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DRIVING BRAND GROWTH IN THE CHINESE BEAUTY INDUSTRY THROUGH LICENSING AGREEMENTS: L'ORÉAL AND THE ARMANI CASE STUDY

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INTRODUCTION

The overriding goal of this thesis is to analyze the main practices implemented by the companies in order to be distinctive and develop market growth regions. In particular, the author will investigate the management's decision-making process for utilizing Brand Licensing and Brand Extension strategies. The thesis pursues this goal by analyzing the number one global power in Beauty (L'Oréal) and a top worldwide Luxury Brand (Armani). The author will study Armani Beauty's growth in the Chinese market backed by the Licensing Agreement signed with L'Oréal.

This research will be firstly focused on studying the relevant Brand theories as well as the empirical results deriving from their implementation. The topic is of utmost importance especially for Luxury Beauty and fashion companies. These companies cannot reach a competitive advantage in the market without having a strong Brand. Major companies are becoming more and more interested in leveraging their Brand equity by launching new products for untapped markets.

A Brand Extension strategy requires the availability of resources and the acquisition of competencies that might be either too costly or too difficult to obtain. However, a company can overcome these difficulties by Licensing its Brand and receiving a constant stream of royalties. This thesis, therefore, attempts to provide an improved comprehension of the relationship between licensor and licensee in the context of the Luxury Beauty Industry.

In order to have a better understanding of the context in which the companies operate, the author will analyze the Chinese economy as well as its demographic trends. Moreover, this thesis will investigate the Chinese Beauty Industry peculiarities by focusing, in particular, on the fast-paced evolving needs of its customers.

It is clear that the Chinese Luxury Beauty Industry represents a whole range of opportunities for Western Brands to expand their business. However, it is of utmost importance to recognize the latest trends that are affecting Chinese Luxury consumers. Through an in-depth study of these trends, the author will clarify the Licensing agreement's potential in the Chinese Luxury Industry. By analyzing the Licensing Agreement signed by L'Oréal and Armani, the thesis attempts to disclose the opportunities as well as the risks that may arise from this venture.

1. <u>BRAND MANAGEMENT</u>

1.1 Brand management

Brands have gained an extremely high relevance in modern society. Brands are recognized as an intangible asset by the companies, thus they should be appropriately exploited.

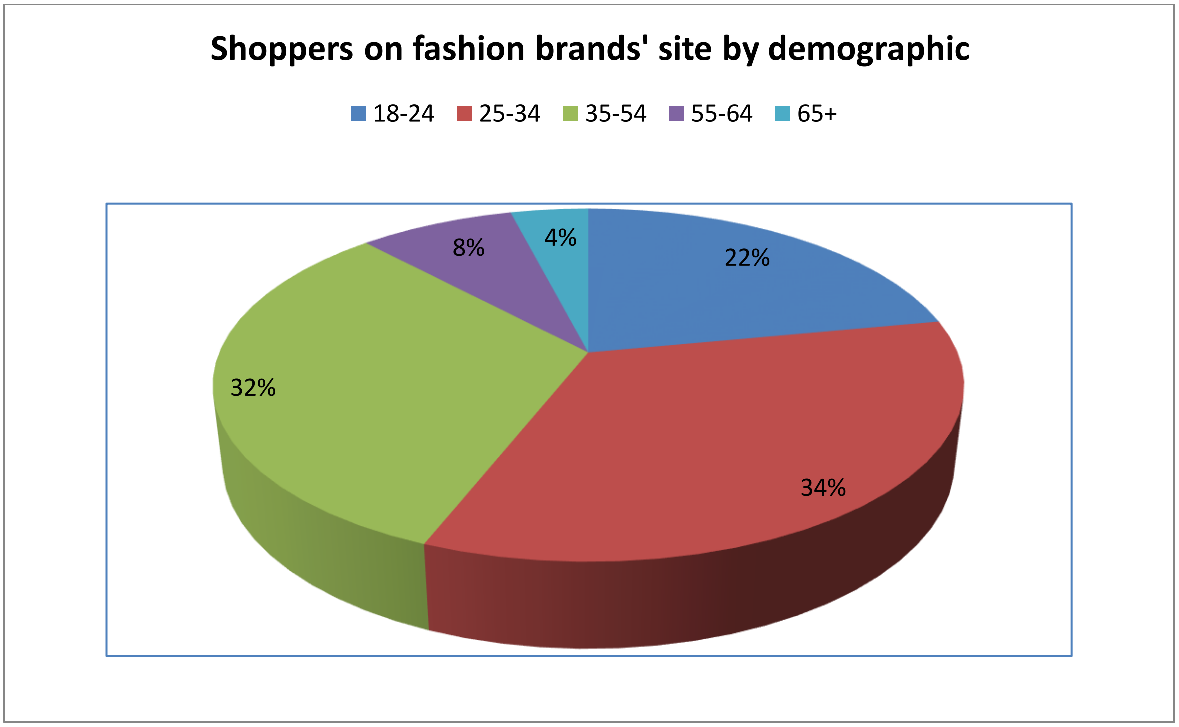
In a world where consumer demands and expectations continue to rise, building up a strong Brand is of the utmost importance. According to Perrey, Freundt, and Spillecke (2015) research, strong Brands almost always beat the market. The authors argue that strong Brands consistently outperform the market average. The research has analyzed a portfolio of companies that own the world's top 40 Brands and the companies that make up the S&P 500. In particular, the former has beaten the latter every single year since 2000. By taking into account total return to shareholders, the highest difference has been registered in 2014 when the former outperformed the latter by +73%.

The need for building up a strong Brand is even more relevant in the Luxury Industry. As competition heats up and new trends arise, companies are keen to create strong Brand equity to possibly leverage in different markets. Luxury Brands' overriding goal is to deliver a highly symbolic value to a specific segment of consumers. Hence, companies have to identify a niche segment of customers which value their products and services. Once the Brand has gained its popularity through a clear Brand positioning, Brand managers can decide to leverage the Brand equity in related product categories. Armani, for instance, is a top worldwide Luxury Brand that pursued a fast-paced expansion strategy via Licensing Agreements to drive sales. Although the Brand targets an ultra-rich audience, over the years it has stretched its Brand equity to reach untapped customer segments.

Managing a Luxury fashion Brand in today's world is more complex than the past. For instance, digital has radically changed the way customers experience and buy fashion. Luxury fashion sales are increasing YOY all over the world but the fashion Industry still offers plenty of opportunities to be discovered. For instance, an interesting topic to be further analyzed is the relationship between online and offline. The Luxury Brands have realized that an effective way to link online and offline is to deliver to the customer a seamless experience. Additionally, Brands need to strengthen their relationship with their customers by delivering personalized contents across all the channels. According to Accenture, in 2016 mobile purchase of fashion products compared to other retailers has increased by 16%. Therefore, in today's world Brand managers have to focus on the Brand image and its approachability across all the channels. Luxury consumers own on average 3.1 connected devices which means that the Brand contents have to be compatible with different devices at the same time. According to Accenture, 78% of Luxury shoppers access online researches before buying the product. This trend brings about greater competition in the Luxury Industry. In order to grab market shares, the Luxury companies are now keen to invest in digital innovations. An increasing number of Brands are now investing to integrate online and offline. According to Accenture, in 2016, 57% of senior executives from Luxury Brands have seen a sales uplift as a result of investment in digital capabilities. As the competition is heating up, the fashion Industry has recorded +87% of investment in the mobile channel. Digital influence on total sales volume is expected to increase to 50% by 2020.

Nowadays, Brand managers need to understand that the customer journey toward the Brand is constantly evolving. Customers are now able to collect information and compare the products' characteristics much more easily than before. The Brands have to come up with innovative solutions to attract and engage the wave of new tech-savvy customers. The companies need to focus on the whole customers' journey enriching the digital touchpoint that connect the Brands with the shoppers. The Brands have to provide the consumers with an omnichannel seamless experience.

In 2018, the personal Luxury good market has experienced growth mainly due to Millennials which represent more than half of shoppers on Brand sites. Therefore, those Brands are implementing innovative strategies to better target this wave of new consumers. Fashion Brands use their sites to showcase the positive impact they make on the society. According to a L2 Gartner's research, 24% of Luxury fashion Brands promote their philanthropic activities and 26% their sustainable projects on their websites. The Brands are aware that the social and the environmental impacts are key issues in modern society. In fact, most of consumers who check the Brands' social and environmental impact are represented by Generation Z (21%) and Millennials (24%) followed by Generation X (16%) and Boomers (15%). Brand managers have to consider these new established trends and many more that are coming. Digital is shaping the way Brands interact with consumers.



Source: Personal elaboration of the graph from L2 Gartner's research

In 2018, 42% of the top fashion Brands have implemented live chat functionalities on site but only 33% were able to make them compatible on the mobile. This data show that there is still a long way to go for the Luxury fashion Brands willing to better interact with their shoppers. In fact, according to a Gartner L2's research, 62% of Brands' visits occur on mobile devices. Nevertheless, Luxury fashion Brands seem to ignore some of the opportunities of digital interactions or not exploiting them at the fullest. This gap is covered by retailers such as Net-a-Porter which are buying aggressively maintaining their relevance in the market. Despite this trend, there are some Luxury fashion Brands like Gucci which try to stay ahead of the curve. Gucci's website shows rich contents as well as e-commerce functionalities. Therefore, the Brand is able to maintain a great visibility online both in search and on media. In the Beauty Industry, Tarte is testing innovative strategies to grab market share from its competitors. According to Gartner L2 Digital Index, Tarte is showing strong performances in terms of digital innovation. In order to better target its customers, the Beauty Brand tested a new email strategy which turned out to be a success due to its personalization. Tarte has also improved its social media interactions increasing them by 6% on Instagram. Tarte was one of the first Beauty Brands to experiment with Periscope and Snapchat. Tarte's Brand managers focus on conversational marketing which represent a new interaction practice for the Brands. As the Brand manager of Tarte Candace Craig Bulishak explains, customers expect more direct and sincere communication with the Brands. In the past, YouTube was one of the principal channels to convey messages that were polished and formal. In today's environment, Brands are testing Periscope which brings about real-time raw interactions with customers. As Tarte's Brand manager Candace Craig Bulishak explains, the Brand reviews every three to six months its social media strategy always willing to take on new initiatives. The managers look at new platforms and analyze the competitors' moves and their relationships with influencers. They are aware of the fast-paced growth of these disruptive new channels. Tarte's Brand managers are conscious that the introduction of visual contents brings about less time for the editing process. Since customers want to see the contents right away, Tarte produces those contents in-house to ensure flexibility and speed up the entire process which has an average deadline of 24 hours. The fast-paced growth of digital does not allow the Brands to make an accurate analysis of their initiatives' success. In order to track their investments' efficacy, Tarte carries out a guestimate method. In essence, if the Brand posts a specific content on Instagram which has not been posted anywhere else and sales uplift has been recorded, it means that there is a connection to be further analyzed. Aside from this raw method, the Brand use Google Analytics, affiliate partners as well as ROI calculations.

As competition in the Luxury Industry is heating up, the Brands have to test innovative solutions to stay ahead of the curve. In order to gain a competitive advantage, companies can pursue two different strategies, namely either a cost leadership strategy or a differentiation strategy. Luxury Brands implement differentiation strategies. Those Brands strive for differentiating products' characteristics and the experiences related to them. Luxury Brands often come up with cutting-edge solutions to retain current customers and attract new ones.

Chanel, for instance, in the AW14 Paris fashion week, installed the Chanel Shopping Center. In order to engage with the audience in a funnier and more direct way, the company created a stage with throwaway products in Chanel packaging.

The images of the event immediately reached the Chanel's audience through social media. The result was highly appreciated by Chanel customers that recognized not only the value of the Brand but even the sense of humor that can be integrated into an haute couture show.

Aside from Chanel, many other Luxury Brands came up with innovative ideas in order to engage with customers. Prada, for instance, created an exclusive exhibition in London called Pradasphere. This exhibition is an extraordinary journey through the fashion, art, and inspirations of the Brand founder.

In the company website, Pradasphere is defined as a "universe of contradictions and endless elaboration, where idealism meets vanity, intelligence meets passion and fashion meets fiction". Undoubtedly, the goal of the exhibition is twofold: revealing Miuccia Prada's unique creativity and creating an exclusive atmosphere for the visitors. Pradasphere is a collection of a vast array of Luxury fashion clothes as well as screens where short videos of well-known directors such as Roman Polanski and Ridley Scott are displayed. In fact, the exhibition is not only just about the fashion clothing lines but also it is an inclusive universe where different arts coexist in order to provide the visitors with an extraordinary experience.

Many theories have tried to conceptualize a Brand highlighting its importance and suggesting strategic Brand management approaches. However, the definition of a Brand and its measurement is still a matter of discussion among academics and experts. Two major approaches have gained relevance in defining a Brand: the first is a customer-based approach that focuses exclusively on the relationship that customers have with the Brand, the second focuses on the measures that define Brand as an economic value. These two approaches have guided the literature for many years and now academics agree on seeing them as a unified approach. In fact, apart from enhancing the relationships that link customers with the company, a Brand serves the main goal of creating additional cash flows to the company. By appropriately managing the Brand, a company can create beliefs and assumptions in the minds of customers that make them prefer that Brand matters more than its competitors.

As stated above, there are many definitions of a Brand but one of the most relevant defines a Brand as "a set of mental associations, held by the consumer, which adds to the perceived value of a product or service" (Keller, 1998). This classic view has been strongly criticized by some academics that promote modern Brand management theories. First of all, these academics criticize that the role of the product is not highlighted in the classic definition assuming that the Brand is exclusively related to perceptions. Moreover, in the classic definition the focus is on cognitions or mental associations that the consumer may have, but the role played by the emotional component is not fully disclosed.

A Brand can be conceived as a bundle of elements such as Brand names, logos, symbols, characters, and slogans. These elements have to satisfy the following criteria in order to build up strong Brand equity (Keller, 1998):

1. Memorability
2. Meaningfulness
3. Aesthetic appeal

4. Transferability both within and across product categories as well as across geographical and cultural boundaries and market segments
5. Adaptability and flexibility over time
6. Legal and competitive "protectability" and defensibility

Furthermore, Branding is heavily influenced by cultural and linguistic aspects. Schmitt et al. (1994), for instance, have shown that Chinese speakers were more likely to recall inputs presented as Brand names in visual rather than spoken recall. On the other hand, English speakers were more likely to recall the names in spoken rather than visual recall. The scholars interpreted the results considering that mental representations of verbal information in Chinese are coded primarily in a visual manner since they are used to read characters, whereas verbal information in English is coded primarily in a phonological manner. The same reasoning explains why the Brand name's script, such as the type of font employed or the name pronunciation, is perceived differently in the two cultures. As a matter of fact, Chinese native speakers resulted to be primarily affected by script matching whereas English native speakers were primarily affected by sound matching. In essence, these results are a direct consequence of the fact that the Chinese logographic system is completely different from the English alphabet: in the former characters stand for concepts and not sound, in the latter the writing of a word is a closer representation of its pronunciation.

From the accounting point of view, Brands are conceived as intangible and conditional assets. In the balance sheet, Brands are categorized as intangible assets like patents, databases, intellectual property and trademarks since they lack physical components. Moreover, Brands are conditional assets because they need to be combined with other material assets in order to provide the company with additional cash flows. A Brand is an extremely important asset that has to be studied by accountants and marketers since it plays a significant role in both fields of study. From an accounting point of view, Brand valuation often comes under the spotlight when mergers and acquisitions occur. From a marketing point of view, the American Marketing Associations defines the Brand as following: "A Brand is a name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers". An effective Branding strategy makes customers trust the company so that they are willing to be loyal to it over time.

From a legal point of view, Brands and related trademarks are the exclusive property of the company. In order to protect the exclusive use of the trademarks, the law in all countries requires its registration. Infringements and counterfeiting issues are still present in some emerging economies like China where companies suffer economic losses from intangible assets that have not been appropriately exploited. However, it is not so rare that Brand rights disappear because of the company's fault. The most common loss of rights is "degenerescence" that occurs when a specific well-known Brand name becomes a generic term. Google, for instance, could have become a victim of its own success. In fact, the tech company is so famous that its name can cease to identify the company itself becoming just a generic term. As a matter of fact, many consumers use the word "Google" to express their willingness to check some information online. This phenomenon can bring about a devastating effect on a Brand since its name, being a generic term, cannot be protected by law. However, Google successfully proved that its trademark is identified with a search engine and not the act of searching as pointed out by many experts.

A Brand can be even conceived simply as a name that influences buyers' decisions. A Brand name has to own some characteristics such as saliency, differentiability, intensity, and trust. In fact, a Brand has to be perceived as a relevant aspect in the decision-making process and it must have the capability to differentiate the company's products from competitors. Furthermore, it has to evoke stunning emotions as well as high levels of trust in the consumers' minds. In general, these are difficult goals to achieve for a Brand, but they are fundamental for its success. In fact, the average consumer cannot spend much time comparing the whole range of products existing in the market, and neither can be sure of the product's quality. The customers have to rely on some parameters and the Brand is definitely one of them since it acts as a risk-reducer and time saver for customers.

As stated above, a Brand is an intangible asset that provides the company with additional cash flows. However, it is worth mentioning that the Brand itself is made of several assets that can influence its success. In particular, a Brand is made of these assets: Brand awareness, Brand reputation, Brand personality, Brand deep values, Brand imagery, Brand preference or attachment and patents. A Brand manager has to leverage each and every asset that belongs to the Brand in order to translate these results into what is called Brand strength.

Brand Assets	Brand Strenght	Brand value
Brand awareness	Market share	Net discounted cashflow attributable to the brand after paying the cost of capital invested to produce and run the business and the cost of marketing
Barnd reputation (attributes, benefits, competence, know-how, etc)	Market leadership	
Brand personality	Market penetration	
Brand deep values	Share of requirements	
Brand imagery	Growth rate	
Brand preference or attachment	Loyalty rate	
Patents	Price premium	

Source: Kapferer, 2004, p.14

Brand strength is the parameter that measures the result obtained by the managers in maximizing the value of their Brand assets. In particular, Brand strength is made of: market share, market leadership, market penetration, the share of requirements, growth rates, loyalty rate and, eventually, price premium. Finally, after that the performance measurements have been analyzed, the company should assess whether or not the Brand has generated profit and additional value. The Brand value is typically measured taking into account the net discounted cash flows that are generated by the Brand after paying the cost of capital invested to run the business and the cost of marketing. By comparing and leveraging each and every asset that belongs to the Brand, the company can assess if its Brand will produce an Economic Value Added (EVA) that depends on the ability to generate profit in the future.

1.2 Brand Identity

A Brand identity expresses a shared view of the Brand and it is particularly useful when the company decides to diversify its products. In fact, if the company pursues a diversification strategy, the customers can perceive the products as they came from different companies. As a result, customers will feel less engaged with the company. As a result, a weak Brand identity will eventually make customers seek for other Brands with a stronger identity. Brand identity provides the company with coherence and uniqueness which are two values highly appreciated by the customers worldwide. Brand identity must not be confused with the Brand image. Brand identity defines the essence of a Brand. It is the promise that a Brand makes to its customers. It is linked to the message that the Brand wants to convey. Brand image, instead, is related to the customers' perceptions of a Brand. A Brand image can be superficial and can change over time whereas Brand identity is enduring.

A Brand identity gives a competitive advantage to the company but it requires that its values, as well as its vision and mission, are fully recognizable. The corporate values contribute to creating a strong Brand identity. The corporate values are a set of beliefs and principles that guide the business activities; they serve as a road map to follow in order to make employees and customers feel like members of a big community.

The perfume company Muehlens, for example, created a distinctive bottle with an iconic blue-gold label which characterized the Brand for many years. This company soon extended its Brand over related businesses like perfumed soap. Muehlens was famous worldwide for its 4711 perfume, but most importantly it was famous for its universal ideal of female Beauty. In fact, in its advertisement campaigns, the Brand's main goal was to convey the idea that an intrinsic female Beauty is owned by every woman everywhere in the world. The Brand's core values bring about competitive advantages in all the industries. Airbnb, for instance, through the logo and images concerning the hospitality of people, encourages travelers to experiment an active life using its service. Similarly, Dropbox makes extensive use of colorful and original banners to convey the image of endless innovation and creativity of his product. Moreover, Southwest Airlines makes extensive use of yellow, red, and blue tricolor scheme since these colors are associated with cordiality, warmth and welcoming feelings. Indeed, the company is willing to position itself a step closer to the customers by spreading these core values.

In the Beauty Industry, Shiseido aims to corner the market by leveraging its core values. Shiseido is a Japanese-based Beauty company. It distributes skincare, haircare, cosmetics and fragrances all over the world. It was founded in 1872 by Arinobu Fukuhara and since then, it has gradually entered into the hall of fame of the Beauty Industry. It is one of the oldest cosmetics producer and one of the most appreciated by customers all over the world. In 1957, the company expanded its operations in Taiwan, Singapore and Hong Kong. Soon after, the company boosted its internationalization process by tapping into the European and American markets. Shiseido's values are very straightforward. The company defines its values using the graph below.

