can not be applicable in China. It is a different ecosystem and fashion brands should be more aware of this when investing in China.

**Could this resistance be related to heritage and old history of these high-fashion and luxury brands? WeChat is a comparatively new platform so, may be that they just wanted to step back and observe before making a move?**

Yes, WeChat is a new story, a new channel for marketing, and a company of fashion, with its strong heritage, may want to wait a bit and see how this new concept is developing and working. Therefore, this can make them less inclined to trust us because of our novelty compared to them.

However, the services of WeChat are evolving very fast and I think that our new features are going to convince them. WeChat has, in fact, evolved into an infrastructural country-system. Now in China the ID cards are distributed digitally by the government through WeChat. This could seem a factor that has nothing to share with the world of fashion but it can have a deep and strong meaning also for them. Fashion brands should understand that WeChat is not one of the dozen social-networks that has become popular in the last years. It is entering the structure of how the country lives. Therefore, from another perspective, it is less innovative than how it is perceived: if a brand wants to be online it has to open an account on WeChat. It is a necessity.

Everybody has WeChat, even food trucks along the street use it because it is convenient also for them. Through WeChat Pay they avoid the problem of liquidity and of carrying big amounts of money, that can be lost or stolen. But, more important, after the client has made the transaction, the seller can send him news, promotion, the menu and therefore engage him. However, if for some businesses like this WeChat is just convenient, for luxury and fashion brands it is also inevitable in the actual social context of China.

**Tencent has recently launched WeChat Stores,**

*“China is a different ecosystem and fashion brands should be more aware of this.”*

*“For fashion brands WeChat is not just convenient, it is inevitable.”*

**through which companies can sell their products directly on their WeChat account. What are the main advantages that this service can give a fashion brand, compared with the popular e-commerce platforms such as Tmall, JD, Vip.com and Secoo.com?**

Creating a store on WeChat is similar to open an e-commerce page or account for some point of views, however there are few important differences. The choice depends on what the brand wants to do with the e-commerce page. The marketplace gives the company a good advantage in term of traffic, they are really effective. However, these stores are really poor in term of experience.

The WeChat Store, instead, fills this hole but without really competing on the same areas of these big e-commerce players. These platforms are not substitutes but complementary in my view. The store on WeChat should be intended for launching special promotion and reaching a higher level of engagement, at least for what concerns this specific sector. It is used by fashion brands for the launch of flash-sales and capsule collections. Dior, for example, used it for the launch of a Saint Valentine special line of bags.

A recent example of the higher engagement that WeChat Store can give is the virtual reality that represent a big plus in the digital shopping experience of fashion consumers. We have just completed a project for Panerai for the reproduction, in virtual reality, of their boutique in Firenze.

Chinese costumers can visit through their smart-phones the boutique, go outside to take a look at the Cathedral and see all the items exposed in the real boutique. They can gain information about the product, choose and buy a watch as they would have done in the shop in Firenze.

This, on JD, Tmall or Secoo.com is not even possible because they do not provide a service that allow the brand to customize that much the shopping experience. Thus, we are filling the hole, what is missing in term of experience, of the e-commerce platforms. It is the same thing that happened eighty years ago in the retail. At the beginning the big manufacturers of apparel used a sort of warehouse with shelves to stock and expose all their products. The next step has been the corner of what can be defined a bigger “warehouse” as can be Rinascente. In this way the brand was able to personalize the layout of its corner, train its cashier and benefit from the traffic in that big store, from its local marketing and promotions, cash services, replacement services





and so on. Then, the final step is moving again toward the best possible retail experience: the boutique in via Monte Napoleone. Here it is happening exactly the same: WeChat is the boutique in via Monte Napoleone, the official account on Tmall or JD is Rinascente and the warehouse is the products just listed on Tmall.

This customization of the digital experience through the virtual reality has been done by several big brands of the fashion industry. Armani, for example, has create in virtual reality its Museum in Milan on WeChat to allow its Chinese followers to visit it even from China.

**Investing on WeChat is a huge expenditure for a brand, do you have an idea of how much can be the return in term of ROI for this investment?**

Measuring it is not that easy for us because the majority of sales are not done on the WeChat Store of the brand but on the e-commerce platforms. So I can not see how the value is converted.

At the marketing level, however, we have measured a ROI that can be calculated in a very precise way. WeChat doesn't have the so-called algorithm of most Apps, so if a brand has one thousand followers on WeChat the phones of these followers ring every time the brand send them a message – they are allowed to send them messages just four times per month – and they see it among those of their friends,



so on theory the reach is 100%. However, in the case of fashion industry, something like 10% of those who receive the message actually click and read it. This means

that if the brand has a thousand followers, every week one hundred people read the message so, virtually, one hundred people are entering my virtual store. On this value the brand has to apply the conversion on the average price of its products: in the case of fashion and luxury brands, where the average price is high, a low percentage of conversion is enough to repay the investment.