Our Values

In Heritage, Excellence

In Diversity, Strength

In Innovation, Growth

Shiseido's values are related to its past, its present and its future. Shiseido leverages its excellent heritage to drive its future growth. However, the company does not rely only on its past success. By embracing diversity, Shiseido is confident that the talents of the employees will enhance its strength. In addition, the company considers of the utmost importance the creation of innovative solutions for its customers. Shiseido has identified its own DNA in some cultural traits embodied by the company. First and foremost, Shiseido considers its Japanese roots a unique strength that differentiates the company from the competitors. In particular, Shiseido can rely on its long tradition and its well-known attention to details that represent key factors in the Beauty Industry. Shiseido is constantly interested in providing its customers with the most innovative cosmetics obtained through cutting-edge Beauty solutions and advanced technology capabilities. One of Shiseido's core assets is the Japanese value called "Omotenashi". This practice is widely used in Japan and it is all about offering the best service without expecting a reward in return. In order to guide the customers in the Beauty choices, Shiseido employs roughly 20,000 Beauty consultants worldwide. Shiseido's Beauty consultants apply the "Omotenashi" practice to the customers by building a close relationship with them. In essence, the company's activities are human-centric and the values embodied by the company are strictly correlated to the customers' well-being.

Another important element that a company needs to build up is the vision statement. This concept is particularly useful since it identifies the shared goals and objectives to be achieved in the future. A vision is usually a highly ambitious goal to be achieved. For instance, Nike's vision is "to bring inspiration and innovation to every athlete in the world". In the Beauty Industry, Shiseido's vision is to "enable Shiseido to continue shining with our consumers over the next 100 years". The company has set some targets which have to be accomplished over a five years period (2015-

2020). These short term objectives are part of the “2020 Vision” program that is renovated after five years in order to track the investments and the progress made to reach the overall vision.

As stated on its website, Shiseido’s mission goes as follow: “cultivating relationships with people, appreciating genuine and meaningful values, inspiring a life of Beauty and culture”. Shiseido employs people from different backgrounds and cultures.

For Shiseido, diversity is an asset since it stimulates the exchange of ideas and wisdom. Shiseido’s mission is about connecting its heritage to the new ideas coming up from the younger generations. Shiseido’s overriding goal consists of spreading Beauty and culture by combining innovative solutions with its traditional values. As stated in Shiseido’s annual report 2017, the company plans to fulfill its mission by working on two targets. First and foremost, Shiseido aims to serve its customers by providing them with the best Beauty products. On the other hand, the company works towards the fair allocation of profits among consumers, business partners, employees and shareholders.

Brand identity is connected with the culture embodied by the company. A company's culture is made up of the values, stories, symbols and eventually heroes that have influenced the company along with its history.

Mrs. Estée Lauder represents a good example of a leader who was able to inspire thousands of employees working in her company. Estée Lauder was raised in New York in a multicultural family since her mother was Hungarian and her father was Czech. Influenced by his uncle, Estée Lauder started her Beauty business by testing a new sales approach. She created what has been called "talk and touch" technique which consisted of promoting the products by directly trying them on the clients' skin. In addition, she was used to give away free samples to the clients who purchased a product before. Estée Lauder was the first to test such a strategy, hence showing her pure talent to market the products. Estée Lauder's charisma is well identifiable in her most famous sentence: "I never dreamed about success. I worked for it". The great businesswoman was perceived as a visionary and a role model since she was always keen to prove that anything is possible. During her life, she fulfilled many roles being a wife, mother and the founder of a prestigious group of companies. She definitely was an inspiring model for the younger women striving for their rights. Mrs. Estée Lauder started her business by selling just four skincare products but very soon she opened up to new opportunities like perfumes and related Beauty products. She has been always conscious of her talent to convince the audience that every woman can be beautiful. Estée Lauder was aware that with passion, creativity and commitment, she would have been a disruptor in the cosmetics Industry. She was known for being a businesswoman who wholeheartedly believed in her employees' potential. In fact, at the opening of each new store, she was used to spend a week instructing her Beauty advisors on sales techniques and Beauty tips. She hoped that everyone in the stores could behave and act as if they were Mrs. Estée Lauder. She was a precursor of many marketing strategies that are widely used now. Her mantra was "telephone, Telegraph, Tell a Woman". She was sure that women who liked her products would definitely spread positive word-of-mouth. In order to fulfill this objective, she understood that being approachable for the customers was the key to make them like the Brand. Estée Lauder was always stylish and well-dressed but also available to talk with store buyers and consumers. Over the years, the American businesswoman's overriding goal was always the same: to empower women by making them independent in their daily Beauty choices. Until the 1950s, most women were used to buy perfumes for special occasions. It was very uncommon for women to buy fragrances by their own since their husbands were entitled to buy these products for them. Estée Lauder wanted to change this habit by giving to the women an incentive to buy their own perfume. In 1953, she created Youth-Dew which was a bath oil used as a skin perfume. This innovative product changed the cosmetics Industry's trends and made it possible to transform a small-sized company into an iconic Brand. As a visionary leader, Estée Lauder received several awards but the French Legion of Honor definitely stands out from the others. Estée Lauder retired in 1995 and died in 2004. She has left a great heritage to the younger generations. Today her company is well-known all around the world and her values are still alive. Respect for the individual, integrity, commitment and passion for Beauty represent the great heritage that Estée Lauder has left to the younger women and they are still key components of the Estée Lauder companies' culture. Today more than 46,000 employees continue to be inspired be this longstanding culture which is the secret of the company's success.

The company's culture, embodied by its employees, has to be then showcased to the customers and the other stakeholders.

Shiseido, for instance, is constantly focused on spreading a set of shared values inside and outside the company. In order to preserve and promote the longstanding culture of the company, Shiseido has opened up its own museum. At the Shiseido Corporate Museum, the company collects all its products which are linked together by what the company defines as the Essence of Shiseido. This company's cultural trait is composed of three elements: Frontier Spirit, Think Hybrid and Inspire people. First and foremost, the company encourages its employees to have a frontier spirit in order to become the leading company in the Beauty Industry. Moreover, Shiseido is keen to merge West and East cultures in order to take advantage of their peculiarities. The company's attitude to think hybrid covers also the difficult task to merge art and science in order to provide the customers with beautifully made as well as functional products. Last but not least, Shiseido's most obvious task is to inspire people through the power of Beauty. The cosmetics group empowers women and facilitates education on gender equality by implementing frequent social activities. Shiseido promotes diversity inside the company and strives for making this value accepted in society. Shiseido employs a large number of women. As stated in the company's annual report 2017, the female leaders are expected to account for 40% of the total in 2020. The empowerment of women is still a social issue in Japan. In order to solve this problem, the company constantly encourages young female leaders to take on challenges and focus on their achievements. In order to externalize the values embodied by the company, Shiseido has signed an agreement with UN Women to spread education and gender equality, especially among younger generations. In addition, since 2011, Shiseido has been promoting practices related to health, hygiene and nutrition to the women living in rural areas of Bangladesh. In order to spread a better education on these issues, the company distributes Les Divas skincare products to the women living in those areas.

When it comes to internationalization strategy, Brands have not always been prepared. Some Luxury Brands have failed to value the culture of the countries they tapped in.

Dolce & Gabbana, for instance, has recently released an advertising campaign in China that has been perceived as disrespectful and racist. Three videos showed an Asian woman wearing a Dolce & Gabbana dress and trying to eat typical Italian dishes: pizza, spaghetti and cannoli. In the video the Asian woman receives racist comments by a man while she is trying to eat the food with chopsticks. The video has become very popular on the Chinese social network Weibo collecting the angry comments of the Chinese people. In addition, a fashion blogger shared a screenshot of its chat with Stefano Gabbana which called China a country of “ignorant dirty smelling mafia”. The screenshots of this chat went soon viral spreading a negative word of mouth about the Brand. Although Dolce & Gabbana removed the video within a day and apologized for the disrespectful behavior, the offences made a huge negative impact on the Brand reputation.

Thousands of Chinese immediately complained about the racist videos and the chat. Many of them posted hashtags on social networks to boycott the Brand. Hundreds of Chinese expats in Italy lined up at the Brand stores to protest and demand refunds. Moreover, China’s E-Commerce channels Alibaba and JD.com removed D&G products from their online stores. Soon after, Net-a-

Porter, the Luxury e-tailer owned by Richemont, made the same action. According to a McKinsey report, Chinese Luxury shoppers represent a third of the total global Luxury consumers. China represents a huge and profitable market for Dolce & Gabbana which has opened there 58 stores. The two designers released a video in which they apologized in Mandarin and expressed their love for the Chinese culture. However, the video has been perceived as not sincere by the audience and the crisis seems to be far from being overcome. Soon after the controversial news about the Brand, Xiang Kai, an influential writer based in Shanghai, decided to burn its Dolce & Gabbana products worth more than $20,000. The writer commented on his action online: “Some people say you’ve wasted a lot of money. I’m willing to waste this money for the nation’s dignity”. After Xiang Kai’s videos had been posted, many other Chinese joined the protest. Lucky Blue Smith, a model and influencer previously very close to the Brand, decided to skip the show and expressed its affection to the Chinese people. The disrespectful Dolce & Gabbana’s video and comments have caused a backlash on the Brand image. The designers were forced to cancel their show in Shanghai after many Chinese celebrities and models refused to show up. It should have been one of the greatest fashion shows of the year with 1,500 participants, 500 look, and 400 models. Unfortunately, the Brand has missed out an opportunity to further engage with a market that represents its first source of revenues. Dolce & Gabbana’s inappropriate videos are an example of what the Brand should never do when it comes to interact with different cultures. Tapping into a different market means not only adjusting the products offered, but also gaining an in-depth understanding of the different cultural aspects. A Brand has to respect other countries’ cultures and take inspiration from their unique values.

A strong Brand culture is an extremely important goal to achieve by the company. It can ensure the following benefits: increased Brand awareness, right people attraction, happier customers, better relationships inside the company, increased productivity.

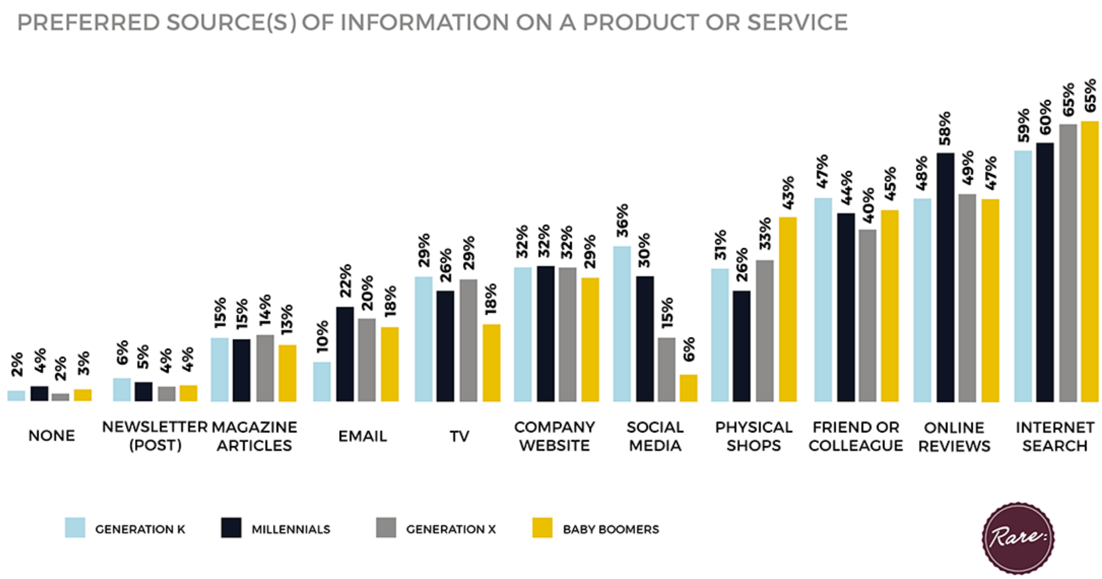
Brand identity helps the company to develop strong relationships with customers. Brand identity is strongly influenced by its unique name, logo, packaging and associated images.

Moreover, Brand identity strength is measured by its level of likability and approachability. In order to be likable for the audience, a Brand has to fulfill some requirements:

a) First of all, it has to “be human”. The Brand, in fact, has to express its personality into the marketing contents. The core personality traits have to be connected to each other in order to give coherence to the value proposition. The well-known cosmetics Brand Maybelline, for instance, has implemented through the years an effective connection with its customers. Maybelline's message is about empowering women in society. Maybelline delivers its message to confident women that want to leave a footprint in the world. The connection between Maybelline and its customers is direct and effective. The customers perceive Maybelline as a companion rather than just a Brand. Moreover, Brands should express their human side even on social networks. In order to make a Brand identity relatable, it could be useful to post images of employees that show their positive feelings toward the company. By seeing a positive relationship between the Brand and its employees, the customers will be more confident to rely on the Brand's human side.

b) In addition, in order to boost its likability level, a Brand has to talk properly with its customers. Nowadays, it is of the utmost importance to keep the conversation going on social media. The Brand has to carefully manage its social media by promptly answering comments and taking into account positive as well as negative feedback and reviews. By answering comments and questions, the customers will experience a deeper connection with the Brand.

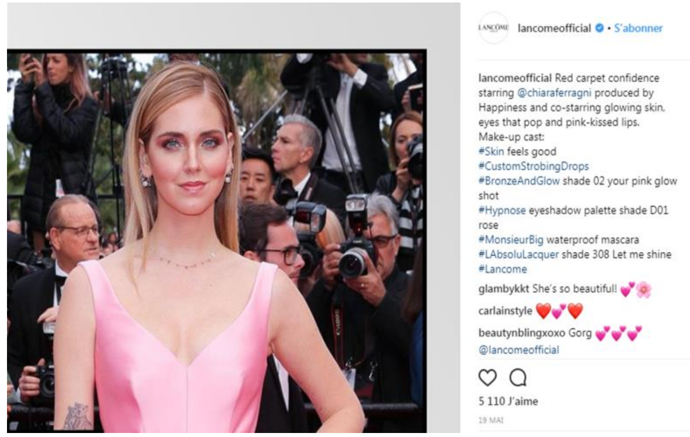
c) Furthermore, it is of the utmost importance that people talk about the Brand. As a matter of fact, customers are keen to trust more other customers' reviews rather than advertising campaigns. According to CMO research, only 5% of people actually trust what Brands tell them. As shown in the graph below, the level of trust change remarkably depending on the generations.



By analyzing the graph, a trend comes up across the generations: peers' opinions and internet searches are considered more reliable than the company's website. In essence, the more people share their positive opinions about the Brand, the more likable it will be. Therefore, Brands should encourage reviews by rewarding customers with discounts or asking loyal customers for post-purchasing feedback.

d) Finally, in order to be likable, Brands should be helpful to customers. L'Oréal, for instance, has created a team called "Beauty Squad" who guides the customers in the selection process. The team is made of top influencers who created YouTube videos and articles for L'Oréal. Customers can receive the contents they were looking for, namely Beauty tips, pieces of advice and tutorials.

Brand identity is also affected by the degree of its approachability. It can be difficult to change the price point without changing the core value of a Brand. However, the Brand's approachability does not depend only on the price point and product availability. A Brand has to be perceived closer to the customer. Large companies can be perceived as impersonal and unapproachable by the audience. A way to overcome this problem is to engage the customer with trusted influencers. These professional content creators can make new trends and guide customers in purchasing decisions.



Companies can sign partnership contracts with selected influencers. Influencers' main role is to make their follower-base willing to buy Brand's products. Undoubtedly, the influencers have to be carefully chosen and aligned with the Brand image.

L'Oréal, for instance, considers of the utmost importance to rely on influencers in order to keep its 250 million social media followers engaged with the Brand. In fact, the influencers enhance L'Oréal legitimacy by directly communicating with the customers. They strengthen the connection between Brands and customers using informal communication techniques. As a matter of fact, customers perceive influencers as more approachable than celebrities. They are closer to the customers, eventually answering their questions and are perceived as trustworthy Brand ambassadors. There are many differences between influencers and celebrities. First of all, they use different channels to convey their influence. Celebrities typically build up their influence through traditional channels such as television, radio and magazines. On the contrary, influencers build up their influence by mainly using social media, blogs and vlogs. It is interesting to notice that celebrities don't necessarily have specific knowledge or credibility of the Industry in which the Brand operates. A Brand willing to convey messages to a large and diversified audience would be better off contracting celebrities. On the other hand, influencers fit more to Brands willing to target a specific audience or niche. In fact, influencers are perceived as much more informed about the products than celebrities. Influencers usually build their credibility by creating quality contents for a limited group of consumers.

In the fashion Industry influencers have gained a remarkable success due to their reliable comments and suggestions. For instance, the fashion influencer Aimee Song, also known as Song of Style, has gained incredibly high popularity. Song has a great presence online being followed by more than 4.7 million fashion shoppers on Instagram. It is worth mentioning that influencers are typically more affordable than celebrities. Being aware of the pros and cons of dealing with influencers and celebrities, it is interesting to analyze the L'Oréal's approach to this matter. L'Oréal has decided to deal with a group of Beauty influencers that will be long-term ambassadors of the Brand. This group is called "Beauty Squad" and, by the time of its creation, it consisted of the following members: Emily Canham, Kaushal, Patricia Bright, Ruth Crilly, and Victoria Magrath. In 2017, three other Beauty bloggers, Lydia Millen, Ling KT and Amena joined the group. The Squad quite soon turned out to be a success and it has gained a combined reach of 5.5 million on Instagram. Each of the group members is specialized in some of L'Oréal's product categories. According to Adriene Koskas, General Manager of L'Oréal Paris UK, the Beauty Squad makes a positive impact on the company's profitability. The company has seen a sales uplift due to its Beauty influencers. Therefore, L'Oréal is shifting its marketing expenses from traditional ad campaigns to social media and influencers. L'Oréal was a precursor by signing up bloggers in the Beauty Industry. It was also the first company to understand that the real value of the bloggers can be only exploited in their own environment without forcing them to act as media celebrities. These influencers reinforce the Brand message "Because you're worth it" by talking to all women regardless of their age, regions and races. Koskas makes clear that influencers are more effective for a young audience rather than an older one. According to Koskas, in order to be appealing for an older audience, other channels like TV or newspapers are preferred. L'Oréal relies on two types of influencers:

- Influencers with several followers that go beyond national borders. L'Oréal signs short to long-term contracts with these types of followers and, eventually, exclusive contracts or co-creation
- Local micro-influencers that talk with specific communities. L'Oréal employs these followers mainly for an invitation to an event or product sends.

For a huge Group like L'Oréal, being approachable through the use of influencers can be highly demanding. In fact, the French Group owns a portfolio of Brands that differ among each other in terms of products quality, customers targeted and marketing activities implemented. In order to manage these complexities, L'Oréal leaves to the Brands the freedom of setting their own working methods. The Group sets some general guidelines to be followed but the Brands are responsible for implementing local strategies.

L'Oréal's Brands are deeply connected with their influencers. By interacting with the customers, they are informed about four key aspects: Awareness (Brand's visibility among the consumers), Consideration (Brand's credibility), Purchase (the act of buying), Recommendation (word-of-mouth and loyalty). Being approachable through the influencers does not only enhance a sense of closeness to the Brand, but it also allows the company to get further insights into the local communities. Moreover, by getting different feedback from each Brand, L'Oréal has to properly manage a greater level of complexity in the decision-making to ensure a coherent value proposition.

Influencers and celebrities are used by companies to increase their Brand strength. A strong Brand makes a positive impact on the company's profitability in terms of:

- High Brand equity
- Increased product awareness levels
- The ability to charge a premium price
- Reduced susceptibility to price wars
- Competitive edge
- Strong customer relationships
- Higher likelihood of repeat purchases
- Retail leverage
- New products with a higher probability of success due to the Brand name

One of the key roles of the Brand is to increase a company's product awareness among the customers. Companies usually pursue this goal by using appealing packaging design and implementing an effective advertising campaign that can reinforce the Brand's values in the customers' minds. A well-known Brand makes it easier for a company to charge a higher price. On the contrary, a lack of a strong Brand forces the company to settle for a commodity position in the market where low prices drive sales.

A good Brand image is directly reflected in the product's reliability since a Brand serves the main goals of saving time and effort to customers in the buying process. It is worth mentioning that building up a Brand identity is strongly correlated to the effort on building long-lasting relationships with customers.

In order to communicate the value of the Brands in the most effective way possible, many companies have started to implement a two-way flow of communication with their customers. In fact, an increasing number of companies have become interested in creating club memberships, loyalty card schemes, registration of warranties and merchandising activities.

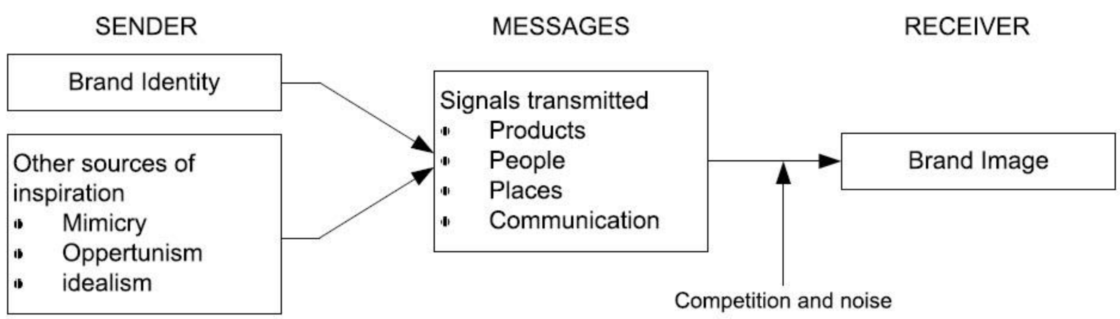
The communication is defined as a two-way flow since it is not just directly moving from the company to the customers but requires even feedback and engagement of the customers which can express priceless suggestions. The two-way flow of communication makes it possible to create the so-called Brand communities in which a set of attitudes, beliefs and rituals toward the company are expressed.