We are really precise on telling the brand the cost of each follower and which percentage actually click the message, the other analysis is on the hands of the brand. What I am seeing, however, is that all our clients in the last three years have drastically improved their investments which make me think that the return should be very positive for them. These just mentioned improvements are realized through the purchase of advertising spaces on WeChat to increase the number of followers or

through the enhancement of the quality of their official accounts, as in the case of Panerai. I believe that three years ago a brand as Panerai would have never spent such a big amount of money to create that virtual store on WeChat because they wouldn't have seen the return. Today they know that when they send a message, on average fifteen thousand people read it, so they are using the virtual reality of WeChat to take fifteen thousand people to their virtual store. Considering that the price of their products is on average ten thousand euros, they do not need a high conversion to have a good return, and the channel is paid by itself.

For luxury and fashion, therefore, this is a good investment. It is, instead, less convenient for a brand of the mass market. Followers on WeChat are expensive and Chinese are quite reluctant to follow a brand on WeChat because then they know this means receiving constantly their notifications which can bother them. Therefore, if after all the effort the brand have spent in gaining new followers, the average price of its products is just a few euros, the investment is not convenient. For these brand the online presence on WeChat is more a factor of brand awareness and engagement which can be used off-line by the retailer to launch special promotion shown on their windows through the QR-code. However, this is another approach that confines WeChat to a simple promotional tools without exploiting all its potentialities.

**Weibo is the second biggest player in the world of Chinese social-networks and a popular marketing channel for fashion brands. Which is the added value of WeChat compared to Weibo?**

Weibo is a good platform for gaining brand awareness but that is it. WeChat, instead, is more active and follow all the chain: selling, transactions, costumer care, promotion and engagement.

However, even if Weibo has a lower number of followers than WeChat, I think that nowadays it is fundamental for fashion companies. Without the combination with

WeChat, however, it would not have deepness. Companies can add the link for the e-commerce account on their posts but it does not create followership in the same way of WeChat.

Moreover, for fashion companies Weibo is a cost, companies do not have a return from their investment there. WeChat, instead, can be an asset for the business, creating value for the company and repaying, thus, the expenditure.

**What are, according to your experience, the main**

*“We are filling what is missing in term of experience in the e-commerce.”*

*“Chinese have a level of digital expectations far higher than us in every field”.*

**differences between digital consumers in China and in the Western countries in the fashion industry?**

From a digital point of view, Chinese are more sophisticated so they expect a list of functionalities and services far higher than in Western countries. For example, connecting to the Wi-Fi of a shop is a nice thing here in Europe but that is it. Chinese, instead, give it for granted even when they go to a pizzeria or to a bar. As a consequence, they expect it even when they come here for the so-called shopping missions. The big limit in Europe is the organizational model which is not ready: a common pizzeria in Shanghai offers a better digital experience to its costumers than the Cartier boutique in Paris does...and this is crazy!

The second difference is a deeper and more compulsive use of technology: when Chinese write on WeChat to a brand, they expect to receive a replay within thirty seconds. For them this is the central channel, the most important one. For us, instead, social-networks are just one of the several channels available but not the most used one. In China everything is digital-centric. On average, Chinese read the equivalence of a romance per month just from the articles, messages and posts of company's official accounts on WeChat: it is become a sort of weekly magazine where users acquire information and satisfy their thirst of knowledge.

Concerning the taste of Chinese consumers of fashion, they are far less sophisticated than us. However, in the last years something changed. Since few years ago they were just looking for t-shirts with a big fancy logo: that was their main idea of fashion. Now they are starting to look for the quality, they are buying the brand not just because of the logo but because of its higher quality.

Therefore, the storytelling strategy has an important role in teaching the value and heritage of the brand. Chinese want to know the story of the brand, what is the value of an Armani suit, the quality of the material used, the processes that lead to the final piece. If these stories convince them, they will buy the product and use it to tell the story to peers and be cool in front of others. On this aspect there is still a lot that fashion brands can do in China: the use of storytelling is a useful and strategic ace in the hole for fashion brands.

**Therefore, can we say that, paradoxically, for experimenting digital marketing the Chinese market is a better context**



*"In China everything is digital-centric".*

*"In China, storytelling is a strategic ace in the hole of fashion brands."*

**for European fashion brands than our local market?**

For digital marketing experimentations China is absolutely better than Europe because Chinese are ready to receive that new digital strategies that a brand want to implement. Consequently, if the strategy is effective, the return of the investment will arrive far earlier than in Western countries.

In Europe, instead, the numbers and the responses are always small and the brand never knows if the reason is that they did it wrong or the costumers were not ready for it. In China, instead, if numbers are small it is only because they did it wrong.

However, it is important to say that the specificities of the market have to considered when the investment abroad is based on digital experiments made in China. For example, WeChat uses often the approach of gaming, as Cartier did launching a sort of scavenger hunt in a virtual representation of their boutique in Paris. This has reach a great success in China but it is important to be aware that the same approach is not applicable in Europe where the strategy of gaming is not effective for the high-fashion and luxury consumers.



Moreover, the difference between chat, e-commerce, internet and social network is disappearing in China. For the first time, a social-network have killed the traditional web: today the time spent on internet browsing websites has reduced drastically.

Instead of using the Chinese search browser Baidu, most people in China uses WeChat, gaining information through official accounts, news, and so on. Differently, in Europe Google is not at risk because of Facebook.

In seven years WeChat has influenced a lot the internet, becoming an omni-channel platform.

**Concerning the European digital context, do you think the time is ready for such a change?**

I think it is all about a social factor. Chinese have developed Internet with the smartphone on their hands, so they do not have all the legacy with the past that we have. I remember the world without Internet, the first connection was around 20 years ago. In the years I saw the addition of features related to it, I saw the Internet moving from something you can have just at home to a service that is available everywhere and in every moment. This service has been added to the functionalities provided in the mobile-phone that at the beginning was conceived just for calls and messages. So, for us Internet was something

separated from the mobile-phone and this can create a sort of mental barrier.

Secondly, it is the sum of several services: the browsers for research, Skype for business call, WhatsApp for chatting, Facebook for the free time: it is all separated, not integrated. In China, instead, they discovered internet with the smart-phone on their hands: the path is, thus, the opposite. Therefore,



they have less resistance toward the new features that are included because mentally are all part of an unique system, differently from us for which every function is independent.

WeChat is used for chatting, calling, it is the most used server for calls in China, but it is used also for engaging, marketing and shopping, through the JD.com or WeChat stores connected. The added value is that all these functions has been conceived in China for an unique App. Chinese of the digital era can live with an empty phone just with WeChat.

For us, instead, paying a coffee with WeChat is too far from what we are used to. Therefore, it is difficult to think than in a short period we can reach the level of digitalization of Chinese but it is, in the same way, too difficult to think that we are not going toward

that direction.

It will happen, with different technologies than WeChat, but it will happen also here.

**In India Tencent has launched with success an application similar to WeChat but with different functionalities specifically developed for the Indian market. Do you consider plausible the launch of a similar App also in the Western countries to compete with the social-networks giants owned by the Facebook Group?**

We have tried to launched WeChat, as it is for the Chinese market, in the Western countries but it has been a failure. Launching a new App specifically developed for this market is, therefore, a good and possible strategy. It all depends on the specificity of the market: in some context it is more reasonable to launch a new App, in other it is better to acquire a big share of the existing App and convert it, adding features and functionalities that fit the local market. Today acquiring active users is become very difficult and expensive. So, it seems a paradox but sometimes it is more convenient to buy an existing App than developed a new one internally. In Europe we are still considering the pros and cons of each strategy but the thought of such a move is still there.



# APPENDIX B: Interview with Young Digitals

## INTERVIEW WITH YOUNG DIGITALS

At Young Digitals' Headquarters in Padua

by CRISTINA CASAGRANDE



Interviewed:



MICHELE POLICO  
CEO and Founder



ZHEN C. ZHENG  
China Marketing Consultant

13/01/2018

**How did the idea of opening a global digital marketing agency for the Italian excellences come about?**

**Pollico M.:** That final business of Young Digitals has been shaped during the first years of activity to fill what we perceived as a hole in the market. We started in 2008 working mainly with international brands and focusing on the digital communication in the Italian market. After 3 years, however, we notice that things were changing very fast and that the digital Chinese scenario, as well as the Russian, Middle East, Korean and Japanese ones, were becoming more and more important for the Italian excellences.

We were seeing how the digital context in those markets was different from what we were seeing here so we decided to start a cultural project to deeply understand what was going on in the world around digital. We noticed that this was a fundamental question mark for Italian companies and no one was answering it. We decided to be the first one doing that. Now we have strong

competences about different markets and an internal production studio for shooting and videos for the Italian excellences of made in Italy.



**According to your experience, what are the reasons why our "Made in Italy" is so successful in China?**

**Zhen C.:** It is actually very complicated because the Chinese market is a very peculiar context. The first reason is undoubtedly related to the history and heritage of Italian fashion brands. After the revolution of 1949 and the foundation of the new

communist China, the country changed deeply. In the seventies the communist party ruined all industries, including fashion factories. Therefore, from that period all fashion industries started from zero. Then, in the recent forty years, the new government opened the door to the world and they finally opened they eyes to the international global



market. When you are zero, however, the first thing you need to do is to learn, to study. The Chinese found who were the best players in each industry and learn from them, in this case from the fashion excellences of "Made in Italy". This is the reason why the Italian brands of fashion, but also Japanese brands of medicines and German automotive companies are so popular in China because: they chose from all-over the world the best things in each country to learn from them. Chinese want to see what Italian people are using, what are they wearing, what kind of brands they prefer to emulate them. The

Italian taste of fashion arising from a heritage that in China has been destroyed. Made in Italy is an excellence famous in China not only for fashion but also for furniture and food. In these sectors Italian brands are very strong in China.