Brand communities recognize the importance of the Brand's identity and they are most of the time the early adopters and defenders of the company's products. There are many successful examples of Brand communities and they can be extremely powerful as in the case of Sephora Beauty Talk. Sephora is a well-known company operating in the Beauty Industry and specialized in perfumes and cosmetics. The company has created an online community called Beauty Talk where a group of consumers asks questions and shares ideas on a daily basis. The platform is similar to a social network since it allows members to upload their pictures wearing Sephora products. By using the platform, the customers can easily become Brand ambassadors encouraging others to use the Brand products. In addition, the creation of this platform has been quite affordable compared to other marketing activities and it allows the company to keep track of the latest consumers' preferences.

Moreover, apart from the more obvious saving time gains that a well-known Brand can guarantee, a good Brand reputation can make the customers feel the products safer and in general more accepted by society. A good Brand reputation, possibly verified by past product purchases by the customers, will make the customers willing to repeat the purchases and prefer the company to the others. Conversely, if the past purchases have damaged the Brand reputation, the customers will avoid repeating the purchases buying products from competitors or, even worse, spread a negative word of mouth against the Brand. In the fast-fashion Industry, many companies are suffering the detrimental consequences of having a bad reputation. These companies mainly produce clothing lines that are not expected to last over a long period. In addition, in order to keep up with a big demand, companies are keen to lower the cost as much as they can. The fast-fashion Industry has built up its own success by heavily lowering manufacturing costs and increasing the volume of sales. One of the most famous companies operating in this sector is H&M which has widely used inexpensive materials for its clothing lines and hired workers from developing countries by giving them low pay. A bad reputation makes a negative impact on the Brand image and hence reduces sales over the long term. H&M has soon realized that changes were needed in the way it produced its clothes. Therefore, the company has implemented a CSR program by dedicating more financial resources to the manufacturing processes and improving the working conditions of its employees.

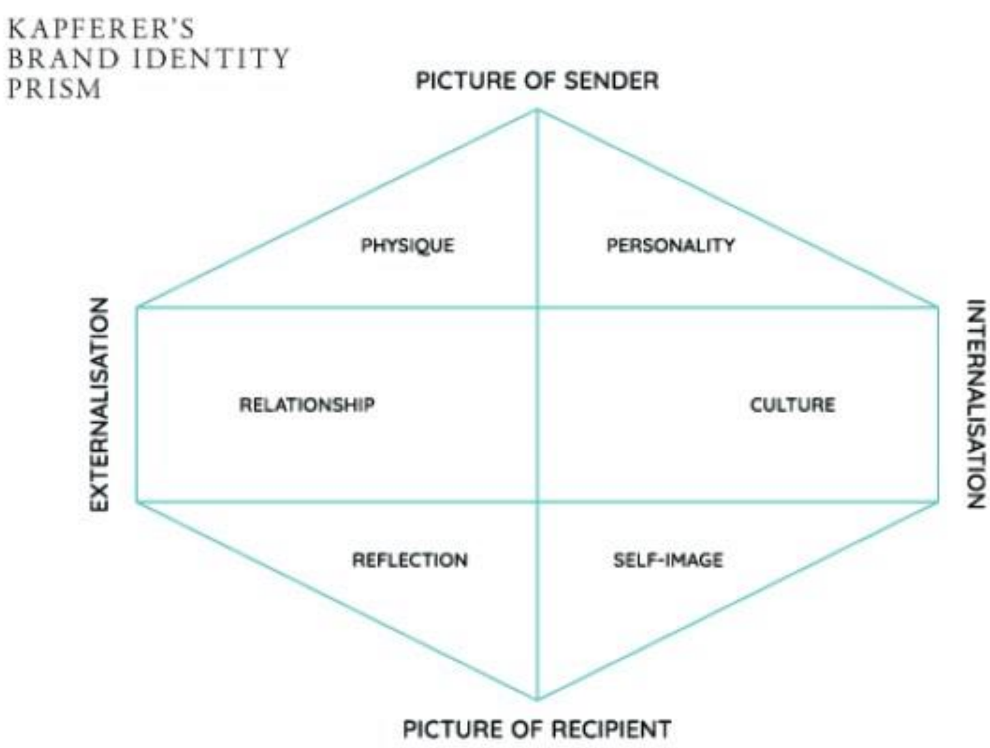
A Brand relevance tends to decline over time if it is not nurtured and carefully managed. Interestingly enough, Brand identity is negatively correlated with its expansion and diversification. In essence, a high level of Brand expansion and diversification make the customers feel that they are dealing with different Brands instead of a single one. In order to minimize the risk of having a weak Brand identity, products and communication channels have to be aligned to serve the same goals. By reinforcing a Brand identity, the employees can appreciate the real value of the organization, its processes, and its unique history.

An interesting distinction has to be made between Brand identity and Brand image. The former focuses on the sender's side defining its meaning, aim and self-image; the latter, instead, focuses on the way the customers perceive the products and the Brand itself.



As shown in the picture above, Brand image is nothing but the synthesis made by the customers of the several Brand messages that the company wants to convey. In essence, a Brand image is a decoding process made by the customers that try to interpret the Brand's meaning and signs. The signs come from two different sources: the Brand's identity, which has been widely explained so far, and extraneous factors. The first extraneous factor is the so-called mimicry that takes place when companies prefer to imitate competitors' Brand's identity rather than creating their own. Customers frequently perceive the lack of clear identity of the Brand that imitates the others and it does not really help the Brand itself to stand out from the crowd. The second factor is the opportunism that takes place when the Brand set as the main goal being appealed by all the customers. The opportunistic approach does not take into account the cultural and social differences among the customers setting an unachievable mission though. The third factor is idealism that takes place when the company does not succeed in the main task of representing its Brand as something more than what the customers actually perceive. The three factors explained so far, along with the Brand's identity, have to be managed carefully since they influence remarkably the Brand image perceived by the customers.

An effective way of representing a Brand's identity is the identity prism. Firstly, introduced by Kapferer (2004), the identity prism framework highlights six key elements that are considered crucial in order to build a Brand's identity: physique, personality, culture, relationship, reflection, and self-image.



The physical characteristics of the Brand are represented by its tangible added value. The physique is the visual representation of how the Brand wishes to be perceived, it is the linking point between the physical form and the emotions that it should evoke. The next component of the identity prism is the Brand personality which is composed of the traits that define the Brand. Louis Vuitton, for instance, owns personality traits that make the Brand stand from the crowd: supreme elegance, unique style, ambition. A Brand personality is undoubtedly powered by its communication touchpoints such as websites, apps, email, etc. Apart from the crucial role played by the communication touchpoints, an easier and more direct way of creating a strong personality is to give the Brand a spokesperson that will represent the characteristics of the Brand all over the world.

The next element of the identity prism is culture. Culture is, obviously, a key component of the Brand's identity since it represents its values and principles. Culture is the driving force that guides the employees' behavior in order to stand out from the crowd. Louis Vuitton's culture, for instance, is related to "savoir-faire", sophistication, power.

A Brand can strengthen its culture by linking it with the so-called country of origin effect. Country of origin effect is a psychological bias that describes how consumer attitudes, perceptions and the related purchasing decisions are influenced by the Brand and products nationalities. Country of origin effect can be positive or negative, depending on how the consumers perceive the characteristics of the country. For this reason, there are several Brands that are proud of being associated with the countries they come from like Coca Cola, IBM, Nike or Levi's are conscious of the benefits deriving from being associated with the USA. On the contrary, there are Brands that prefer to be perceived as multinational Brands since there are some perceptions, associated with their countries, which can harm their reputation.

It is worth mentioning that culture is an extremely useful element to be taken into account by Luxury Brands because it helps them to differentiate from the other since they are the ones that spread unique ideals and values.

The next facet of the identity prism is the one that associates the idea of a relationship to the Brand. As a matter of fact, Brands are the linking point between the company and the people. Nike, for instance, assumed the Greek name to emphasize the greatest value that a human body can achieve. This facet of the identity prism is extremely relevant since it does not just change the consumers' perceptions toward the Brand but it does change even the way the Brand acts, delivers products and services, etc.

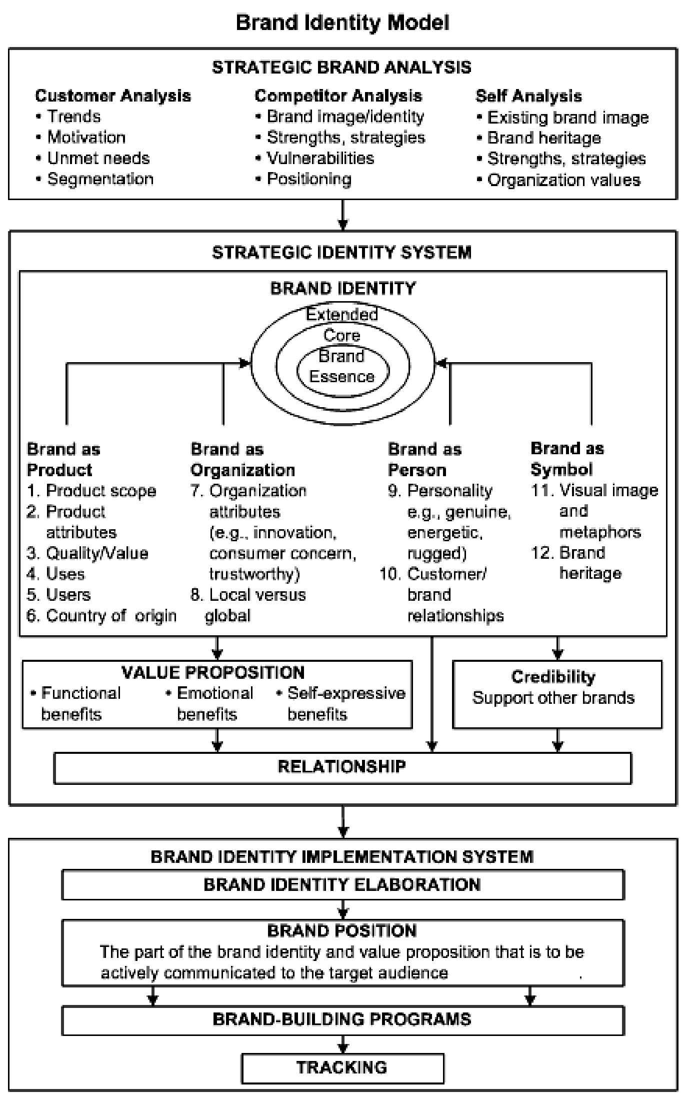
The next facet of the identity prism states that a Brand is a customer reflection. As a matter of fact, the first image that comes up to people's minds when they have to evaluate a Brand is the stereotypical user of the Brand. A Brand always addresses its focus on a specific group of people even though many different customers can be buyers of the same Brand. A Brand has to carefully manage its customer reflection because if it does not many issues might arise. Porsche, for instance, has been associated for many years to show-offs and, since consumers usually use Brands to build their own identity, this negative perception has led many consumers to prefer different Brands.

Finally, the last facet of the identity prism is represented by the self-image. According to this element of the prism, the customers develop an idea of themselves once they get in touch with a certain Brand. Lacoste's customers, for instance, consider themselves as members of an elegant sports club that set them apart from the others.

The identity prism framework has helped academics and professionals to better understand the Brands over the years. The identity prism is a useful tool that makes it easier to define the sender through its physique and personality elements. The framework described so far is undoubtedly useful to describe the recipient through the prism's elements reflection and self-image. The last two facets of the prism, relationship and culture, serve the main goal of linking together the sender and the recipient. The Brand identity prism is then divided in a horizontal as well as vertical way. On the left side of the prism there are the following facets that are more visible to the external environment: physique, relationship and reflection. The right side of the prism is made of the following facets that are incorporated in the Brand itself: personality, culture and self-image.

Many scholars have studied Brands trying to describe their peculiarities. It can be said that at birth a Brand can potentially develop in any possible way since it enjoys a great level of freedom. As time goes by, a Brand ceases to be indefinite and loses some degree of freedom. Once a Brand takes shape, the managers should pay attention to the products and communication that can harm its structure. Several companies, attempting to create a strong Brand, rely too much on the impressions of the customers but Brand by definition is a plan, a vision, a project that comes primarily from its founder's creativity. Undoubtedly, customers' impressions play a key role in the definition of the company's strategy but sometimes they can be misleading since customers may reveal their not appropriate knowledge of what a Brand really is. On the contrary, a Brand is an unconscious plan that takes shape due to daily management decisions. Brand's identity research surely has to take into account the customers' preferences but the first step should be made toward a Brand name and symbol definition as well as its logo, the country of origin, the advertisements and the packaging.

An important contribution to the Brand identity research derives from Aaker's (1996) Brand Identity Planning Model. The model is divided in three stages: Strategic Brand Analysis, Brand Identity System and Brand Identity Implementation System.



Kilde: Aaker, David A. & Hoachimsthaler: Brand Leadership. The Free Press. 2000.

According to this framework, the Brand manager should consider the three stages that are set in sequential order. In the first stage, the Brand manager has to collect all the relevant information related to the Brand, including Customer Analysis, Competitor Analysis and Self-Analysis. In the second stage, the analysis focuses on an in-depth analysis of Brand identity and how Brand-customer communication is derived from it. The framework ends its analysis with the third stage that is related to the communication of the Brand identity to the customers. The most interesting part of this framework, for the purposes of this section of the thesis, is undoubtedly the strategic identity system. As Aaker pointed out, the strategic identity system is the heart of the whole framework. According to Aaker, Brand identity is made of two layers: core identity and extended identity layers. The first layer represents "the associations that are most likely to remain constant as the Brands travel to new markets and products" (Aaker, 2012). As a matter of fact, the core identity is made of the fundamental beliefs and values that drive the Brand as well as the organization behind it. On the other hand, the extended identity layer provides the core identity with additional details such as: the product, personality, slogan, etc. The two layers described so far differ for the fact that the former should never change and the latter might change as time goes by. Aaker's analysis moves forward by analyzing four different perspectives: Brand as a product, Brand as an organization, Brand as a person and Brand as a symbol.

The first perspective includes six product-related associations: product scope, product attributes, quality/value, uses, users and country of origin. The associations described so far are crucial for building an effective Brand identity. They are directly involved in the Brand management's decisions and strongly related to the physique facet of the Kapferer's identity prism model.

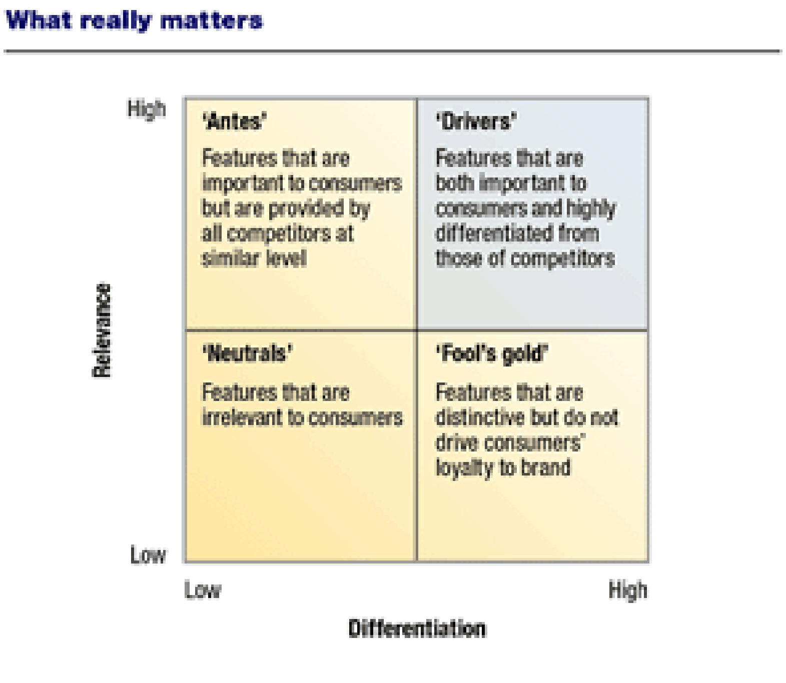
The second perspective includes organization attributes as well as an organization approach. In the former it would be included innovation, culture, people and programs; in the latter, instead, going local and global approaches are included.

The third perspective includes two associations: personality and Brand-customer relationships. Last but not least, the category Brand as a symbol includes three types of symbols which are: visual imagery, metaphors and Brand heritage.

The four perspectives explained so far serve the main goal of assisting the Brand managers in their daily decisions. Once the Brand identity layers have been identified, it would be easier for

Brand managers to develop the value proposition to customers, the credibility to other Brands and a more effective Brand-customer relationship.

In order to build a strong Brand, companies should combine theoretical approaches with an in-depth knowledge of the environment in which they operate. Today an increasing number of companies are using a scientific approach to Branding. As a matter of fact, companies are more willing than ever to obtain data from loyalty programs and Internet-based surveys to conduct a more rigorous analysis of the customers. The scientific approach to Branding may cause some problems since this approach can limit the creativity that is essential in marketing. However, it should be noticed that the scientific approach makes the decision-making process easier and more effective. Following this approach, the well-known consulting company McKinsey has developed a practical framework for creating a Brand that stands out from the crowd. According to McKinsey, the most successful Brands emphasize features that are important to consumers and make the Brand value proposition differentiated from the ones of the competitors. These features are called “drivers” and they are characterized by a high level of relevance and differentiation. On the contrary, the so-called “antes” are the features that are important to consumers but are quite common in the market. In addition the market presents the so-called “neutrals” and “fool’s gold”. The neutrals enjoy a low degree of relevance and differentiation since they are basically irrelevant to consumers and they should be ignored by the decision maker. On the contrary, the features “fool’s gold” enjoys a low degree of relevance and a high degree of differentiation since they are unique but do not represent an incentive for consumers to be loyal to a Brand.



Nowadays, Brand managers can eliminate much of the guesswork by using advanced statistical tools applied to customer data. Regression techniques, which have been widely used in other business fields, reveal their importance even for Branding. In order to assess what really makes the difference in creating a great level of customers' loyalty, the company should issue questionnaires as well as conduct analytical studies. These analyses are useful even for the identification of the most effective combination of touch points that will deliver the Brand's value proposition.

1.3 Brand equity

A simple as well as an effective definition of Brand equity could be identified in the marketing effects and the added value that are uniquely attributable to a Brand. A company owning a strong Brand can enjoy several advantages, just to name a few of them: greater loyalty, less vulnerability to marketing crises, more inelastic consumer response to price increases, possible Licensing opportunities, improved employee retention, greater financial market returns, less vulnerability to competitive market actions. A Brand can be conceptualized in several ways and so it can be differently measured. Keller & Lehmann (2001), for instance, define the "Brand Value Chain" taking into account three different steps. According to this model, the first step in value creation occurs when investments in marketing activities affect consumers' perception towards the Brand namely the Brand awareness, associations, attitudes, attachment and activity.

The second step occurs when Brand knowledge affects market performance in terms of price premiums and elasticity, cost savings, market share, profitability, etc. Last but not least, the third step takes place when market performance affects shareholder value in terms of stock price and market capitalization.

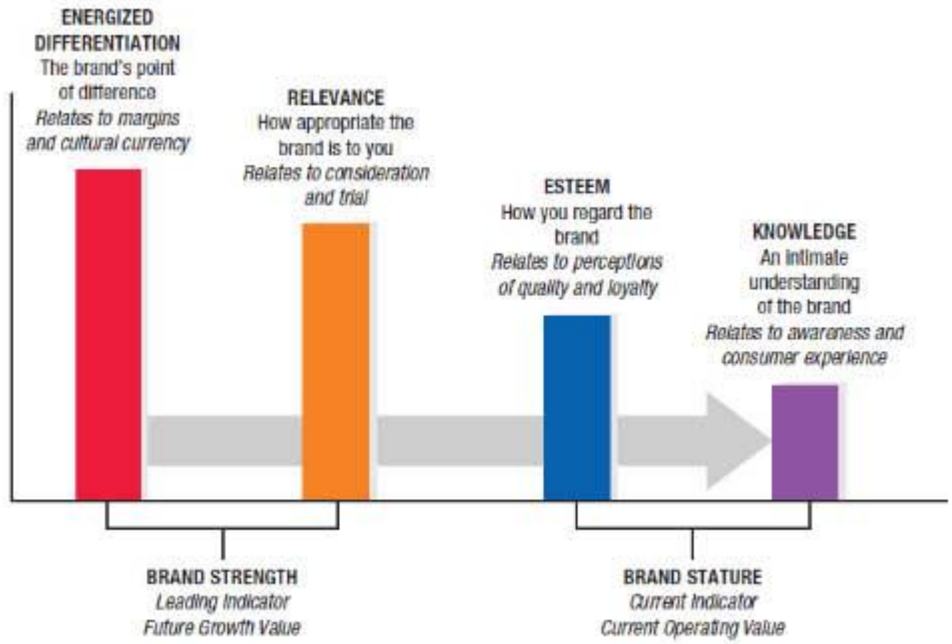
The simple but effective conceptualization described so far has been just one of many frameworks that have been addressed to further explain Brand equity. Hutchinson et al. (1994), for instance, by analyzing the soft drink and beverage market, have found out that market structure plays an important role in determining Brand name recall. The same studies have pointed out that usage rates, advertising expenditures, market penetration and various product attributes are important elements in defining recall latency.