The second factor of success is a consequence of how the brand communicate to Chinese. Wine, for example, is an excellence of Made in Italy, renowned all-over the world. The marketing of French wine producers, however, arrived in China earlier and with a stronger communication plan, therefore the Italian wine is almost unknown in China. In the same way the

*"We decided to be the first one doing that."*

*"When you are zero the first thing you need to do is to learn and they did it with the Italian fashion excellences."*

communication strategies of Italian fashion brands have been strong and effective in transmitting the value of Italian fashion, since the beginning of the European discovery of Chinese fashion market, contributing to determining its success in the region.

**How the Chinese consumers of fashion have changed with the advent of Internet and social-media?**

**Zhen C.:** In the last 5 years, the use of internet has increased strongly in China, changing the consumers behaviour and influencing also our strategies there. They use WeChat to buy everything: the online payment is everywhere.

In the last 30 years the target of high-end fashion brands in China was represented by the Wealthy-Class, 50 years old people that can afford to buy a Gucci bag. In the last 10 years the situation drastically changed. The new target of fashion and luxury brand in China is the so-called Second Generation. This group of fashion consumers, that get their wealth from their family, the rich Wealthy-Class, use the Internet daily: they shop, read news, get information and communicate online.

**Making a comparison between the targets of your digital marketing strategies, how Chinese consumers of fashion are different from those in the other countries in which you operate?**

**Zhen C.:** The most important difference in targeting the Chinese consumers of fashion compared to the other markets is the enormous importance of influencers. I have a lots of friends asking to buy the Gucci bag here because there is sold out. Here every year we have new collections and consumers are waiting to buy the new styles. Differently, Chinese want always the same models of bag that most Western consumers have since several decades ago. For Chinese, instead, fashion is a more recent concept and their taste and purchasing behaviour is based on what Influencers shown on their channels. They show a model of bag on their channel and everybody want that same model, regardless of the fact that there are new collections and models just launch. They automatically followed what Influencers show. The power of Influencers in China is ten times stronger than anywhere we operate.

Another peculiarity in China is the launch of limited collection with the figure of the animal representing the new year. In December most fashion brands had already launch the new collection with the image of the dog which is the animal of the new coming year.



*“The power of Influencers in China is ten times stronger than anywhere we operate.”*

*“Fashion in China works differently.”*

**Why do you think they are so addicted to what Influencers shown and do not try to developed their own taste of fashion?**

**Zhen C.:** This is an interesting and complex concept because for me, and in general for people living in other countries, it would be embarrassing to meet at a party someone with the same clothes. Emulating a star or an Influencer is a thing but totally copy them with the results that everybody, no one excluded, is dressed in the same way is unbelievable, even for me that I lived there for twenty years. The fact is that in China, this is perfectly normal.

Because of the low taste of fashion, they do not buy the most beautiful bag, according to their preferences, but the one recommended by the influencer. They still don't have an heritage in fashion from which draw on. So they recklessly follow KOLs.

The luxury and high-end fashion signs that an individual is special therefore, when an influencer launch a new product everyone want to be the first to buy it, the first to be at the top. I know that the Louis Vuitton store in Venice do not allow Chinese to buy particular models of bags, otherwise they have to buy shoes or clothes. For me this is very offensive, racist. They justify it with the fact that Chinese buy too much of it, making luxury not luxury, not special. If you go to a party and everybody wears the same Louis Vuitton bag, for example, that bag, conceived to be a sign of distinction, of speciality, becomes a common product, no more at the top of the pyramid. This because fashion in China works differently than in the rest of the world.

It is more a fact of showing wealth, following Influencers than to be unique or distinguished their self from the others.



China is really a complicated market.

**What are the main reasons on which are based the so-called “shopping mission” in Europe of Chinese?**

**Zhen C.:** In China it is not easy to buy a Gucci bag or a channel tailleur because they are sold out in stores because of the high demand or because the price is very high: a Gucci bag can cost even 2 or 3 thousand euros more than in Europe. The reasons is related to the taxes introduced by the Chinese government and the pricing strategies of fashion brand.

Therefore, they come here to buy that products or they ask other people that are in Europe for business or leisure to buy them.

This situation however, create a strong damage for fashion brands that are opening their stores in China. Interesting is the case of Burberry that has been recently forced to close few stores in China because of the low profits even if people in the street were wearing their products, purchased oversea in the so-called “shopping missions”.

This situation, however, is expected to change. First of all, the government has introduced a new regulation to reduce the duties on these products and, secondly, some companies are applying in China the same price than in the rest of the world, following a geoprising strategy also in China. The first brand that have cut the price difference in China has been Chanel and others are considering the same approach.

Another reason on which are based the shopping mission is the life-style experience that buying a luxury product in Italy or in France give to the consumer: drinking a coffee, experiencing the fashion climax that you can breathe in Europe can not be replicate in China.