Other researches have focused their attention on measuring Brand image. One of these researches has been called the Zaltman Metaphor Elicitation Technique (ZMET) and it uses qualitative methods to tap into the consumer's visual and other sensory images (Zaltman & Coulter, 1995). According to Kotler (2001), Brand image is the set of beliefs, ideas and impressions that a person holds regarding an object. Louis Vuitton's Brand image, for instance, is characterized by its exclusivity, high price, French elegance, and logo.

It is worth mentioning that, apart from the abundant literature on the theme, the debate about Brand equity's essence is far from being overcome. For instance, the principle of "double jeopardy" developed by Ehrenberg, Goodhardt and Barwise (1990) has pointed out that there are just large and small Brands rather than strong and weak Brands. According to this theory, large Brands can rely on more loyal customers than the small ones.

However, some scholars like Dyson, Farr and Nigel (1997) highlighted that the DJ model describes buyers' behavior peculiarities in markets where there are readily substitutable Brands. In essence, the debate about Brand equity arises when there are different assumptions and beliefs about market stability and the power of marketing actions to influence consumers. The scholars that support DJ theory consider short-term marketing actions quite useless, whereas the scholars that support the Brand equity concept consider the potential of marketing activities as being a disruptive force as well as influencing consumer behavior.

Several models have been developed in order to further analyze Brand equity. One of these models is called Brand Asset Valuator Model (BAV) and it has been developed by the advertising agency Young and Rubicam (Y&R). The model is based on a research that involved more than 800,000 consumers in 51 countries. BAV compares the Brand equity of thousands of Brands considering hundreds of different categories.



The model takes into account four pillars of Brand equity: energized differentiation, relevance, esteem, knowledge.

- Energized differentiation: this pillar represents how much a Brand is perceived differently from others as well as its pricing power
- Relevance: this pillar is related to the importance assigned to the Brand from a large consumer market segment.
- Esteem: this pillar represents the measurement of the customer's perceptions of quality and the related degree of loyalty to the Brand.

Knowledge: this pillar is related to Brand awareness among the customers as well as their understanding of its identity. By applying this framework, several interesting insights can be deducted. First of all, the Brand strength, that predicts future growth value, can be obtained by combining energized differentiation and relevance. Moreover, an interesting indicator of past performance and current operating value can be obtained by combining the two pillars esteem and knowledge.

Further insights can be obtained by plotting the Brands in a two-dimensional model that considers the first dimension (strength) on the vertical axis and the second dimension (stature) on the horizontal axis.

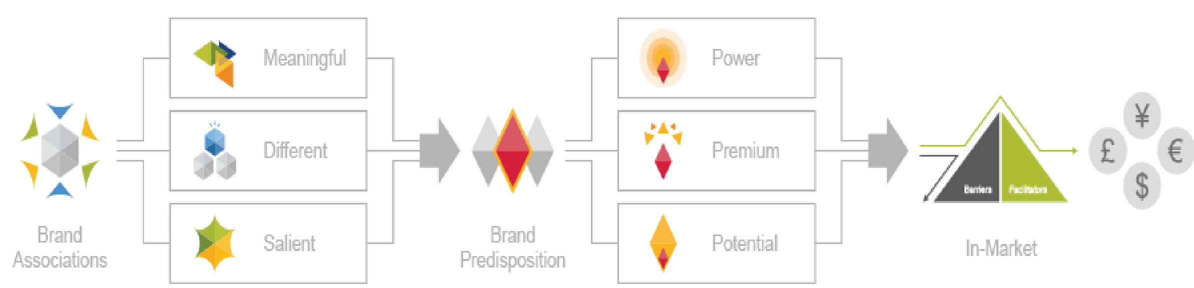
In the upper left quadrant, there are Niche/Momentum Brands that have low Brand stature but high potential. These Brands are extremely relevant for the customers but they are unknown to a large percentage of the audience.

In the upper right quadrant, there are the most powerful Brands, the so-called leader, since they can rely on high earnings and high potential to create future value; they are, in essence, extremely popular and appealing.

In the lower right quadrant, there are Brands eroding/declining Brands that are extremely popular and well perceived by the customers but they cannot overcome what customers already know about them.

Last but not least, in the lower left quadrant, there are the new/unfocused Brands that are almost unknown and not as strong as their competitors in the market.

Another interesting study has been carried out by the consultant Millward Brown who developed the Brand Dynamic Model. This framework assumes that three different types of Brand associations are important to make the customers more willing to buy a Brand.



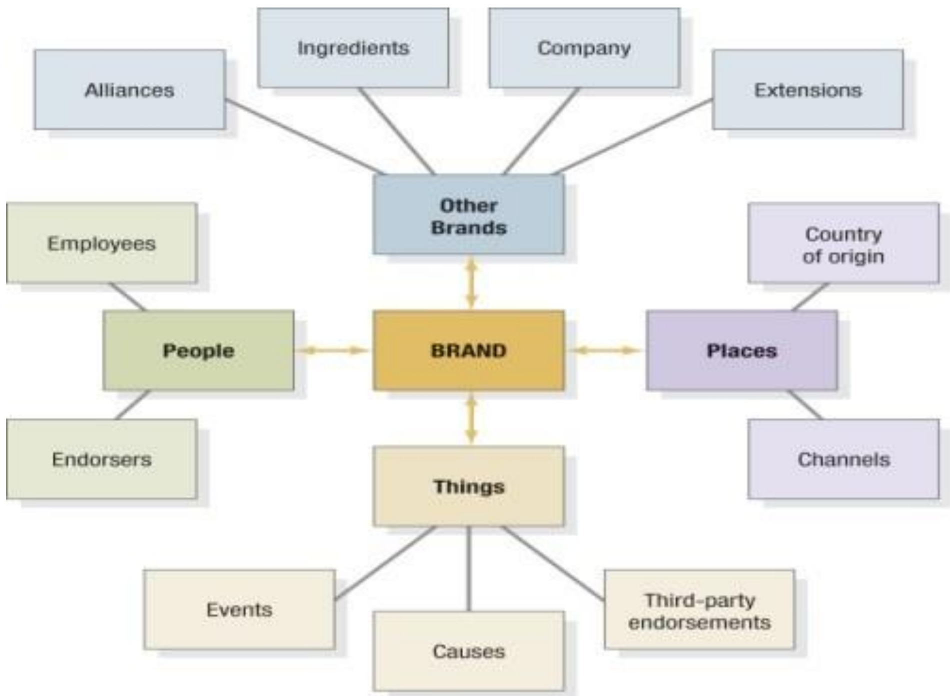
A Brand should be meaningful, different and provided with salient Brand associations. An effective combination of these three components generates three relevant outcomes:

- Power: a prediction of the Brand’s volume share
- Premium: a Brand’s ability to get a premium price for its products
- Potential: the probability that a Brand will grow value share

According to this framework, the combination of the factors described so far with market characteristics will determine the customer's willingness to buy the Brand and the corresponding sales.

Another worth mentioning Brand equity framework is called Brand resonance model. This framework aims to describe the Brand-building process through four steps which have to be followed. First of all, the management has to make sure that the customers well identify the Brand. Then the managers have to establish the Brand meaning in customers' minds by creating a bundle of Brand associations. Consequently, Brand managers have to take into account and properly manage customers' judgments, feelings as well as their opinions. The tasks described so far translate into a six-block pyramid made of a rational and emotional route. At the bottom of the pyramid, there is the Brand salience that is basically how often the Brand comes to the customers' minds in a purchasing process. The next step is divided into two blocks: Brand performance and Brand imagery. Brand performance represents how the Brand is effective in providing customers with the solution they were looking for. On the right side, instead, there is the emotional block that aims to satisfy the social and psychological customer's needs. By climbing the pyramid one step forward, another dual block shows up. In this stage, the rational route is represented by Brand judgments that are related to the customers' personal opinions. On the other hand, the emotional route is represented by the feelings that the customers might have toward the Brand. Last but not least, at the top of the pyramid there is the Brand resonance that is an evaluation of the relationship between the Brand and the customers.

An effective way to build Brand equity is to leverage secondary associations. This method aims to link the Brand with secondary sources such as the company itself, countries or other geographical areas, channels of distribution, other Brands, Licensing contracts, spokespeople through endorsements, and cultural events.



As a matter of fact, each and every component of the graph influences the consumer's Brand perception. Channels of distribution, for instance, can directly affect Brand equity because of consumer associations linked to the retail stores. In essence, consumer Brand perception is heavily influenced by factors such as product assortments, pricing and credit policy, quality of service, retailers, etc. Furthermore, the Brand leverages associations by linking itself to other Brands from the same company or even from different companies. This strategy is called co-Branding and it occurs when two Brands work hand in hand to sell a joint product or are marketed together in some way. Co-Branding strategy can be extremely valuable but it has to follow some guidelines to be effective:

- Both Brands should enjoy sufficient Brand awareness, unique associations, as well as a good reputation
- The Brands have to fit together in terms of values, capabilities and goals in order to maximize the advantages
- The agreement between the Brands has to be accomplished in detail in order to guarantee the expected results

The co-Branding strategy, if properly managed, can yield the following advantages: borrow needed expertise, reduce the cost of product launch, expand Brand meaning into related categories and increase access points. Apart from the advantages mentioned so far, co-Branding strategy is surrounded by the following threats: loss in control, risk of Brand equity dilution, negative feedback effects, lack of Brand focus and clarity, organizational distraction.

Brand managers can decide to create secondary associations even by using celebrity endorsement. In this case, Brand managers have to follow some guidelines:

- The people chosen to promote the Brand's products have to be known as a celebrity
- The spokespeople have to fit with the Brand's values
- The relevant associations have to be properly transferred from the celebrity to the Brand

Celebrity endorsement has been widely used in marketing history but it has been criticized by some scholars since it can harm Brand reputation if these situations occur:

- The celebrity chosen by the Brands endorse too many products so his or her message is perceived by the customer as opportunistic
- The celebrity has to fit with the Brand and its products
- The investment in celebrity endorsement can result in decreasing returns if the celebrity loses popularity through the years.

Many scholars and professionals have tried to set up frameworks in order to measure Brand values. InterBrand has developed a framework to analytically estimate the value of a Brand. This model assumes that Brand value is nothing but the future earnings that can be attributed uniquely to the Brand. According to this model, measuring the financial value of the Brand means that four steps have to be taken: market segmentation, financial analysis, the role of Branding, Brand strength.

In detail:

1) Market segmentation: the first step is to divide the audience into mutually exclusive segments so that the Brand can keep track of the changes in each segment
2) Financial analysis: the second step takes into account the assessment of measures such as purchase price, volume and frequency in order to forecast future Brand revenues. As it happens in accounting tasks, a measure of EBIT has to be calculated. In this case, once Brand revenues have been measured, the leading process to get EBIT is to deduct from Brand revenues all the operating costs and taxes. Furthermore, a charge for the capital

employed to operate the underlying business has to be deducted in order to get the earnings attributed to the Branded business, the so-called Economic Earnings.

3) Role of Branding: at this stage, the model suggests attributing a proportion of Economic Earnings to the Brand in each market segment. The Role of Branding, then, is a measure derived from market research and interviews and represents the percentage of Economic Earnings the Brand generates. As a result, Brand earnings are calculated by multiplying the Role of Branding and Economic Earnings.
4) Brand strength: this step represents a diagnostic tool for measuring Brand performance relative to the competition. For each segment, InterBrand determines a risk premium for the Brand. The company's analysts derive the overall Brand Discount Rate by adding a Brand risk premium to the risk-free rate, represented by the yield on government bonds. Consequently, by applying the Brand Discount Rate to the forecasted Brand Earning, the net present value of the Brand Earnings will be obtained. It supports Brand managers by identifying areas of highest business impacts. Stronger Brands generate more loyal customers, reducing risks and increasing Brand value. In essence, the stronger the Brands, the lower the discount rate and vice versa.
5) Brand Value Calculation: As explained above, Brand value is nothing but the net present value of the Brand earnings. The framework, as a whole, can explain the potential of Brands to continue generating future earnings.

1.4 Brand Positioning

Broadly speaking, all marketing strategies focus on three elements: segmentation, targeting and positioning. Market segmentation and targeting basically relate to the division of the market in groups of customers and then to focus on specific groups that the company is willing to serve. On the other hand, positioning relates to the task of making the Brand's identity clear in the customer's mind. The final goal of positioning is to locate the Brand in the customers' minds so that they will have a clear perception of what the Brand really is and why it is better than the competitors. A simple way to identify a Brand positioning is represented by the Brand substitution test. This test states that a Brand positioning is well performed if a marketing activity has a special meaning just for the specific Brand and, if it was replaced by a competitor, the result of that marketing activity would have been worse. A good positioning strategy has to provide the

Brand with a sense of uniqueness otherwise it is not well executed. An evident consequence of well-executed Brand positioning is the creation of a customer-focused value proposition. A customer-based value proposition engages the customers and makes them keener to be loyal to the company. Positioning, in essence, is all about making clear the similarities and differences between the Brand and its competitors. In particular, Brand positioning requires the following steps:

1) Defining the competitive frame of reference that is the environment in which the company will have to operate. The competitive frame of reference includes the category membership that is composed of the products and even the products' substitute sold by the company and its competitors. The environment described so far is not stable through the years, but it changes whenever new competitors come in or new disruptive technology is implemented. In essence, the competitive frame of reference should be identified by all the companies that satisfy the same customer need rather than selling the same products.

2) Defining points of difference (PODs) and points of parity (POPs). Points of difference are benefits that are uniquely attributable to the Brand and they are not easy to find in competitors' value proposition. Strong Brands can often rely on multiple points of difference: design, ease of use, performance, innovative technology, etc. Points of difference, in essence, are characterized by three elements:

a) Desirable to consumers since they must see the Brand association as extremely important for them.
b) Deliverable by the company since it should have the internal resources that make it possible to create positive Brand associations in the consumers' minds.
c) Differentiating from the competitors since Brand associations have to be perceived as distinctive and somehow superior to the competitors.

Points of parity, instead, are benefits not uniquely attributable to the Brand but can be shared with other Brands. These kinds of associations are divided into three groups:

a) Category points of parity are benefits that consumers consider as necessary, even though not sufficient, for choosing a Brand rather than a competitor.

b) Correlational points of parity are potentially negative associations that arise from the existence of positive associations for the Brand. These kinds of associations relate to the consumers' choices trade-off that occurs when a Brand is perceived as having a good feature that seems to be mutually exclusive with another: for instance, a cheap product may not be perceived as a good quality product.
c) Competitive points of parity: are associations that the Brand designs to overcome its weaknesses compared to the competitors' point of differences.

It is worth mentioning that most of the benefits that make up PODs and POPs are negatively correlated, for instance: low price does not fit well with high quality, powerful is not usually related to safe as well as nutritious is not usually associated with good taste. The challenge for Brand managers is to make their products perform well in both dimensions since customers do not give up on any of them easily.

In order to properly choose POPs and PODs, a company can use perceptual maps that are visual representations of consumer perceptions and preferences. The perceptual maps help Brand managers to figure out the way consumers perceive the Brand in relation to competitors. The position of a Brand on the perceptual map is not static since the managers' task is to locate it in the best possible position. Many professionals think that managers have to work on the emotional and rational components of the consumer's mind in order to get a unique Brand positioning. A linking factor that combines emotional and rational components is Brand authenticity. A Brand can reinforce its authenticity by, for instance, having its products certified by a third party, or having a long tradition and reputation, or even having a good relationship with the communities.

An additional factor that involves the emotional component of consumers' Brand perception is the Brand mantra. Brand mantra is composed of few words that describe the soul of the Brand making it univocally understandable by everyone. In the Beauty Industry it has become famous worldwide the L'Oréal four timeless words "Because I'm worth it". It was written in 1973 following a social revolution and a new spirit of feminism. This short speech expresses the Brand essence that is all about women's self-confidence, powerful decisions, and unique style. Brand mantra is a tool used by many companies regardless of the Industry they are in. For example, an effective Brand mantra is McDonald's "Food, Folks and Fun" since it is short, direct, and emotional. A Brand mantra guides all the marketing efforts and eventually, like in the Disney case, rejects some initiatives that are not aligned with it. Disney developed its Brand mantra in

1985 since the incredible growth through Licensing made its characters overexposed. Disney characters were on too many products that the consumers started to think that Disney was merely exploiting its name. In order to remove this negative consumers' perception, Disney proposed an internal Brand mantra called "fun family entertainment" and all the initiatives contrary to these feelings were immediately rejected. It has to be said that Brand mantra is designed for internal purposes whereas the external communication is expressed by the slogan. Nike, for instance, has a Brand mantra that goes "authentic athletic performance" and a slogan that goes "Just Do it". In order to make the Brand standing out from the crowd, a Brand mantra should perform the following task:

- Communicate: a Brand mantra should point out the Brand uniqueness.
- Simplify: a Brand mantra should make it easier for consumers to memorize the Brand meaning
- Inspire: a Brand mantra should set an ambitious goal that is understandable and relevant for all the employees.

It is worth mentioning that some marketers rejected the idea of describing Brand positioning in the traditional way and proposed innovative methodologies such as telling a narrative or story. Randall Ringer and Michael Thibodeau were the first marketers to see the potential of "narrative Branding". This technique uses metaphors that connect to people's memories and associations; it attaches the Brand to a bigger idea or even a bigger dream for customers.

2 BRAND EXTENSION AND LICENSING AGREEMENT

2.1 Brand Extension

Brand Extension is conceived as a mean to achieve growth. In a competitive environment, companies always look for effective strategies that make them stand out from the crowd. Brand Extension is one of the most effective strategies that allow the Brand to leverage its reputation and popularity in order to increase the demand for new products. In essence, a well-performed Brand Extension strategy facilitates new products acceptance and provides positive feedback to the parent Brand. As a matter of fact, when a new product is ready to be launched, it is surrounded by uncertainty. The role of a Brand reputation is to increase the probability of the new product success since the customers rely on the positive, if any, perceptions about the Brand. The Brand acts as a risk reducer and makes the retailers more willing to stock and promote new products.

Furthermore, the Brand Extension makes it easier to find solutions regarding packaging and labeling issues since they can be transferred from the parent Brand. If the Brand Extension has been successfully carried out, the new products can make customers more loyal to the Brand. A company can extend its Brand either into related categories or unrelated categories. If the company does not have enough competencies to extend its Brand through different product lines, it should invest a sufficient amount of money to study consumer preferences as well as build up new specialized teams.

Another way to expand the Brand is through Licensing contracts. In this case, the licensee gets the right to produce, distribute and sell the products under the licensor name. Furthermore, the licensee has to pay to the Brand owner a royalty that is usually calculated as a percentage of sales. As almost all the strategies in marketing, Brand Extension is characterized by some risks. Brand dilution is the most evident risk. Brand dilution occurs when consumers no longer associate a Brand with a specific set of products and start thinking less of the Brand. Brand dilution can seriously harm the company's profitability since the customers will feel lost about the Brand's identity as well as its new lines of products. At this stage retailers can end up rejecting many products and Brands that are badly perceived by the customers. Failing to manage a Brand Extension can cause serious drawbacks when it harms the parent Brand reputation. However, even when the strategy is performed correctly, the financial result can be negative. In fact, it is not unusual that new products cannibalize the sales of the old products making the investment in new products a waste of time and money. Brand Extension has to be conceived as Brand equity reinforcement. In this perspective, Brand Extension is justified only when it increases Brand equity and does not harm Brand current reputation.

Brand Extension has been widely used by the companies operating in the Luxury fashion Industry. In particular, the Luxury Industry has been affected by two types of vertical Extensions: upward Extension and downward Extension. Upward Extension occurs when a Luxury Brand complements its current line with a line that is marketed at a higher price. Downward Extension, instead, occurs when a Luxury Brand introduces other lines that are marketed at a lower price; these new lines can bring some issues to the Brand since they can make its Luxury status poorer.

Indeed, the term “Brand stretching” is used to indicate vertical Extension, whereas the term “Brand Extension” is specifically used to indicate horizontal Extension.

In the Luxury Industry, Brand Extension has become a common practice. However, Luxury Brands are conscious that a long term growth has to be linked with their core values. Although Brand Extension represents an important source of growth, the rational myths such as country of origin, authenticity and heritage are indispensable for being recognized as a true Luxury Brand. Luxury Brands should enter into new product lines as far as they don’t compromise their image. When extending a Luxury Brand the focus is on adding value through originality, stay at the level of the Brand regarding price, quality , style and image. In addition, it is crucial to stick to the vision of the founder and assure an overall consistency in Brand identity and image. The main goal is to protect the Brand from over-Extension while preparing it for a future of new adventures into untapped product categories. A successful Brand Extension strategy has been implemented by Dior. By extending its Brand to different product categories like eyewear, Dior has confirmed to be one of the strongest player in the Industry. The first eyewear was marketed in 1996 with the support and expertise of Safilo Group. Dior has successfully managed the entire process by maintaining the exclusivity of the new product. Based on this success, the Brand soon decided to enter into related product categories. A special edition of the iconic Lady Dior bag, for instance, was sold during the Qixi festival corresponding to the Chinese San Valentine day. Although the Brand set a premium price for it on Wechat (3800$), the bag went sold out the first day. Another meaningful example to mention is represented by the eyewear “DiorSoReal” showcase for the Spring/Summer Collection 2014. The product was sold at roughly 500 euro making profits for around $190 million. The source of success is represented by the high degree of customization of the product. Indeed, the customer can personalize its eyewear by choosing each single detail such as color, materials, shape of the lens. In order to reinforce the exclusivity of the new product, the Brand posted on its website the craftsmanship and the attention to detail that is a distinctive trait of the eyewear. Moreover, Dior’s eyewear have been endorsed by Rihanna which is often associated to glamour.