**What do you think about the problem of fake fashion products on the Chinese online platform?**

**Is there a way through which they are trying to solve the problem?**

**Zhen C.:** Yes, the most relevant example is a new platform from-online-to-offline which is the opposite to what we are used to. On this platform, named 5Lux, brands can open a page on which they sell their products and the costumer can decide if receiving it at home or at the closer off-line store of the brand. The buyer, therefore, has the guarantee that the seller is the real brand.

**What are the most important online platforms in the Chinese fashion market?**

**Zhen C.:** WeChat and Weibo. WeChat is for sure the biggest, most popular social media where you can buy, post and chat. Social media and e-commerce are, in fact, all integrated. However, for fashion products, the most used e-commerce platform is Tmall. On WeChat and Weibo companies promote their products and launch their campaign and then, through the link to Tmall indicated in the post, the purchase is made. Other very popular e-commerce specifically thought for luxury and fashion are Vip.com and Secoo.com: all the biggest fashion houses have bought an account on these platforms. Every year, however, there are new platforms, Chinese get used to new social media very fast. Last year short video broadcasting was very popular, but, differently from Facebook, WeChat hasn't it so they had to used new platforms for this service.

**Michele:** For each sector, each activity and each target you can use a special channel.

The most used in fashion now is 5Lux that solved the problem of fake products of Tmall and JD.com.



Other popular platforms are Blogs about fashion. They are similar to Instagram, with photos about fashion products, but with long articles that explain the specificities of a fashion product, why the leather or the textile is good, why is it that “precious” and sometimes explains also the history of the brand. The popularity of these blogs are a consequence of the fact that Chinese want to learn so bloggers responded to this request teaching the specificities of those fashion products.

Another famous blog teaching how to distinguish true and fake products, which is still an important issue in the Chinese fashion market.

**What are the main clients that you have in the Chinese market in general and in the fashion market?**

**Michele:** In China the most important sectors that we follow are the fashion, the food, and the decoration industries. Recently we started working with Bulgari Hotels, which is an important brand in our portfolio. We worked also with Fay, Gap, Replay in the fashion industry, Tooborg, in the food sector and many others.

The wider project we had in the fashion industry in China has been for the eyeglasses brand Police. We managed their global digital marketing for several countries, America, France, Middle East, Japan and China.

We took care of every aspects of the campaign, including the shootings. The style of Police is very wild, out of the line. In China, however, fashion and luxury look to the simplicity besides the high quality of materials. In the shootings for the other countries we had colourful background but for China we chose a simple clean background with marble details, to underline the high quality of the product.

Now we are collaborating with them for their social-media strategy on Weibo, instead for WeChat they have a specific team in China and we are just giving them consultancy.

Moreover, we are working together on special events like Valentine's Day or Single Day for which the simultaneous use of all online platforms is required.

**How do u measure the performance on that social media? Can you see a conversion in term of sales?**

**Zhen C.:** We measure it in term of likes, shares, comments and so on. Now we write the link of the

*“Chinese get used to new social media very fast.”*





online store in the post in order to have a direct linkage between the post and the purchase of the item. An interesting strategy we used for Police was writing the Tmall link before the product was available.

Everybody start asking when the product would have been available, that they wanted it. This created expectation and when we launch the new collection on the e-commerce platform we reach very high sales in few hours.

**I know that the “firewall” introduced by the government to limit the activity on social media has created problems to several fashion brands, did you experienced the same difficulties?**

**Zhen C.:** Yes, we did. Different channels have

different policies on advertising and Chinese government has very restrictive regulations.

Few years ago businesses were not able to open a verified company account on WeChat from other countries than China. Now you can do it moving in Malaysia, or from Europe but with the approval of WeChat.

Additionally, there are several specific rules for advertising on social media. For example, you can not say that your company is the “number one” or “the best” because using these words is forbidden. New rules and regulation about digital marketing are introduced very often therefore we have to always study the new policies in order to avoid to be fined, it can be very expensive for a business.



# APPENDIX C: Interview with Diesel

## INTERVIEW WITH DIESEL

From Diesel's Headquarters in Breganze (VI)



by CRISTINA CASAGRANDE

Interviewed:



GIADA GHENO

*Diesel's Global Head of Advertising, Media & Product Marketing at Diesel*

05/02/2018

**According to your experience in Diesel, what are the factors that make Chinese fashion costumers different from those in the rest of the world?**

The main difference between Chinese consumers of fashion and those in the rest of the world is the fact that they have access to many diverse digital sources and channels of information.

The rapid development of digital media in China, is affecting their lives but also their approach towards fashion.

The concept of fashion, therefore, is experiencing a period of profound transformation in China.

Moreover, they tend to be being beautiful inside & outside, speaking for themselves, being expressive, believing fashion as part of "me". This situation is very different from how it was ten years ago. Fashion is changing in China but so are Chinese fashion costumers.

**How intense is digital in the Chinese fashion? How should fashion companies take advantage of it?**

Digital has affects every media channel in China. It covers mobile, websites, apps, social medias, online TV and so on. It is the core of communication in the market now. Traditional fashion media and various

fashion communities have developed their own digital platform to cultivate their own followers.

Social media such as WeChat and Weibo developed very fast in China and made huge coverage. WeChat has over 900 million monthly active users worldwide so it is fundamental in our marketing strategies. Weibo, by the other hand, is an effective platform in generating explosive

social buzz, in which the topics created reach over 200 million views. The most interesting aspect related to these platforms is that they are already integrated with the daily lives of costumers right now.



**Which are the key elements for engaging Chinese costumers an implementing an effective marketing campaign in China?**

Easy-to-reference guidance and highly relevant content through interactive and accessible communication are crucial for enhancing the bonding and engagement with target costumers. Therefore, social media, digital platform, various kinds of apps, online magazines, influencers, and celebrities are effective means to achieve this purpose. Everything is about digital in China and we have to consider this factor in implementing our marketing strategies for the

*"Digital platforms are already integrated with the daily lives of costumers."*

*"Everything is about digital in China"*

Chinese market.

**What are the main issues and obstacles of the Chinese Fashion market? What are its strengths?**

Because of the diverse sources and channels of fashion information and abundant brands launched in the market, Chinese fashion consumers may get confused easily and challenge in decision-making.

This is an obstacle in communicating with them because you can find a sort of barrier, an obstacle.

Moreover, their understanding to the concept of fashion is evolving and improving and, consequently, their needs in fashion are upgrading. The Chinese one is a challenging market because customers there are continuously changing and evolving. We need to be always aware of everything is new on the market and this is not easy at all.

It requires the brands paying more effort to formulate customized strategies and prepare relevant content to reach the target audience effectively.



Meanwhile, the marketing communications are developed and digitalized dramatically in recent years which can cater with the fragmented and targeted marketing strategy.

**The Chinese market is now of fundamental importance in the fashion industry. Do you think this trend will continue or will it be eclipsed by other growing markets such as South America and India?**

We believe that the contribution of Chinese consumers to the global fashion world will still continue and grow in coming years. They are not only making great spending in local market, they are willing to spend also in travelling now so more overseas purchase are made as well.

Meanwhile, the middle class in China with more disposable income is growing so more contribution is expected from this market.

# APPENDIX D: Diesel's Survey



UNIVERSITY OF PADUA  
DEPARTMENT OF ECONOMICS AND MANAGEMENT  
意大利帕多瓦大学经济管理学院

Master Student Cristina Casagrande  
硕士学位在读学生 Cristina Casagrande

## **BRAND AWARENESS SURVEY: DIESEL**

### **名牌意识调查 : DIESEL**

Gender:  Female  Male  
性别： 女 男

1. Which of the following fashion-industry brands have you / 关于下列名牌服饰：
  - a. heard of / 你听说过？
    - Levi's
    - Diesel
    - Lee
    - Gas
    - Versus Versace
    - Wrangler
    - Calvin Klein
    - Emporio Armani
  - b. recently purchased/ 你最近买过？
    - Levi's
    - Diesel
    - Lee
    - Gas
    - Versus Versace
    - Wrangler
    - Calvin Klein
    - Emporio Armani
2. How familiar are you with the brand DIESEL / 你对 DIESEL 这个牌子了解多少？
  - I have already bought a product of the brand and I know a lot about it  
我曾买过这个牌子的衣服，对它了解很多。
  - I haven't bought a product of the brand but I know a lot about the it  
从未买过该产品，但对这个牌子了解很多
  - I know a little about the brand / 对这个牌子知之甚少
  - I've never heard of it / 闻所未闻
3. When did you first heard about the brand DIESEL / 你何时第一次听说过 DIESEL 这个牌子的？
  - In the last month / 上个月
  - In the last year / 去年
  - More than one year ago / 一年多以前
  - I've never heard of it / 从未听说过
4. When was the last time you bought a DIESEL product / 上次你购买 DIESEL 产品是什么时候？
  - Less than 1 month ago / 不过一个月以前
  - Less than 3 months ago / 不过三个月以前
  - Less than 1 year ago / 不过一年以前
  - More than 1 year ago / 一年多以前

I have never bought a DIESEL product / 从未购买过

5. In the past months, where have you heard of the brand DIESEL?

你之前是从哪里听说过 Diesel 这个牌子的？

Friends, family members, colleagues / 朋友, 家庭成员, 同事

Social Media / 媒体

Online videos / 网络视频

Online advertisement / 网络广告

Print advertisement / 广告宣传单

News (online or print magazines) / 新闻 (网络或杂志)

TV advertisement / 电视广告

Billboards / 广告牌

Other / 其他: .....

6. How would you describe your opinion about the brand DIESEL / 你对 DIESEL 这个牌子有什么样的看法？

Extremely favourable / 超级喜爱

Very favourable / 非常看好

Somewhat favourable / 有好感

Not so favourable / 不太感冒

I have not heard of this brand / 没听说过

7. How likely would you recommend the brand to you friends / 在多大程度上你会把它推荐给你的朋友？

(0=not recommend, 10=highly recommend)

(0=不推荐, 10=绝对推荐)

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

8. What channels do you usually use to purchase a DIESEL product / 你通常通过什么渠道购买 DIESEL 产品？

Website / 上网

Company store / 门店

Retailer / 零售点

I have never bought a DIESEL product / 从未买过

9. Describe the brand DIESEL with at least five words / 请用至少五个词语描述一下 DIESEL 这个牌子？

.....  
.....