2.2 Licensing agreement objectives and requirements

There are different typologies of the Licensing Agreement, for instance it can be exclusive or not exclusive.

The exclusive Licensing Agreement can be:

- **Total**: this type of Licensing Agreement relates to all the Branded products and services and gives to the licensee the right to use all of them
- **Partial**: this type of Licensing Agreement relates only to some Branded products or services

The non-exclusive Licensing Agreement (total or partial) can come in two different forms:

- The Brand, by signing the Licensing Agreement, allows multiple licensees to use the Brand name but at the same time it owns the right to use it
- The Brand gives up the right of using the Brand name and it allows third parties to do so

Furthermore, the Licensing Agreement can have a geographic area limitation. In the contract, it can be specified that the right of using a Brand name can be enforced only over a particular territory.

Moreover, a Brand name can be used for products coming from different companies. Generally, the law requires that a Brand has to be used for the same standard products in order to avoid a scam for customers.

Typically, a Licensing contract is made up of the following features:

- **Object:** the object usually defines the parameter of the contract in terms of which products and services will be licensed
- **Territory:** this clause is relevant since it defines the geographic area within which the Licensing Agreement can be enforced
- **Exclusivity:** this feature confers uniquely to an entity the right to use the Brand name and it is usually more expansive than a non-exclusive agreement
- **Compensation:** this clause defines the compensation that has to be paid by the licensee. This compensation is called royalty and it can be fixed or linked to the sales

- **Duration:** the time horizon can be infinite or it may have a deadline established in the contract.
- **Licensee obligations:** this clause is particularly important for the licensor since it obliges the licensee to use in a proper way the Brand name, keeping a quality standard, avoiding to hard Brand reputation
- **Licensor controls:** this clause confers to the licensor the right to check how the licensee is using the Brand name
- **Protection:** this clause defines the strategies to be adopted by both parties in order to fight the counterfeit products
- **Licensing agreement forecasted end:** this clause defines the deadline for using the Brand name

Early termination of the contract: this is a clause which can be enforced by the licensor to stop the contract when an infringement of the clauses occurs

Interestingly enough, the right to use a Brand can be conferred to another entity free of charge. This frequently occurs when the right is transferred within a group, for instance from a parent company to a subsidiary.

Nowadays, many Brands are willing to boost their sales by leveraging their Brand equity in different markets. By signing a Licensing Agreement, the Brand owner keeps its Brand ownership but lend the right to use it to the licensee. A Brand is then an immaterial asset which can be used by its owner or by third parties through a Licensing Agreement. Licensing contracts represents a strategic tool that has been widely used in recent years in almost all industries.

In the Beauty Industry, Estée Lauder represents a good example of Brand Extension and Licensing Agreements strategies. Estée Lauder's products have been launched for the first time in 1946. At that time, the company marketed only four products. The company soon experienced fast-paced growth and stretched its Brand over related product lines. Nowadays, the company's products are numerous, innovative, sophisticated and highly appreciated by the customers. The company can rely on iconic skin care, makeup and fragrances. From the very beginning, the strategy of this company has always been to meet all of the diverse customers' tastes and preferences. In order to accomplish this goal, the company has built up several Brands to address different customer segments. Each Brand has a unique global image that is conveyed through its own logo, packaging and advertisement activities. Moreover, some Brands are marketed by Estée Lauder due to its Licensing Agreements with well-known companies. All of the Brands marketed by the company can be classified in terms of premium/entry price point and classic/progressive lifestyle in a two-dimensional model.

Very soon in its history, the company launched a high-end line of men’s fragrances, grooming and skin care that was marketed by its new Brand Aramis.

In 1968, the company extended its Brands portfolio by introducing a new Brand called Clinique. This Brand was conceived for customers that are increasingly interested in allergies tested products. The skin care and makeup products sold through this Brand are based on cutting-edge research carried out in specialized laboratories.

In 1968, in order to meet the skin care products demand of the youngest male consumers, the company introduced a new Brand called Lab Series. This Brand offers a vast array of products that includes cleansing, shaving and skin care exclusively conceived for a male audience.

In 1990, the company expanded its Brand portfolio by introducing a new Brand called Origins. The Brand is mainly known for its makeup, fragrance and hair care products. The Brand sells its products primarily online and it can rely on a Licensing agreement with Dr. Andrew Weil.

Estée Lauder has also made important acquisitions in the Beauty Industry. In fact, in 1998, the company acquired MAC that is the leading Brand of professional cosmetics. This Brand has grown so fast all around the world due to positive word-of-mouth spread by professional makeup artists.

In the following years, the company carried out several acquisitions: Bobbi Brown, Bumble and Bumble, Darphin Paris and SmashBox just to name a few of them. Most of the acquired Brands are operating in the high-end segment of the market. Estée Lauder is then perhaps focused on exploiting the high-end segment that is recently driving Beauty sales worldwide. In fact, the Luxury cosmetics market is experiencing constant growth driven by the expansion of the high-income class.

The company has signed exclusive global Licensing Agreements with many powerful Brands in the Beauty Industry. One of the most remarkable deals was signed in 2005 with the prestigious Brand Tom Ford. At that time, Estée Lauder was suffering from stagnant sales and the collaboration with Tom Ford aimed to increase the profitability of the Group. The alliance has turned out to be a success since the two companies share resources and values. Tom Ford Beauty can rely on the Estée Lauder experience in the market to launch its products. On the other hand, Estée Lauder can earn high profits deriving from the sales of an important Luxury Brand. The Licensing agreement between these two companies can generate relevant benefits for both of them. The two companies, in fact, are both guided by shared values such as: attention to details, creativity and innovation. The values of the two companies are perfectly aligned, and the results of the alliance are expected to be astonishing. Estée Lauder, due to this agreement, can now develop and distribute Luxury fragrances and Beauty products using Tom Ford Brand name. Tom Ford is definitely one of the most remarkable Luxury Brands. Its Beauty division is experiencing a fast-paced growth being its sales estimated to hit $1 billion this year. The Brand has recently opened a new Beauty boutique in Covent Garden, a well-known shopping district in London.

Tom Ford Beauty's boutique showcases all the Luxury aspects of the Brand. The retail space evokes stunning emotions due to high quality facilities and mirrors that cover almost all the available space on the walls. In addition, the Brand is introducing innovative high-tech tools that will provide customers with an immersive experience. In fact, due to these advanced technologies, the customers will be able to try on the Brand Luxury products and record a video of the makeup session. In addition to the augmented reality technology, the customers can get a personalized makeup consultation and other exclusive services.

By signing a Licensing agreement with Tom Ford, Estée Lauder has added one of the most outstanding Luxury Brands to its portfolio. Guillame Jesel, President of Tom Ford Beauty, considers the designer as a true visionary. According to Jesel, Tom Ford has a unique capability to innovate creating exclusive fashion products. Tom Ford's communication style is straightforward. As the founder is used to say, fashion is about "revealing your most glamorous and inspirational self, amplifying your individuality and show the world who you are, with maximum impact". The founder's messages are direct but effective. Tom Ford's overriding goal is to create the first true Luxury Brand of this century. The Brand history is relatively short but its growth is impressive. In 2006, Tom Ford Beauty introduced Black Orchid, a luxurious fragrance that was highly appreciated by the market. In 2007, the Brand launched the Private Blend Collection of 12 unisex perfumes. In 2011, the Brand has launched a lipstick collection that is characterized by rare and exotic ingredients.

The Brand has also expanded its business over new geographic areas. In fact, it has recently opened up new boutiques in Taiwan and New Zealand in order to reach the new wave of high net worth individuals. Tom Ford Beauty, backed by Estée Lauder, has also decided to expand its operations into the skin care categories. This decision will surely have a positive impact on the division profitability since it can rely on Estée Lauder's great experience in the market.

For Tom Ford this deal represents a highly profitable opportunity since it could be a way to develop a business that can later be run by direct investments. In addition, Tom Ford's Brand can earn additional profits by simply relying on Estée Lauder expertise in the Industry. On the other hand, Estée Lauder can diversify its already vast array of Brands by adding the Luxury Beauty products licensed by Tom Ford. In addition, it can fully exploit its production and marketing capabilities by manufacturing and selling Tom Ford Beauty products.

2.3 Licensing agreement opportunities and threats

Licensing Agreements are a source of growth opportunities as well as potential drawbacks for the companies. Licensing Agreements require a shorter time to be implemented than directly investing in other businesses. Furthermore, Licensing Agreements require a less amount of money invested by the company since the financial commitment is split over two or more entities. This is an extremely relevant aspect since the marketing costs are becoming more expensive than the past and the companies sometimes cannot afford to spend as much as their competitors do. Then, it is important to highlight that the company signing a Licensing agreement can easily withdraw its commitment if the market conditions have changed or if the forecasted costs become too expensive. This relatively high freedom of choice is important since the markets are now characterized by uncertainty and variability.

Licensing Agreements can have different characteristics depending on what the companies want to license. In fact, the company could be willing to use the Brand for products that are not related to the previous ones (corporate merchandizing), or to use celebrities endorsements (personality merchandizing) or literature characters (character merchandizing). Depending on the particular form that the Licensing Agreement assumes, different laws' fields are applied.

In the licensor's perspective, signing a Licensing Agreement can be highly profitable since it can receive cash flows simply due to the fact that owns strong Brand equity. The licensor can expand its business even though it does not have the know-how to serve different customers. On the other hand, the licensee can take advantage of the other company's Brand reputation and it does not need to invest a huge amount of money to create its own Brand awareness. Furthermore, the agreement can contribute to reinforcing the market position of both companies since they can create effective entry barriers, cover potential lack of offer, complete their product lines, enhance the company's development.

Licensing Agreements theoretical advantages are backed by empirical results. Tom Ford's success in Licensing its products is an interesting case to analyze. In April 2005, the Brand relied solely on two Licensing deals. The first deal was signed with Estée Lauder for perfume and cosmetics; the second was signed with Marcolin Group for eyewear. By signing these two Licensing Agreements, Ford was able to build its business more quickly and with a smaller investment than it would have otherwise been. Instead of building up all the business from scratch, Tom Ford relied on the other's Brands awareness. Tom Ford was not forced to make a significant upfront investment, so it could launch products with a more affordable price.

Licensing Agreements could bring to the companies not just advantages but even some drawbacks. In particular, the licensee can incur in the risk of unsuccessful products launch derived from having wrongly estimated their potential. On the other hand, the licensor has to face an even greater risk since an unsuccessful product launch can harm the Brand image and the reputation gained through the years. It should be noted that the licensor can face relevant risks even when the product has been successfully launched since the new product can cannibalize the sales of the Brand's original products.

Furthermore, new products can bring these common risks:

- shadow the link between Brand and original products modify the customer's Brand perception dilute Brand image.
- stimulate a counter-attack strategy from the competitors

In order to reduce these risks, the licensor should make sure that there is the so-called "perception consonance" (Busacca et al., 2006) that has to exist between the Brand and the new product category.

Moreover, Licensing Agreements can be the source of other issues that are related to the potential opportunistic behavior of the licensor or the licensee. As a matter of fact, the latter can take advantage of the stylistic and marketing know-how of the licensor in order to take the competition to another level. The licensor, in turn, by carrying out the inspections over the licensee's work, can actually assimilate the technical and commercial capacity of the other entity and produce by itself the products.

In general, the royalty that the licensee has to pay to the licensor can be a lump-sum or periodic. The first case is more convenient for the licensor since it can have a disposable amount of money immediately and it can make sure to receive the compensation. On the contrary, the licensee sustains the negative effects of the above considerations. The lump-sum payment, in turn, can assume different forms: the licensor can get money or licensee's shares or even a preemptive right on them. The periodic payment, in turn, can assume various forms but the royalty is the most frequently applied. The royalty is particularly convenient for the licensee since it is, most of the time, linked with the level of sales derived from the licensed product. In fact, the royalties can be calculated on a percentage of the price or on the number of products sold. The royalties are often periodically renegotiated taking into account that the external as well as internal factors are far from being static. Moreover, it should be mentioned that, often, lump sum and periodic payments are mixed so that frequently there is an initial lump sum payment followed by periodic installments.

2.4 Determining royalty rates

Royalty rates are determined through a process that takes into account the differences in terms of the entities' power signing the contract. In fact, the licensor's aim is to maximize its cash flows and, on the contrary, the licensee's goal is to minimize its financial commitment. There are several factors that define the differences in terms of the contractual power of the parties. For instance:

- The potential economic revenues of the deal for both parties
- The so-called "price point" to which the royalty is compared (wholesale vs retail price)
- The distribution capability of the licensee that is crucial for determining the benefits that the licensor can get

- The type of license (new or renegotiated) since different types require different investments and risks connected to products launch
- Licensee obligations in terms of marketing and distribution efforts
- The Licensing Agreement's duration that is usually inversely correlated to the royalty rate
- The other immaterial asset involved in the agreement such as know-how, customer lists, design and other information
- The support offered by the licensor to the licensee in terms of investments in developing the Brand, and the product features.
- The degree of integration between the activities of the two entities, for example it is frequent that the licensor owns the stores in which the licensed products will be marketed

The royalty rate is not fixed across the industries but approximately it varies in a range that goes from 4% to 12%. In order to estimate in more details a royalty rate, three main approaches that can be used:

a) Financial approach
b) Market approach
c) Customer-based approach

In the first approach the royalty is treated as an asset that generates cash flows. Hence, it is crucial to estimate the value of these cash flows through classic financial valuation methods. The first step is to estimate the expected financial cash flows that are obviously linked to the number of sales. Then it should be analyzed the time horizon and the cost of capital, or the Weighted Average Cost of Capital adjusted to the specific risk, to which the cash flows have to be discounted.

In the second approach the royalty rate is estimated directly from the market. According to this approach, the royalty rate can be deducted by similar contracts existent in the market. However, the approach requires that those contracts have to transparent and comparable with the ones that are going to sign the contract. Furthermore, the comparable contracts have to be signed by companies that are not in a parent-subsidiary relationship and they have to be signed on a discretionary basis. The contracts should then be highly similar and this is a limit of this approach since each Brand is by definition unique and it has its own characteristics and power. Another widely used market approach method is the so-called "25% rule of thumbs”. This rule requires that a right royalty rate is the one that generates an amount of royalty equivalent to 25% of the NOPLAT (net operating profit less adjustment and taxes) generated from the project. The rule relies on the concept that the licensee is the entity that sustains more the risk of an unsuccessful project so it is right that 75% of the profits are attributed to this company.

The third is a customer-based approach that requires the shift of the focus from the offer to the demand (customer). This methodology relies on the conjoint analysis that is a statistical tool widely implemented in marketing research. In particular, the methodology assigns different utility levels to offer attributes. The customers are required to assign the above-mentioned utility levels to comparable and alternative offers’ profiles.

In conclusion, it should be said that there are two key components of the offer that should be analyzed:

- The potential value of each partner that is the value potentially given by the entities if each one of them effectively manages the offer’s attributes that gave to be proposed to the client
- The activated value that is the value actually provided by each entity in terms of technology, marketing know-how, reputation and all the other elements that are crucial for customers

By effectively collaborating on the above-mentioned steps, the entities can have a clear picture of the Licensing Agreement’s economic potential as well as reduce the information asymmetries that might arise between them

Royalty rates change a lot depending on the specific Industry. Here some examples of average royalty rates in different industries: Art: 3%-8%, Entertainment: 7%-10%, Fashion: 3%-7%, Sports: 8%-11%. In addition, royalty rates may change depending on the product categories: Accessories: 3%-18%, Apparel 5%-17.5%, Consumer Electronics: 3%-10%, Food/Beverages: 3%-12%, Health/Beauty: 5%-12%.

Licensing Agreements represents an importance source of revenues from many companies. According to *License! Global*, in 2006 Licensing Agreements have reached an overall value of

$187, 4 billion. The most used categories are: characters with 22, 7% ($42, 7 billion), fashion (20, 8%), entertainment (12.2%) and art (10.2%). In the fashion Industry, for instance, Licensing Agreements are signed by the most important companies almost every year. According to the journal "Il Sole 24 Ore", Luxottica has been for a long time linked with Armani to jointly sell and distribute high-quality eyewear. In 2003, the Licensing Agreement between the two iconic companies came to an end and it is estimated that Luxottica gave up to 220 million profits. It has been estimated that the deal required a royalty payment of 50 million euros. It is well-known that the royalty payments for these kinds of deals can reach a huge amount of money. Luxottica, in fact, in order to beat the competitor Safilo in the race for obtaining the Licensing Agreement with Polo Ralph Lauren, paid $199 million anticipated royalties. These examples make clear the relevance of estimating correctly the royalty rate to be paid since it can reach peaks that could be difficult to sustain.

Licensing Agreements has been widely used by Luxury fashion companies willing to stretch their Brand over the Beauty Industry. Burberry, for instance, has signed in 2017 a global Licensing agreement with the Luxury makeup and cosmetics company Coty. Burberry is one of the world's most valuable Luxury Brands. It was founded in 1856 by Thomas Burberry and since then, it has experienced a fast-paced growth. In 2017, Burberry ranked the 6th most valuable Brand in the Luxury Industry according to InterBrand. The Brand is characterized by a pure British style By signing this deal, Coty entered into an exclusive agreement to gain the long-term global rights of Burberry Beauty division. Coty can now develop, manufacture and distribute all of the Burberry Beauty products: cosmetics, fragrances and makeup.

Burberry’s Beauty division reported revenues of 200 million euros. In order to get exclusive Licensing rights to this division, Coty agreed to pay cash consideration of 130 million euros. Before signing this agreement, Coty had already signed Licensing contracts with Gucci, Marc Jacobs, and Balenciaga for gaining the rights to market their fragrances. Moreover, Coty signed a Licensing agreement with Gucci in order to sell its high-end skin care products.

3 LUXURY FASHION INDUSTRY

3.1 Luxury fashion Industry overview

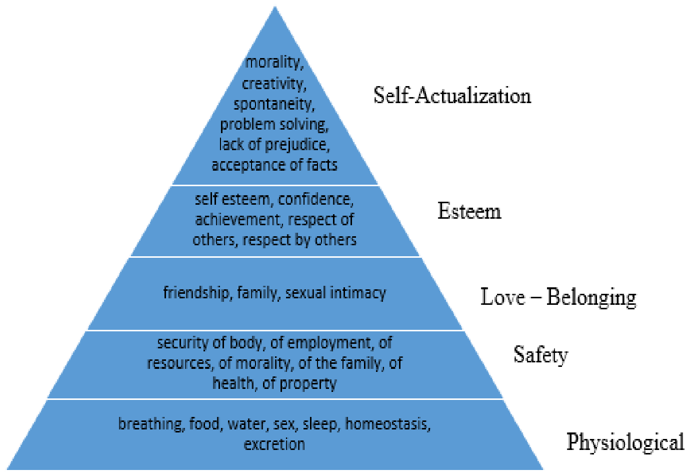
In economics a Luxury product differs from a common product since it is different its elasticity related to price. Generally speaking, a Luxury good enjoys a more than proportional higher demand related to an increase in prices, that is to say that a Luxury good has a positive elasticity. Luxury is a concept, or better said, a need that has always existed through the centuries. It was well known at the time of the Roman Empire in which the people used the word “*luxatio”* to express distance. As a matter of fact, a Luxury Brand or product expresses the distance that separates that particular product from a common one. Through the years, Luxury products have assumed the role of differentiating groups of people. These kinds of products indirectly confer the power to their owners which are perceived as belonging to a higher social status.

By purchasing Luxury products, customers perceive themselves as members of a prestigious group of people. This privilege is not just for show-off since it allows people to get several benefits from social interactions. A Luxury product can generate satisfaction but it can even evoke positive feelings linked with past experiences. The main focus of the Luxury Brands is to provide the customers with above average quality goods that are distinctive due to their superior appeal. Luxury products are then frequently associated with supreme quality and attention to details even though their price is also the result of many other factors: the immaterial aspect of the Brand, its history, tradition and values.

Luxury products enjoy important characteristics such as exclusivity and rarity. These kinds of products are perceived as exclusive since they can be afforded by a small audience. The expectations and the time spent to get the product are extremely important elements that confer to the Luxury product a sense of uniqueness. Moreover, another peculiarity of Luxury products is their rarity. Ferrari and Porsche are Luxury Brands even thanks to their rarity that is basically making the product desirable by many but owned by few. This result is often achieved by the managers that set a very low amount of products to be produced in order to increase their sense of rarity.

Luxury products have been widely studied by marketers and scholars since they express several interesting consumer's behavior insights. Luxury Brands and the needs they satisfy have been widely studied by scholars belonging to different fields of study.