10. What brands do you perceive as competitors for DIESEL in your area ?

你认为什么牌子能成为 DIESEL 的竞争对手？

.....

**THANK YOU FOR YOUR TIME / 感谢你的合作**

## APPENDIX E: Guangzhou survey data

SURVEY DATA REPORT - GUANGZHOU						
	# People	Place of Interview	Date of Interview			
Group A	41	University of Guanzhou, Guanzhou	22nd June - 4th July 2017			
Group B	23	Parc Central Shopping Mall, Guanzhou	2nd July 2017			
Total	64					

Gender	Group A: #	Group A: %	Group B: #	Group B: %	Total: #	Total: %
Female	22	54%	11	48%	33	52%
Male	19	46%	12	52%	31	48%

Gender	Group A: #	Group A: %	Group B: #	Group B: %	Total: #	Total: %
<18	0	0%	0	0%	0	0%
18<x<25	35	85%	21	91%	56	88%
25<x<30	6	15%	2	9%	8	13%
>30	0	0%	0	0%	0	0%

**Question 1.a)**

Brand	Goup A: #	Group A: %	Group B: #	Goup B: %	Total: #	Total: %
Diesel	12	29%	9	39%	21	33%
Levi's	35	85%	23	100%	58	91%
Lee	29	71%	18	78%	47	73%
Miss Sixty	5	12%	4	17%	9	14%
Versace	36	88%	21	91%	57	89%
Armani	41	100%	23	100%	64	100%
Calvin Klein	41	100%	23	100%	64	100%

**Question 1.b)**

Brand	Goup A: #	Group A: %*	Group B: #	Goup B: %*	Total: #	Total: %*
Diesel	0	0%	0	0%	0	0%
Levi's	3	9%	1	4%	4	7%
Lee	0	0%	0	0%	0	0%
Miss Sixty	0	0%	0	0%	0	0%
Versace	0	0%	0	0%	0	0%
Armani	2	5%	1	4%	3	5%
Calvin Klein	2	5%	0	0%	2	3%

\* the percentage is calculate on the number of people that aswered to know the specific brand on question 1.a .

**Question 2)**

	Goup A: #	Group A: %	Group B: #	Group B: %	Total: #	Total: %
I know a lot about it	0	0%	0	0%	0	0%
I know a little about it	12	29%	9	39%	21	33%
I have never heard of it	29	71%	14	61%	43	67%

**Question 3)**

	Goup A: #	Group A: %	Group B: #	Group B: %	Total: #	Total: %
<i>In the last month</i>	0	0%	0	0%	0	0%
<i>In the last year</i>	1	2%	0	0%	1	2%
<i>More than one year ago</i>	11	27%	9	39%	20	31%
<i>I have never heard of it</i>	29	71%	14	61%	43	67%

**Question 4)**

	Goup A: #	Group A: %	Group B: #	Group B: %	Total: #	Total: %
<i>Less than 1month ago</i>	0	0%	0	0%	0	0%
<i>Less than 3 month ago</i>	0	0%	0	0%	0	0%
<i>Less than 1 year ago</i>	0	0%	0	0%	0	0%
<i>More than 1 year ago</i>	1	2%	0	0%	1	2%
<i>I have never bought it</i>	40	98%	23	100%	63	98%

**Question 5)**

	Goup A: #	Group A: %*	Group B: #	Group B: %*	Total: #	Total: %*
<i>Social Media</i>	4	33%	4	44%	8	38%
<i>E-commerce platforms</i>	3	25%	3	33%	5	24%
<i>Online Magazines</i>	0	0%	0	0%	0	0%
<i>Print Magazines</i>	0	0%	0	0%	0	0%
<i>TV advertisement</i>	0	0%	0	0%	0	0%
<i>Billboards</i>	3	25%	4	44%	7	33%
<i>Friends, Family, Collegues</i>	3	25%	2	22%	5	24%
<i>Other</i>	0	0%	0	0%	0	0%

\* the percentage is calculate on the number of people that aswered to know the specific brand on question 1.a .