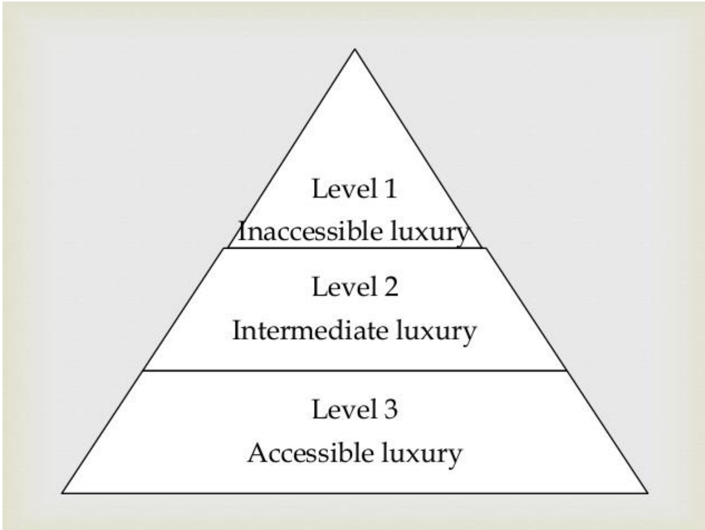
For instance, Luxury products can be located and compared with other products that show up in Maslow's pyramid of needs. According to Maslow (1943), the pyramid is made up of five layers that correspond to five categories of needs.



At the base of the pyramid there are the basic needs that include physiological as well as safety needs. According to Maslow, these are the needs that everyone wishes to satisfy as a human being. Once these needs are fully satisfied, people usually try to satisfy more complex needs such as being part of a family, or friendship or even being loved by someone. By climbing the pyramid, the next step is to fulfill the esteem needs that reflect into being respected by others in the social as well as work life.

At the top of the pyramid there are the self-actualization needs that are related to morality, creativity and, generally speaking, to the happiness and more personal needs. The pyramid is particularly useful because it helps to locate the Luxury products into the esteem needs category and not, as usually thought, at the top of the people’s desires.

According to Danielle Alleres (1990), Luxury products can be divided into three different levels: accessible Luxury, intermediary Luxury, inaccessible Luxury. The three categories are represented in a pyramidal way as the Maslow’s pyramid and, in this case, climbing the pyramid means adding the degree of uniqueness and prestigious of the products.

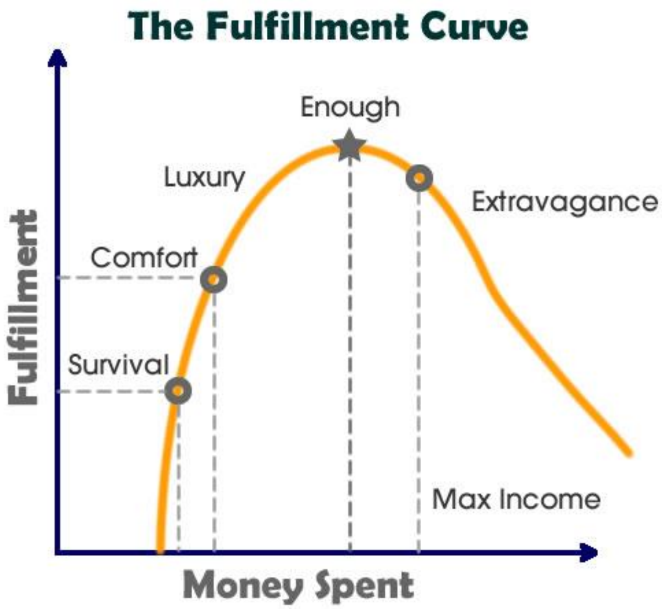


At the bottom of the pyramid, there are the accessible products even defined by Kapferer and Bastien (2009) as high range products since they are distributed on a large scale to everyone who wants to have some degree of Luxury in his day-by-day life.

At the second stage of the pyramid there are the intermediate Luxury products that are targeted to a smaller range of customers at higher prices in order to have a higher degree of exclusivity.

At the top of the pyramid, there are the inaccessible Luxury products since they are targeted to an extremely low percentage of the population at a very high price. It should be said that, most of the time, companies gain more profits by selling intermediate and accessible Luxury products since they yield lower earnings per product but they can be sold to a larger number of people so they are more profitable inaccessible Luxury products, on the other hand, are necessary to be made by the company since they are artistic creation that keeps up the focus and the admiration of the customers toward the Brand.

In order to fully understand what differentiates a product that is necessary from a Luxury product it is useful to look at the Taylor "Fulfillment Curve" (2015). In this simple but useful graph, it is highlighted the point on the curve in which the primary needs are satisfied, there are an adequate number of comforts and the Luxury products are carefully evaluated before buying them.



If the individual goes beyond the highlighted point, he will not gain any additional satisfaction and he will end up wasting money. This behavioral framework can be associated with the economic theory called "Law of diminishing returns" by David Ricardo. The Fulfillment Curve is a useful tool to measure the consumer's satisfaction deriving from the purchasing of Luxury goods.

According to the expert Hana Ben Shabat (2015), the new Luxury consumer's base has changed a lot in recent years. The expert pointed out some worth mentioning characteristics:

1) **Income**. In the past, Luxury consumers were mainly ultra-rich people. Nowadays, instead, Luxury Brands are used even by a richer middle-class especially in the Asian countries. As stated above, a Luxury Brand's interest is to sell their products even to a larger number of people that want to have some degree of luxe in their life.

2) **Age.** Luxury products have always been purchased by the oldest population. This trend has changed a lot in recent years since Y and Z generations are becoming more interested in this kind of products. Y generation (or even called millennial) is composed of the people who were born between 1980 and 2000 and they make extensive use of mobile phones for online purchasing. Z generation is made up of people who were born after

2000 and they are the most technological generation since, from their youngest years, they get used to social media and the internet. These two generations are representing a larger percentage of the Luxury products customer base that was, years ago, mainly represented by X generation (people who were born between 1960 and 1980).

3) **Gender.** In the past, the typical Luxury consumer, especially in the fashion sector, was represented by the woman. In recent years, this trend has changed rapidly since more and more men turn out to be attracted by new fashion styles and the relative market is experiencing a stunning growth.

4) **Geography.** Luxury shoppers have always come from western countries since in these geographical areas it was concentrated the highest percentage of wealth. The reality has changed a lot in recent years since the emerging markets are attracting more capital and interest in Luxury products. The most important fashion Brands are investing an increasing amount of money in Asian countries where the cost of production is lower compared to the Western countries and the opportunities for growth are much higher. As a matter of fact, Luxury Brands like Louis Vuitton have opened stores in countries that were before ignored such as China, Mongolia and Nepal. This trend explains an increasing interest of these kinds of Brands not just in the cheaper production process but even in higher returns deriving from attracting new customers in these markets.

5) **Trendiness.** In the past, Luxury was perceived as a classic style but nowadays it is considered more modern and trendy. Burberry, for instance, has put remarkable efforts in trying to sell more fashion clothes even though it has kept on selling its traditional and more classic trench.

6) **Value.** Luxury Brands have always been considered worth their price because of their long tradition craftsmanship. Although the Luxury products' intrinsic value is still extremely relevant, the new younger customers seek more the appearance of the products and care less about the craftsmanship where they come from.

3.2 Luxury fashion Industry latest trends

The Luxury fashion Industry is continuously affected by rapid changes. This paragraph's purpose is to highlight the latest trends that are affecting the market and obviously influencing the companies' strategic decisions.

Direct to consumer (DTC) online retail

Despite the researches that highlight the willingness of the Luxury shoppers in buying in brick and mortar stores, an online presence is highly recommendable for Luxury Brands. The Luxury customers' preference in buying in real stores is mainly related to the current Brand's poor capability to re-create the same experience online. As a matter of fact, Luxury fashion Brands are adopting an omnichannel sales approach in order to make their websites more mobile-optimized and appealing for the customers. The main challenge for the Brand in recent times is to provide customers with the same experience regardless of the channels they are willing to use. Luxury fashion Brands have to develop their websites and implement innovative features like live-chat or the possibility to book an appointment to the in-store collection in order to reduce the distance from online and offline experiences.

The influencers' strategic role

Nowadays, Luxury Brands are becoming more interested in leveraging the new digital influencers over mainstream celebrities. As a matter of fact, new digital influencers are perceived closer to the customers and, for this, it is easier to communicate with them. Influencers in this sector can drive, due to their popularity online, reach better than traditional advertisement campaigns.

The millennial mindset is affecting every generation

The new trend spread by the younger generations is to perceive Luxury goods less about others' people's opinion and more about self-fulfillment. The new customers want to be satisfied with their preferences more than being show-offs. Millennials, basically, want to have a deep connection with the Brand that has the main goal to give voice to their aspirations and label their personal stories.

Gain authenticity through social media

Luxury Brands have been historically closed in their exclusive world. The new untapped customers are willing to see their favorite Luxury Brands online, promoted by the latest influencers on Facebook, Instagram or Snapchat. Since Instagram has been specifically designed for visual content, it is the most viewed social media for Luxury contents. It is worth highlighting that social media conversation does not spread over other platforms online like Brand website, but they tend to remain on that social media.

Organic search is fundamental for Luxury Brand's growth

Organic search is undoubtedly one of the main sources of Brand awareness. Luxury Brands have recently invested a huge amount of money in SEO and SEM, that is to say optimizing their website visibility and buying commercial spaces on Google.

3.3 Benchmark Brands

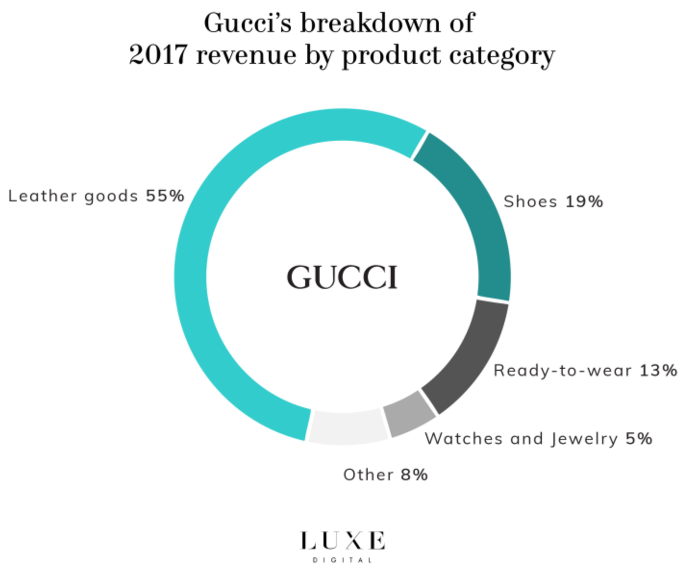
According to a Deloitte analysis, the world's largest Luxury goods companies generated personal Luxury goods sales of US$ 217 billion in 2016 whereas the average Luxury goods annual sales for a Top 100 company is now US$ 2.2 billion. Other key findings of this analysis were:

- Italy ranked first in Luxury in terms of the number of companies operating in the Industry, whereas French companies are the ones with the highest share of sales.
- Cosmetics and fragrances were the top-performing sectors in 2016
- The eleven multiple Luxury goods companies have the largest average size among the Top 100; it is worth mentioning that together they account for 32.2 percent of the Top 100 Luxury goods sales.

Luxury Industry has faced an increasing number of challenges over the last few years. As a matter of fact, economic trends change rapidly, changes in digital technologies are occurring frequently and consumers' tastes are evolving quickly. Below a list of the Luxury Brands which have last through the years by innovating and reshaping their strategy without losing their heritage, the key driver of success.

Gucci

Gucci is often recognized as one of the most popular Luxury Brand. Gucci has developed through the years the most engaging social media campaign, thus it is particularly admired by millennials. Gucci's market share has increased in the last years and its financial results show that Gucci reached EUR 6.2 billion in revenue in 2017 that represents an increase of 45% compared to the previous year.



Gucci's new tagline is "Redefining modern Luxury fashion" which is perfectly aligned with the positive results deriving from the increased millennial's attention to the Brand. As stated by the Brand itself, the main goal is to be "more in tune with today's world and more relevant and appealing for both long-time and emerging Luxury customers".

In order to build stronger connection with the younger generations, under the guide of Gucci's President and Chief Executive Marco Bizzarri, the company is hiring an increasing number of under-30s employees. Indeed, Gucci's CEO is confident that talented young employees can get fresh insights into the latest Millennials tastes and preferences. As a result, Gucci had been one of the first Luxury Brand to be aware that the use of fur is a source of ethical issues for Millennials. The Brand has wisely banned it avoiding to damage its reputation. In order to establish a more effective connection with the Millennials, Gucci posts regularly contents on the most relevant social media.

Interestingly enough, Gucci crafts content specific to each platform but, at the same time, it remains consistent across all in terms of look and feel. Gucci, owned by French conglomerate Kering, is undoubtedly one of the fastest-growing Luxury Brands and it turns out to be even the most searched fashion Brand on Google in 2017 and 2018.

Chanel

Chanel is an iconic Brand in the Luxury universe. This Brand has invested relatively less in e-commerce but it focused in other areas such as digital Luxury storytelling with engaging videos and celebrity-driven campaigns. The privately held Brand can rely on a vast array of products such as clothes, fragrances, handbags and watches. Chanel has released its financial results for the first time during its 108-year history in 2017. In that year, it registered $9.62 billion revenues, corresponding to an increase of 11% from the previous year. This astonishing growth was mainly due to the increasing sales in Asia and Europe. The company released other data such as its operating profit ($2.69 billion), net debt ($18 million), free cash flow ($1.63 billion).

Louis Vuitton

One of the most famous Group in the Luxury Industry is the French Luxury house Louis Vuitton. The value of Louis Vuitton Brand was estimated at $33.6 billion by Forbes' 2018 annual research. Part of this success is due to Louis Vuitton's much-hyped collaboration with Supreme that made it possible to connect with untapped customers. Supreme is a streetwear label founded in Manhattan in 1994 that has been able to sign partnerships with the most influent Brands in the world. In the last years, Supreme has shown how to engage the younger generations who want to feel a sense of belonging through their purchases as well as a sense of authenticity. From its collaboration with Supreme, Louis Vuitton has gained a new positive reputation since it is now perceived as versatile and easy to wear.

Hermès

Hermès is a privately held French Luxury house which has been mostly appreciated by some of its iconic products such as the Birkin bags. Hermès has recently released a new user-friendly interface website with a vast array of products. The release of this new website is the result of the Hermès' conviction that, nowadays, Luxury shoppers prefer online channel more than physical shop. According to InterBrand, the Brand has an overall evaluation of $ 23.4 billion right behind

Louis Vuitton ($ 28.8 billion). Currently, the Brand relies on 307 stores all over the world and it employs 13,000 workers. It is an iconic Brand in the Luxury Industry and it has a solid financial structure since in 2017 it generated $6.6 billion in revenues and over $2.2 billion in profits. Hermès carries out a unique strategy to manage the high demand for its products and increase the exclusivity that surrounds them. In fact, instead of setting a higher price for its products, the Brand rations the demand by making longer queues. In essence, the customers will perceive Hermès' products as exclusive since it is highly desirable.

Rolex

The well-known Luxury Brand Rolex is mainly famous for its watches. In order to gain popularity and to enrich its reputation, the Brand has signed several endorsements in golf, motorsports and tennis; it can rely on the collaboration of some of the most influential athletes such as Tiger Woods, Roger Federer and Lindsey Vonn. Its most searched products are Rolex Submariner, Rolex Dayton, and Rolex Oyster Perpetual. The Brand estimated value is around $9.3 billion.

Tiffany

Tiffany is an American high-end jewelry Brand that is famous for its prestigious products. Tiffany is aware that the new opportunity for Luxury Brands is to target the Millennials, thus it has signed contracts with young celebrities such as Elle Fanning and Lady Gaga. Tiffany has been perceived as a gifting Brand for many years but it is trying to change this perception in order to be perceived as a self-purchasing Brand. Tiffany performs very well online, it is highly visible on social networks like Instagram and its website is frequently searched on Google.

Dior

Dior is a French Luxury goods company that is well-known for its exclusive collections and premium Beauty product line. Dior has recently adopted a Millennial-friendly approach led by its slogan "We should all be Feminists". This statement has been printed on the Branded t-shirts receiving an enthusiastic response from the Brand's followers. It should be said that at first the Brand was reluctant to invest in e-commerce but it had to adapt its strategy to the latest trends and so it is now fostering Omni-channel retail and online growth.

Armani

Armani is a prestigious privately owned Italian Luxury fashion Brand. The Brand sells a vast array of fashion products: from leather goods to watches and shoes just to name a few of them. Armani has recently adopted a “consolidation” strategy reducing its number of Brands from seven to three. The three product categories are named as following: high-end Giorgio Armani, mid-range Emporio Armani and youth-oriented A|X Emporio Exchange.

Prada

Prada was founded in 1913 and, since then, it has experienced a rapid growth that put the Brand among the most notable Italian Luxury Brands. Prada has a strong presence online and offline. As a matter of fact, its website portrays the products with full details in order to keep the customer well informed about the premium quality. Prada has various advertisements on magazines like Vogue and Elle and tries to engage the youngest generation with its Miu Miu Brand.

Balenciaga

Balenciaga is owned by the French group Kering and it is experiencing one of the fastest growths in the Luxury fashion Industry. The Brand’s style is related to streetwear and athleisure feel. The athleisure is a trend in fashion in which clothing designed for workouts is actually worn in other circumstances like the workplace or school. This innovative trend has attracted Millennial and Z generation Luxury consumers around the world. These two generations make up around 60% of Balenciaga’s total customers and they are spreading its popularity.

Cartier

Cartier is a French Luxury Brand headquartered in Paris which is well known for its supreme quality Luxury jewelry and watches. Cartier has gained popularity online due to a combination of the following elements:

- Effective and successful video content on YouTube and Instagram
- Strong search engine marketing strategies
- A well-structured website, with efficient customer service, easy online appointment booking and 360-degree views of products.

As other Luxury Brands, Cartier is becoming more interested in attracting the younger generations. Indeed, 43% of its sales derive from under 35s customers.

Burberry

Burberry is a British Luxury Brand founded in 1856 and headquartered in London. It has recently gained customers' attention for its digital campaigns and its logo redesign. The Brand typically relies on men's jackets that represent their bestseller. Burberry has recently extended its Brand into new product lines like watches and perfumes.

Lancôme

Lancôme is a French Luxury perfumes and cosmetics Brand owned by L'Oréal Paris. It sells basically only Luxury Beauty products that have been promoted by several celebrities like Estée Lalonde. The Brand has invested a huge amount of money in advertising campaigns that have been highly appreciated by the audience. Lancôme promotional campaign "La Vie est Belle" has been viewed by over 1.5 million people. Lancôme, driven by L'Oréal that acquired technology company Modiface, is totally focused on improving customers' digital experience. In order to stay ahead of the curve in the market, the Brand should ameliorate its e-commerce channel and get insights from big data.

Yves Saint Laurent

Yves Saint Laurent was founded in 1961 and it is currently owned by Kering. The Brand has been successful for many years due to its diversification strategy. The Brand has been working for many years with strategic influencers that gave prestige to its unique style and authenticity.

Bulgari

Bulgari was founded in Rome in 1884 and currently is particularly famous for its Luxury jewelry and accessories. Like many other fashion Brands, Bulgari is aware of the high potential represented by the younger generations and, for this reason, it increased its presence online. In particular, the Brand has developed a dual strategy:

- Customize campaigns for different markets through connections with local influencers that are more engaged with that particular geographic area

- Commit the Brand in social campaigns. A successful Bulgari's social campaign was, for instance, the "See my wish" campaign which invited people to post a closed-eyes selfie. In return, Bulgari committed itself to hand over a certain amount of money to Save the Children.

4. <u>CHINESE ECONOMY</u>

4.1 Chinese economy overview and demographic trends

China has been considered by many experts one of the most outstanding countries in the world in terms of economic development. With an overall population of 1.4 billion, it is the world's most populous country. Few data and explanations can give a clear picture of the economic measures China has undertaken in these years. First of all, China is recognized as a socialist market economy in which can be clearly noted the predominance of public ownership and state-owned enterprises in the market. Officially recognized as the People's Republic of China, this country is the world's second-largest economy by nominal GDP. In recent years, China has experienced extraordinarily high growth rates averaging 10%. As an outstanding economy, China can be even proud of being the world's largest manufacturing economy and exporter of goods as well as being the second largest importer of goods.

However, China has been widely criticized by many experts as being a large contributor to environmental pollution due to its poor regulated Industry. China has recognized this issue to some extent and in the last few years has tried to change this negative trend. The central government has set a clear direction to its near future: the so-called Chinese Dream. This ambitious economic program aims to achieve two goals: the first is trying to make China become a moderately prosperous society by 2021 that is the 100th anniversary of the founding of the Communist Party, the second goal aims to make China becoming a fully developed nation by 2049, the 100th anniversary of the founding of People's Republic of China. In recent years, the growth numbers provided by the Chinese government have been criticized by many experts due to many inconsistencies. Although a precise and reliable measure of the actual Chinese GDP has not been provided yet, there is no doubt about the extraordinary economic growth of this country in the last 30 years.

In spite of this outstanding result it is interesting to note that there are huge differences in terms of natural and human resources, transportation systems and industrial infrastructure within the country. The coastal regions are the wealthiest ones even due to their strategic position for international trade; the western and central regions are generally poorer instead. Hong Kong and Macau are worth a mention since they are two former colonies respectively of the UK and Portugal and enjoy a special treatment since they are, for instance, free to engage in autonomous economic negotiations with other countries. In order to share a common political and economic track to follow, the Chinese central government adopts the so-called: “five years plan”. This is a relatively short-term plan that is implemented and amended every five years and it has reached its thirteenth time.

Another key aspect of the Chinese economy is the influence of foreign investment. China has gone through several changes in the management of foreign investment in the last 40 years. In the early 1980s, China explicitly required foreign investors to set up joint venture partnerships with Chinese companies. Thereafter, the Chinese government has gone through an opening up the process that has allowed more capital inflow until the point that foreign-invested enterprises account for 60% of China’s imports and exports. In recent years, China has shown its interest in making foreign direct investments with huge capital expenditures. Many Chinese companies are willing to make investments in both developing and developed countries in order to pursue profit margins and gain skills from the international context. In spite of this opening up the process, Chinese companies and their products are still perceived in many cases as being very little focused on good quality and acceptable working conditions.

Many newspapers and reports have discussed the rising power of the Chinese middle class. There is no shared vision about the real spending power of this large group of citizens. More optimistic analysts are confident about the ability of the Chinese middle class to have a huge and positive impact on the country’s economy. On the other hand, some other analysts consider this projection overrated. The idea of a never-ending economic growth has been recognized as too optimistic by many Chinese citizens; in fact: the living costs are rising, household debts are becoming unbearable, the pace of growth is slowing down, and the population is ageing as never before. China owns the world largest middle class with more than 400 million consumers and it is betting that this large population will spend an increased amount of money on accessories and unnecessary goods in order to fight back the US trade war. Nevertheless, Chinese middle class has to sustain the burden of a relatively high cost for housing, education, health care, child care just to name a few of the expense voices. On the macroeconomic sides many experts worry about the retirement costs of a rapidly ageing population given that at the end of 2017 the people over 60s were 240 million. The trade war against the US has made, among other factors, China's Consumer Confidence Index decreasing by two points in just half a year.

In terms of demographic data, China shows some interesting peculiarities. In fact, in recent years, the Chinese government has tried to manage the birth rate. The government has implemented the so-called one-child-policy that was then amended to two child-policy in 2015. In spite of this, China's population keeps being huge due to its 1.5 billion citizens roughly. The distribution of the Chinese population is heavily unbalanced. The majority of the population lives in the eastern and coastal regions reaching the peak in some areas such as Yangtze River Valley and Pearl River Delta. The People's Republic of China officially recognizes 56 distinct ethnic groups. The largest ethnic group is the one called Han that represents 90% of the population roughly. The remaining part of the population is mainly represented by the Zhuang, Manchu, Uyghur, Hui, Miao, Yi, Mongols and Tibetan. The official language of the People's Republic of China is the Putonghua, even though many dialects still exist and they are widely spoken in some areas like the Cantonese in Hong Kong and Macao. China is an incredibly diversified country even when it comes to religion since Taoism, Buddhism, Islam, Christianity and many others coexist in the same areas.

5. BEAUTY INDUSTRY

5.1 Beauty Industry overview

The Beauty Industry is made up of products that serve the main goal of revitalizing the well-being of the people, making them feel attractive. The global Beauty market is usually divided into five main business segments: skin care, hair care, makeup, fragrances and toiletries. In general terms, the market can also be subdivided into premium and mass production segments. In fact, in this market currently Luxury and common Brands coexist as well as various price ranges and distribution channels.

The Beauty Industry is expected to experience fast-paced growth in the next years. There are new sources of growth related to this Industry:

New demographics

The demographics of Beauty consumers are expected to change over the next years. In fact, Millennials are projected to represent 30% of total global retails sales by 2020. The companies should adapt their marketing strategies to the new trends affecting the market. Millennials, for instance, are keen to use e-commerce for their purchases. Moreover, they actively follow online influencers and are increasingly attracted by healthy products. Furthermore, the companies should take into account that the older generations are adopting a Millennials mindset. As a matter of fact, the older generations like to spend as younger people do and they are keen to keep a youthful appearance.

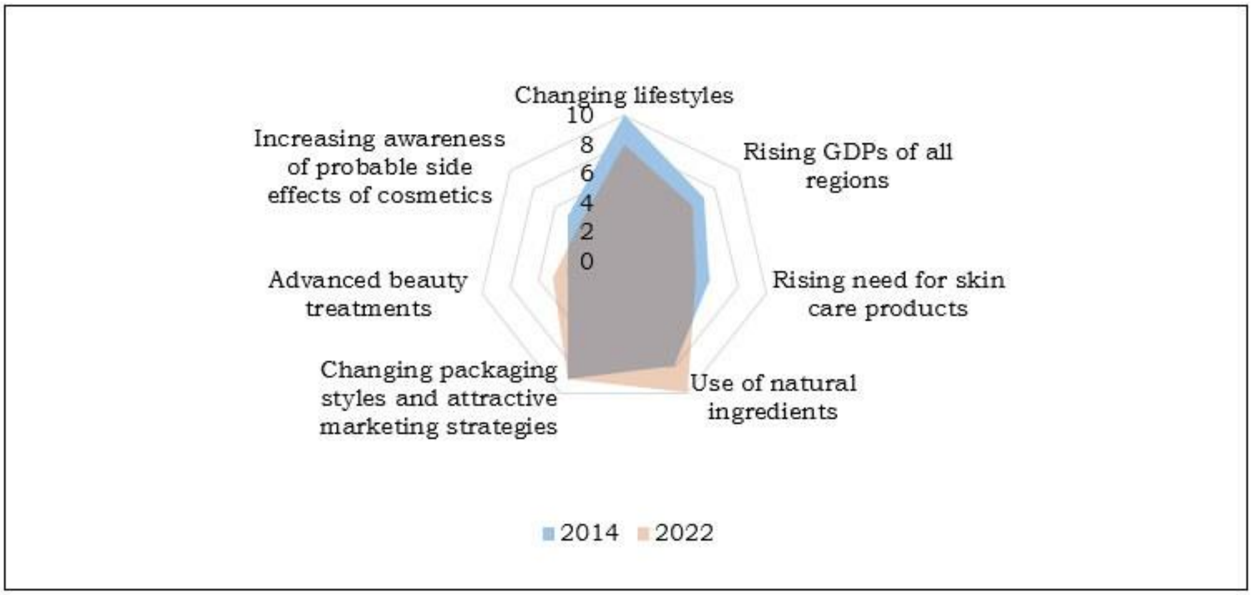
New geographies

Global growth in the Beauty Industry is highly concentrated in emerging economies. North America and Western Europe markets are growing at less than 3% whereas the emerging economies are experiencing booming growth in this Industry. According to a Deloitte research, the Beauty Industry is growing in Africa at 10.5%, East Asia at10%, Latin America 9.8% and Eastern Europe at 5.1%. However, it is worth mentioning that developed markets are recovering after a period of low growth and the consumers living in those regions continue to have premium spending power.

New business models

The Beauty Industry has recently been affected by some relevant changes. Service, experience and convenience are now the key aspects that companies have to take into account to engage with the consumers. The companies have to come up with innovative business models by adapting their strategies to the evolving consumer's needs.

Generally speaking, the companies operating in this market have to face two major challenges: firstly they must compete for shelf space in retail outlets with similar Brands; secondly, they have to compete with copycat Brands offering similar products. This Industry is dominated by a handful of famous corporations such as: L'Oréal, Procter & Gamble, Unilever and a few others. These companies, starting from European and US market, have been able to tap into the majority of the world's market so that they enjoy a high level of trust and loyalty from the customers all over the world. In order to expand their business worldwide, these companies are seeking for strategies such as mergers and acquisitions, partnerships, contracts, Licensing Agreements and new product launch. The interactions among the companies serve the main goal of gaining competitive advantage in a specific market. These kinds of interactions bring together opportunities and threats that the companies cannot avoid taking into account. The historical data related to mergers and acquisitions and similar deals are made up of successful as well as terrible results. Apart from the warnings to take into account, it has to be said that this Industry has proved to be quite used to these kinds of deals. The latest deals have involved two of the top-performing companies: L'Oréal and Unilever. In February 2017, Unilever acquired Living Proof in order to provide the customer with a product aimed to solve hair problems. Another example can be given considering the case of L'Oréal that launched the new "Elvive hair care" in order to solve all kinds of hair damage. The Beauty Industry is expected to grow at 2.81% CAGR (Compound annual growth rate) during the forecast period of 2018–2026. As it happens for all the industries, even the Beauty Industry is affected by evolving customers' preferences and economic changes. In the following graph an expected scenario covering a forecast period (2014–2022) is provided. The graph highlights the changes over the forecasted period in lifestyles, GDP of all regions, need for skin care products, and involvement of natural ingredients, packaging styles and marketing strategies, advanced Beauty treatment, awareness of probable side effects of cosmetics.



The graph shows that currently these are the trends that boost the profitability of the market and make the customer spending money in this sector:

- **Changing lifestyles**
  In recent years the improvement in the lifestyle is remarkably affecting the cosmetics Industry. Customers have become more conscious of their well-being and the products that can make them feel better. A change in lifestyle occurred even for the male's products since more men decide to spend money in this sector for improving their own appearance.
- **Rising GDP of some regions**
  Some regions of the world are better off in terms of economic recovery since the global crisis of 2008. In terms of GDP, countries like China and India are experiencing a booming growth that allows customers to spend more money on Luxury goods and in the Beauty care products in general.
- **Rising need for skin care products**
  Since the world population is ageing more than before, the customers seek products that can keep their skin to a youthful stage. This trend is influenced even by the media and

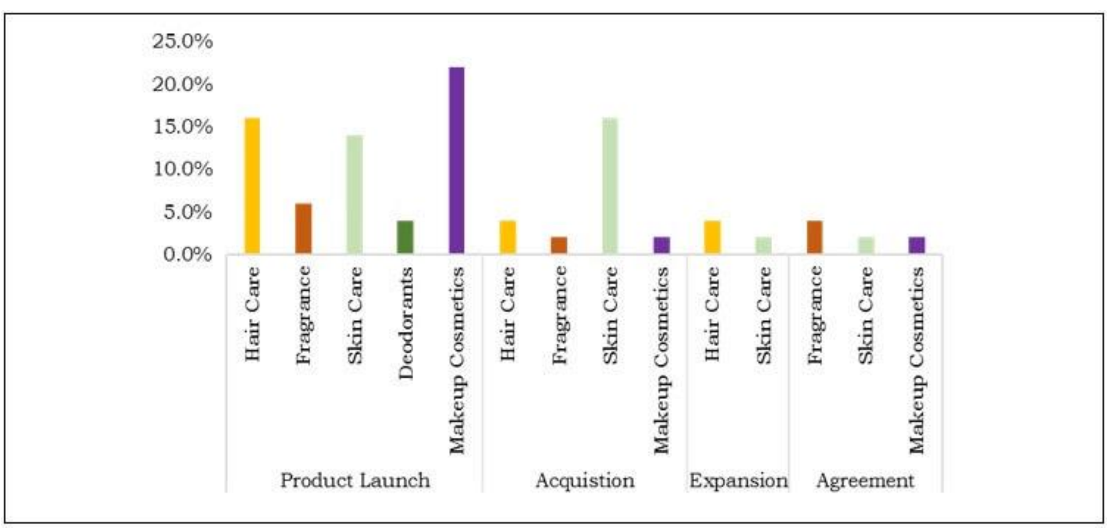
advertisement campaigns which often highlight the benefits deriving from these kinds of products.

- **Increasing awareness of probable side effects of cosmetics**
  The customer willing to spend part of his income for Beauty products is generally enough educated and aware of the probable side effects of cosmetics. Companies, therefore, have to pay attention to provide customers with risk-free products if they don't want to be suited and, eventually, suffer a loss in terms of a worse Brand reputation.

As highlighted in the graph, in the near future, the attention of the customers will be focused on other factors. In fact, companies will be keen to implement more advanced Beauty treatments by investing a remarkably high amount of money in R&D. Furthermore, many Brands are going to use an increasing number of natural ingredients in their cosmetics.

In the global Beauty Industry, companies will be forced to implement innovative strategies in order to gain higher profitability and market share. In the following graph the top winning strategies have been illustrated and for each segment of the market their relevance has been highlighted.

Top winning strategies in the world cosmetics market

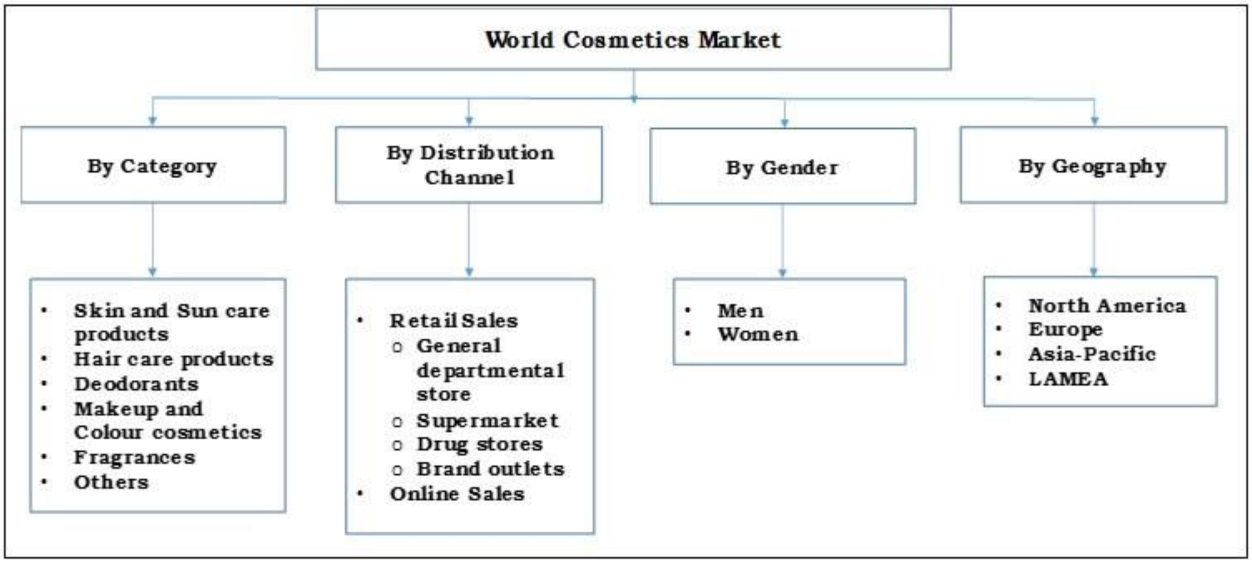


In particular, the makeup segment has been positively affected by product launch while much less by acquisition, expansion and agreement strategies. Skin care segment has been mainly affected by successful product launch and acquisition strategies and less positively affected by expansion as well as agreement strategies. Fragrances segment has been moderately influenced by successful product launch, acquisition and other companies' agreement strategies. Hair care segment has been characterized by many successful product launch strategies while deodorants only moderately.

The Industry, as a whole, enjoys a definitely high growth rate since there are several drivers that jointly boost its attractiveness. The positive trend is caused by:

1) The growing demand for anti-ageing products
2) Innovative and eco-friendly packaging designs
3) E-commerce channels that influence sales
4) Growing demand for men's grooming products
5) Significant demand for multifunctional products

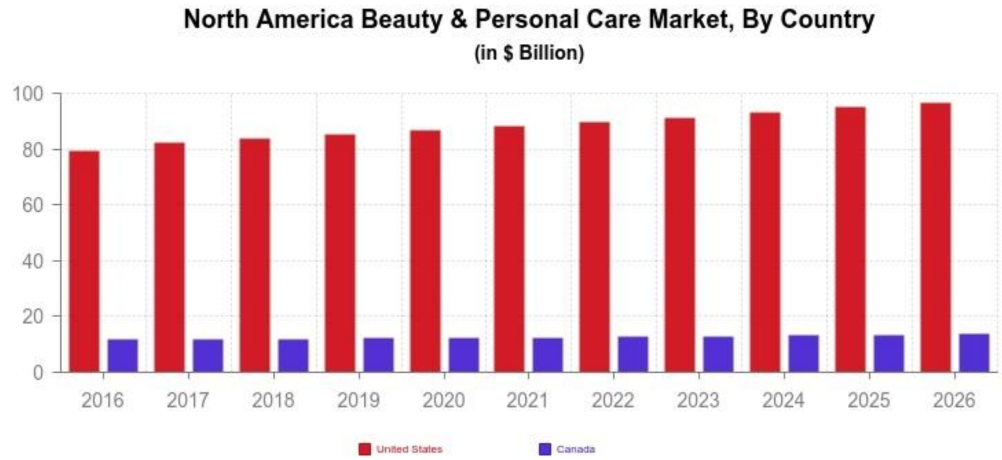
The opportunities in this Industry are almost endless as well as the variety of products that belong to it. In fact, following the segmentation of the market by product category, the Industry consists of: skin care, hair care, color cosmetics, men's grooming, bath and shower, baby and child-specific products, fragrances, deodorants, sun care, oral care and many other products. Skin care category is one of the most technically advanced. These kinds of products have to follow countries regulations and they undergo many dermatological tests before being introduced into the market. Apart from the variety of the products, the Industry can be analyzed taking into account its distribution channels. In this Industry many distribution channels coexist: direct selling, hypermarkets & retail chains, e-commerce, pharmacies, specialty stores, salons and others.



Moreover, the Industry can be analyzed through geographic segmentation. In fact, the whole Industry can be divided into five major regions: North America market, Asia-Pacific market, Europe market, Latin America market, Middle East and Africa market.

1) North America Beauty Industry was valued at $93.81 billion in 2017. This Industry offers a wide range of opportunities. It is forecasted that Industry value will reach $110 billion in 2026 with a 1.78% growth rate. In the following picture the US and Canada markets are compared in order to get further insights into this region of the world. As it can be clearly seen, the US market is far more valuable than the Canadian market. According to the ten-year projection from 2016 to 2026, the US market is expected to grow year by year reaching finally an approximate value $100 billion. On the other hand, the Canadian market is not expected to experience a fast-paced growth and its value will remain quite stable over time. Premium Beauty care products are experiencing a stunning growth in the US, whereas the Canadian market is dominated by a wide range of products such as sunscreen, whitening, cosmetics, toothpaste, hair care and perfumes. The North America market is dominated by the most famous Brand such as Procter and Gamble, L'Oréal Group, Avon, Revlon, Luis Vuitton, Unilever and others.

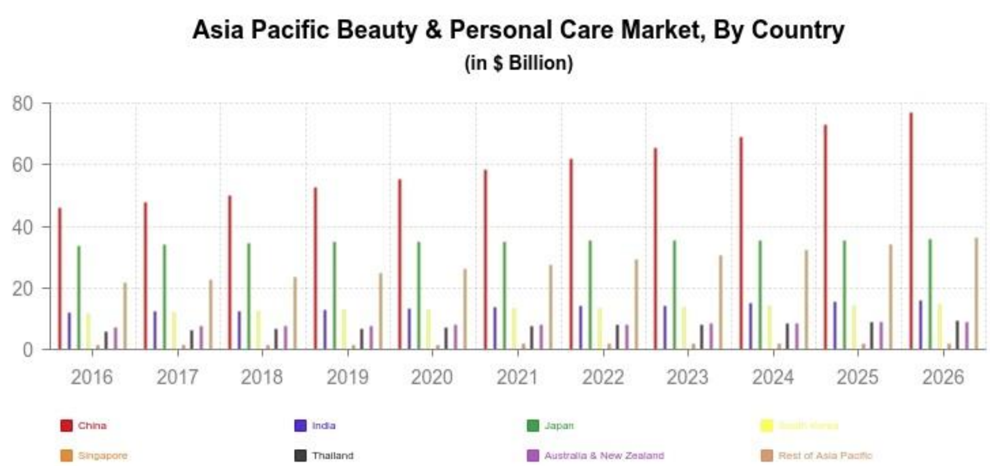
NORTH AMERICA BEAUTY AND PERSONAL CARE PRODUCTS MARKET



Source: Inkwood Research

2) Asia-Pacific Beauty care Industry was valued to be at $143.64 billion in 2017. According to the projection on a forecasted period of 10 years (2016–2026) the market is expected to reach $199.14 billion in 2026 with a growth rate of 3.73%. The following scheme takes into account the Beauty care market by comparing the major Asian countries.