**Question 6)**

	Goup A: #	Group A: %	Group B: #	Group B: %	Total: #	Total: %
<i>Extremely favourable</i>	0	0%	0	0%	0	0%
<i>Favourable</i>	0	0%	0	0%	0	0%
<i>Somewhat favourable</i>	12	29%	9	39%	21	33%
<i>Not so favourable</i>	0	0%	0	0%	0	0%
<i>TV advertisement</i>	0	0%	0	0%	0	0%
<i>I have never heard of it</i>	29	71%	14	61%	43	67%

**Question 7)**

	Goup A: #	Group A: %	Group B: #	Group B: %	Total: #	Total: %	
	5	41	100%	23	100%	64	100%

**Question 8)**

	Goup A: #	Group A: %	Group B: #	Group B: %	Total: #	Total: %
<i>Company website</i>	0	0%	0	0%	0	0%
<i>E-commerce platform</i>	0	0%	0	0%	0	0%
<i>Company store</i>	1	2%	0	0%	1	2%
<i>Retailer</i>	0	0%	0	0%	0	0%
<i>I have never bought it</i>	0	0%	0	0%	0	0%

**Question 9)**

	Goup A: #	Group A: %*	Group B: #	Group B: %*	Total: #	Total: %*
<i>Levi's</i>	12	100%	8	89%	21	100%
<i>Calvin Klein</i>	2	17%	3	33%	5	24%
<i>S135</i>	9	75%	7	78%	16	76%

\* the percentage is calculate on the number of people that aswered to know the specific brand on question 1.a .

**Question 10)**

	Goup A: #	Group A: %	Group B: #	Group B: %	Total: #	Total: %
<i>Denim or Jeans</i>	9	75%	9	100%	18	86%
<i>Rebel</i>	1	8%	0	0%	1	5%
<i>I do not know</i>	2	17%	0	0%	2	10%

\* the percentage is calculate on the number of people that aswered to know the specific brand on question 1.a .





## APPENDIX F: Hong Kong survey data

### SURVEY DATA REPORT - HONG KONG

# People	Place of Interview	Date of Interview
17	Elements Shopping Mall, Hong Kong	6th July 2017

Gender	#	%
Female	7	41%
Male	10	59%

Gender	#	%
<18	0	0%
18<x<25	17	100%
25<x<30	0	0%
>30	0	0%

#### Question 1.a)

Brand	Goup A: #	Group A: %
<i>Diesel</i>	17	100%
<i>Levi's</i>	17	100%
<i>Lee</i>	15	88%
<i>Miss Sixty</i>	16	94%
<i>Versace</i>	16	94%
<i>Armani</i>	17	100%
<i>Calvin Klein</i>	17	100%

#### Question 1.b)

Brand	#	%*
<i>Diesel</i>	2	12%
<i>Levi's</i>	5	29%
<i>Lee</i>	1	7%
<i>Miss Sixty</i>	0	0%
<i>Versace</i>	0	0%
<i>Armani</i>	4	24%
<i>Calvin Klein</i>	6	35%

\* the percentage is calculate on the number of people that aswered to know the specific brand on question 1.a .

#### Question 2)

	#	%
<i>I know a lot about it</i>	8	47%
<i>I know a little about it</i>	9	53%
<i>I have never heard of it</i>	0	0%

**Question 3)**

	#	%
<i>In the last month</i>	10	59%
<i>In the last year</i>	7	41%
<i>More than one year ago</i>	0	0%
<i>I have never heard of it</i>	0	0%

**Question 4)**

	#	%
<i>Less than 1 month ago</i>	0	0%
<i>Less than 3 month ago</i>	1	6%
<i>Less than 1 year ago</i>	0	0%
<i>More than 1 year ago</i>	1	6%
<i>I have never bought it</i>	0	0%

**Question 5)**

	#	%*
<i>Social Media</i>	15	88%
<i>E-commerce platforms</i>	10	59%
<i>Online Magazines</i>	5	29%
<i>Print Magazines</i>	2	12%
<i>TV advertisement</i>	0	0%
<i>Billboards</i>	7	41%
<i>Friends, Family, Colleagues</i>	4	24%
<i>Other</i>	0	0%

\* the percentage is calculate on the number of people that aswered to know the specific brand on question 1.a .

**Question 6)**

	#	%
<i>Extremely favourable</i>	0	0%
<i>Favourable</i>	12	71%
<i>Somewhat favourable</i>	5	29%
<i>Not so favourable</i>	0	0%
<i>TV advertisement</i>	0	0%
<i>I have never heard of it</i>	0	0%

**Question 7)**

	#	%	
	8	1	6%
	7	7	41%
	5	9	53%

**Question 8)**

	#	%
<i>Company website</i>	0	0%
<i>E-commerce platform</i>	1	2%
<i>Company store</i>	1	2%
<i>Retailer</i>	0	0%
<i>I have never bought it</i>	15	37%

**Question 9)**

	Goup A: #	Group A: %*
<i>Levi's</i>	12	71%
<i>Calvin Klein</i>	5	29%
<i>S135</i>	9	53%
<i>Hugo Boss</i>	6	35%
<i>Armani</i>	2	12%

\* the percentage is calculate on the number of people that aswered to know the specific brand on question 1.a .

**Question 10)**

	#	%
<i>Denim or Jeans</i>	17	100%
<i>Sexy</i>	1	6%
<i>Fun</i>	3	18%
<i>Rebel</i>	3	18%
<i>Alternative</i>	1	6%

\* the percentage is calculate on the number of people that aswered to know the specific brand on question 1.a .

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