ASIA PACIFIC BEAUTY AND PERSONAL CARE PRODUCTS MARKET



Source: Inkwood Research

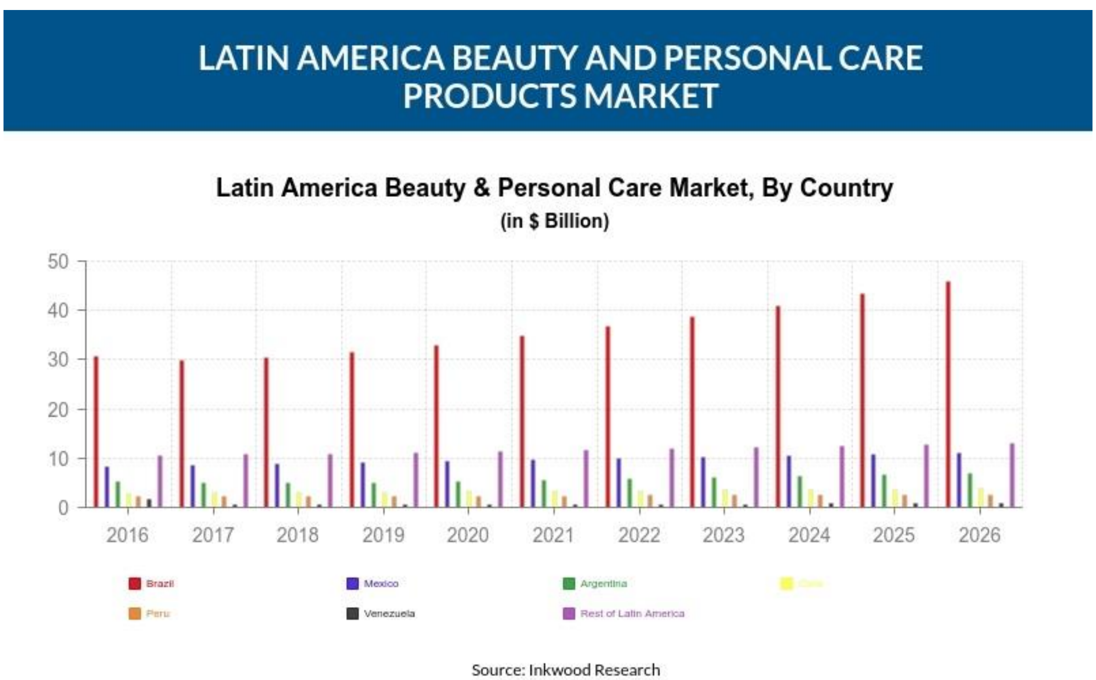
This region accounts for the highest revenue share of the global market and one. One of the peculiarities of this market is represented by the rising number of working women who own increased financial means to be addressed to this kind of expense. The reasons behind the significant growth of this Industry are mainly due to the increasing penetration of international products and Brands, a growing aging population, increased availability of income, and new growing demand of men’s products. The companies dominating the Beauty Industry in this region of the world are international companies such as: L’Oréal Group, Beiersdorf AG, Estée Lauder Companies, L’Occitane International S.A., Procter and Gamble, Luis Vuitton, Shiseido and others. As can be clearly seen, China represents the most valuable market in this region. The remarkably fast-paced growth experienced by this Industry in China is expected to continue in the future. The second most valuable market is Japan which is expected to keep its value quite stable over time. Singapore, India, Thailand, Australia, New Zealand, South Korea and the rest of Asia Pacific complete the overall percentage.

3) The European Beauty Industry has reached an overall value of $116.24 billion in 2017. The following graph illustrates a projection made on a ten-year period (2016–2026). The growth rate of the market is expecting to be 1.62% reaching an overall value of $133.77 billion by 2026.

Source: Inkwood Research

Surprisingly, the graph shows that Germany has the leading market in this region of the world. The largest market segments in German cosmetic Industry are skin care, hair care, makeup and oral care products both for women and for men. France and Italy, well known for their famous Beauty Brands, are expected to be third and fourth at the end of the forecasted period. The United Kingdom has an overall value big enough to set itself at the second spot in this Industry. The other countries shown in the graph are Poland, Netherlands, Switzerland, Russia, Spain and the rest of Europe that complete the overall percentage. Europe is a traditional cosmetic exporter, the European Brands enjoy an outstanding reputation and their products serve high-end customers all over the world. In terms of distribution channels, in 2017 pharmacies have been chosen by most of the customers. However, over the following years, e-commerce is expected to be the consumer's first choice. The most famous Brands operating in this region are: Procter and Gamble, Unilever, L'Oréal, Shiseido.

4) In 2017, Latin America Beauty Industry was valued at $59.63 billion and it is expected to reach $83.64 by 2026, with a growth rate of 4.05%. The following graph illustrates the growth of the major countries of this region of the world in the forecasted period 2016–2026.



As shown in the graph, Brazil is the country with the highest growth rate in this Industry, followed by Mexico, Argentina, Chile, Peru, Venezuela and the rest of Latin America. In recent years, the customers living in these areas have shown a greater interest in fashion and Beauty care products. However, Latin American customers have shown a higher degree of sophistication and meeting their preferences turned out to be a complex challenge for the companies. In particular, Latin American customers are more and more focused on the Brand's quality, product benefits, and the purchasing price. Furthermore, the inflation rate and market saturation are factors that have to be taken carefully into account since they can hinder the Industry profitability in the next years. The Brands that dominate this market are: Avon, Revlon, Procter and Gamble, L'Oréal Group.

5) Last but not least, the Middle East and Africa Beauty industries have to be taken into account. In 2017, this market has been valued at \$30.37 billion. It is expected to reach \$39.76 billion by 2026 with a growth rate of 3.14%. In the following graph, the Industry growth of the main countries in this region will be illustrated.

Source: Inkwood Research

Despite the relatively low value of this Industry, compared with the ones in other regions of the world, the Middle East and Africa region are one of the fastest growing regions for the Beauty care products in the next years.

As can be clearly seen, Saudi Arabia's market is at the top in this region mainly due to its domestic manufacturers and the highest consumption rate for cosmetics. Saudi Arabia is closely followed by Turkey in terms of the profitability of this market. In particular Turkey enjoys an increase in the standard of living, the overall economic growth, and an increased number of women entering the workplace.

The dominant players in this market are big multinational companies such as: Procter and Gamble, Unilever, L'Oréal Group, Revlon, the Estée Lauder companies, Avon, Shiseido.

Despite the presence of many drivers that justify the sustainable growth of this Industry, there are some challenges which are still far from being overcome. Here a full list has been provided:

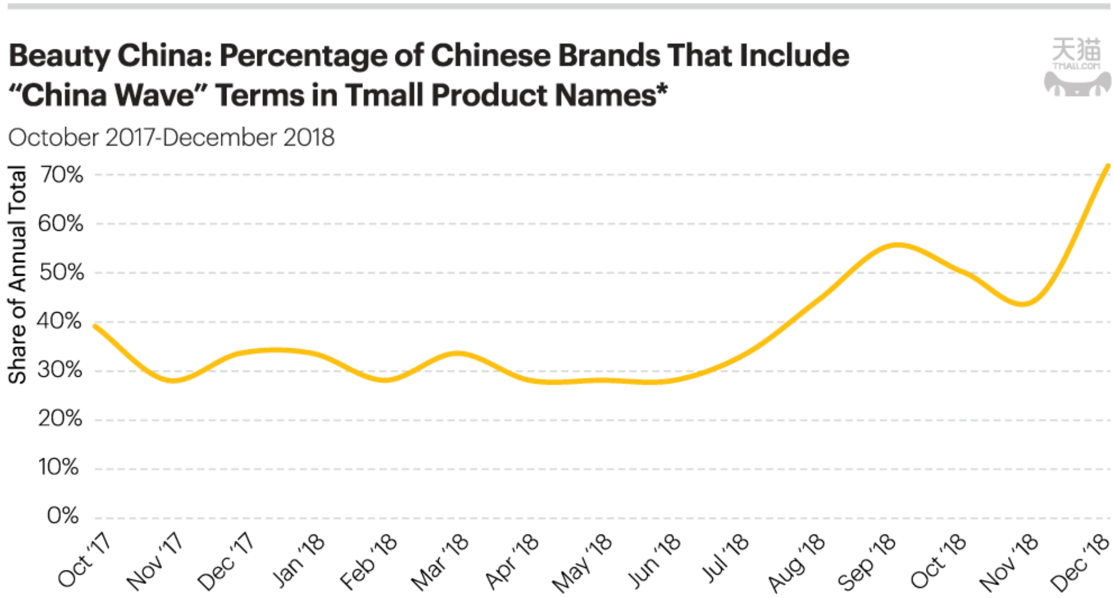
1) High manufacturing and marketing costs that hinder the potential growth of the Industry and make more difficult gaining high profits
2) Rapid innovation in the cosmetics sector in order to get safer and more appealing products
3) Easy availability of counterfeit products
4) Relatively high competition among the companies
5) Global financial crisis hinder the profitability of the market

A new trend is showing up: "Do it yourself at home", that is basically making hand-made products with similar features of the Branded one but at a lower cost.

6. <u>CHINESE BEAUTY INDUSTRY</u>

6.1 Chinese Beauty Industry overview

China's Beauty Industry has been recently affected by new trends. Beauty labels are making extensive use of data to capture the shoppers' latest preferences. First and foremost, they tracked a new trend called C-Beauty which has become quite widespread in the Industry. C-Beauty is the newly born preference to buy domestic Beauty labels instead of multinational Brands. The well-known "made in China", which was widely recognized as low quality products, is now a source of pride for Chinese Brands in their home market. This new trend is the result of the governments and big e-tailers efforts aimed to jointly promote the local Beauty Brands.



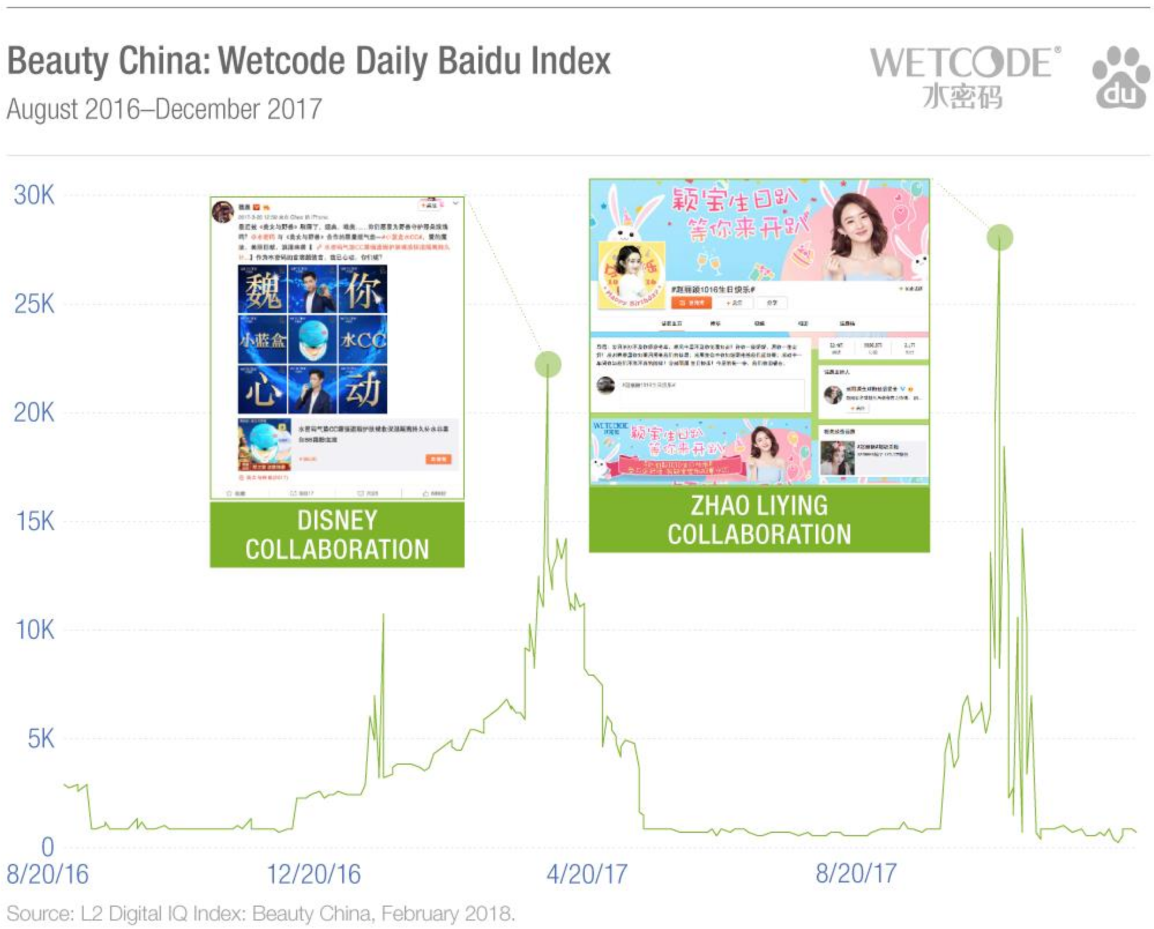
* "China Wave" terms include "国货" (Domestic Goods), "国妆" (Domestic Makeup), etc.
Source: Gartner L2 Insight Report: "Beauty China: Product Innovations," March 2019.

According to Gartner L2, the percentage of C-Beauty labels which highlight their Chinese cultural traits in their product listings remarkably increased in 2018. Those Brands make extensive use of lavish sentences like "the glory of Chinese goods" to leverage this new trend.

In addition, the Chinese Beauty Industry has seen a year over year increasing interest of Chinese male consumers towards the Beauty products. Chinese young shoppers are becoming keen to use not only grooming and skin care products but also color cosmetics. An increasing number of Luxury Brands are carefully looking at this new type of consumer. Tom Ford Beauty has recently opened a Tmall store on which it started to sell male concealer. Chanel has made a similar move by launching its Boy de Chanel male color cosmetics collection on WeChat. This newly born trend has been called "he-Beauty" and it is gaining popularity among the younger generations. Beauty Brands are receiving an increasing number of requests for male Beauty products on their Tmall shops. Despite this buzz, many Beauty labels seem to be unprepared to face this trend. According to Gartner L2, less than half of them actually sell Beauty products suitable for men.

Within the Chinese Beauty Industry, lipstick is taking the lead in terms of revenues. Lipstick is the category product that is growing the most compared to other Beauty products. According to Gartner L2, this product has 22% of market share for color cosmetics and it is used by 95% of urban Chinese women. MAC is one of the Brands that leveraged this buzz. In 2017, it launched a campaign on Weibo asking the shoppers to show off their creations with the lipsticks. The campaign involved also celebrities and KOLs which are appealing to the young consumers. Due to the participation of the makeup artist Li Dongtian, the supermodel Ming Xi and the blogger KaKaKaoo, the campaign hashtag received 350 million views. The UGC campaign turned out to be a success. MAC was able to sell 60,000 units of lipstick on the first day of the launch. In addition, it recorded the highest first-day sales for a premium Beauty label on Tmall.

In order to be successful in China, Beauty Brands have to up local celebrities. According to Gartner L2, Tmall livestreams featuring a celebrity gain 26 times more engagement. A case in point is represented by the Chinese Beauty Brand Wetcode. In 2017, the Brand decided to enlist the Chinese actress Zhao Liying to promote a special-edition CC cream. When the product was launched, Wetcode recorded on of the highest growth on the Chinese search engine Baidu.



The buzz hit the Brand's Weibo account recording 2.2 billion impressions and 98 million comments about the product. A similar strategy was implemented by L'Occitane which upped Lu Han as its new Brand ambassador in May 2017. The Brand released special-edition products dedicated to Lu Han. In fact the products were represented by a deer image which is also the meaning of the singer's surname.

As shown above, the Chinese Beauty Industry is experiencing a fast-paced growth. According to the National Bureau of Statistics of China, retails sales of cosmetics in 2017 increased 13.5% from the previous year reaching an overall value of 228.5 billion yuan. This astonishing result is backed by demographics trends. In recent years, more young Chinese customers feel the attractiveness of Luxury Beauty products. The cosmetics market in China has not stopped to grow YOY. In August 2018, cosmetics retail sales had reached about 20.3 billion yuan. In China, the demand for Beauty products is going to increase not only in the first tier cities but also in the second and third tier. In addition, male customers are becoming more interested in purchasing Beauty products. The weekly time spent on personal grooming by Chinese men was 2.2 hours that is higher than before but still lower than the 3.8 hours on average spent by women for the same category products.

The Chinese Beauty Industry is highly concentrated, the leading ten cosmetics Brands own more than 50% of the market share. The most famous multinational companies dominate the Chinese Beauty Industry: nine out of the ten most important Brands come from abroad. The top three companies in this sector are: the US company Procter and Gamble, the French L'Oréal Group and the Japanese Shiseido. In this Industry many distribution channels are used by the companies to offer their products to the Chinese customers. The e-commerce has grown rapidly in the last few years. In 2015, the e-commerce sales of cosmetics have reached 124 billion yuan, with a growth rate of 25.2% compared to the previous year. The export of Beauty products has grown a lot in the last few years especially to Singapore where it reached an overall value of 366 million dollars. However, the overall number of imported goods is larger than the exported ones in this Industry. In 2015, the cosmetic products imported to China from the United States reached an overall value of $393 million. Nevertheless, in 2015 Japan has been the main supplier of Beauty products in China.

Chinese Beauty Industry has some relevant culture-related characteristics. First and foremost, it is widely known the Chinese white skin obsession. During the Han Dynasty, upper-class women desired to have white skin since it was a sign of social prestige. There are several expressions in the Chinese language to express the supremacy of white skin compared to the tanned one. Being a relevant Chinese cultural trait, it is interesting to highlight some of them. A case in point is 白

富美 which literally means “white, rich and beautiful” to indicate the most desired ideal woman, instead 一白遮三丑 means: “one white covers three ugly things”.

Chinese women are the main consumers of lotions, pills and gels that make their skin white but very few of them are aware of their drawbacks. In fact, some critics have been addressed to Chinese lotions which were made up of mercury. This ingredient can be dangerous for the human being a potential cause of psychiatric, neurological and kidney diseases. For this reason, mercury has been banned for skin care products in some countries of the world like USA, but it is still used in some Chinese Beauty products. According to some experts, there was nothing on the product’s labels that informed the customers of the mercury contained in the product.

Some well-known Brands have leveraged the great traditional Chinese medicine heritage to increase their products’ reliability. Traditional Chinese medicine relies on herbs that have been used by the doctors over the centuries for the treatment of some diseases. These kinds of products enjoy a remarkable reputation since their functionality and safety have been proved over the years.

The Beauty Industry in China has been affected by several trends in the last few years. First of all, as the Industry and its products are becoming more sophisticated and advanced, the customers increasingly need the guide of experts. These shoppers are becoming used to rely on new figures called “KOLs” (key opinion leaders). In China, many makeup artists are showing up on the most popular social networks to share their tips about what is in vogue at the moment. Millions of Chinese young people use social networks to connect through live streaming with these influencers. The connection of the KOLs with the customers is particularly useful since it gives the opportunity to have a better understanding of the products before purchasing them. The younger generations usually look at international KOLs to get tips about the products and their main attention is focused on Japanese, Korean as well as US fashion trends. Chinese millennials are used to pay more attention to individuality than on conformity. These young tech-savvy customers seek for experts’ tips but they are also increasingly keen to create their unique identity.

The renovated attention to details, appearance and hygiene is not just women’s priorities. In a recent HKTDC survey on Chinese Beauty customers, 63 percent of male respondents reported using cleansing milk, lotion or face cream. This trend has been called “renovated” not accidentally. In fact, Chinese male use of cosmetics was quite common during the Han dynasty (around 200 AD). At that time, the high social status men holding public office were used to put white powder made with mashed rice and oil on their necks. This solution had the main goal of making these men look younger by hiding the wrinkles. Nevertheless, soon after the country became communist in 1949, luxurious lifestyles and unnecessary treatments were outlawed. This status quo remained stable until the leader Deng Xiaoping took the power and started an opening up the process of reforms from the 1980s. From this time on, Chinese men started again to consume everything that was not strictly necessary for living.

As stated above, the one-child policy has led to an unbalanced Chinese's gender ratio so that more boys than girls were born in the last 30 years. This unbalanced ratio has to be taken into account by the companies being the customer base significantly changed over time. Furthermore, Chinese male consumers generally have disposable income to be addressed to this kind of products which make them feel better in different social and working environments. Tiao Yi Xue, a consumer analyst, is confident that the market has entered the "male Beauty era" since more men spend an increasing amount of money for purchasing creams, perfumes and potions. The Beauty treatments for men are mainly focused on the elimination of acne, sunblock and oil control. The most popular Brands that Chinese male customer prefers are L'Oréal Paris, Nivea and Clinique. According to China's National Bureau of Statistics, cosmetics retail sales were worth 222.2 billion yuan last year and a remarkable percentage of these revenues come from male purchases. Euromonitor has predicted that the average annual growth of male cosmetics consumption in China will reach 13.5 percent by 2019, well ahead of the 5.8% rise in the male use of cosmetics globally. Nevertheless, purchasing behavior among men is quite different from that of women. Chinese men that start using Beauty products are undoubtedly not familiar with them. They might not have used them before. Hence, Chinese men are used to judging the effectiveness of Beauty products referring to their price. They expect that a product's high price is a sign of high quality. This basic judgment's criterion leads the most unknowledgeable men customers to buy the most expensive Beauty product not paying so much attention to other product's characteristics. Apart from the cost, the other main judgment's criterion that helps male customers orienteering in this sector is the packaging.

Male Chinese customers that regularly use Beauty care products are generally young and used to live in the most developed cities in China. As described before, the Chinese population is highly concentrated in the eastern and coastal regions where the standard of living is quite high.

Guangdong is one of the richest and advanced provinces in China. In Guangdong Province, 14.5% of the entire Chinese male cosmetics are sold. In particular, skin care products are the most purchased and they account for 53 percent of the whole men's Beauty care expenditures. Hair care products account for 20% of the spending, followed by perfumes and makeup with 14% and body care with 11%.

Moreover, the Industry has been affected by the large diffusion of e-commerce. E-Commerce has made it easier for many multinational Luxury Brands to reach the Chinese market getting rid of the bricks and mortar stores' expenses. In 2016 and 2017 several Brands like Guerlain, Cle de Peau, Fresh, Kiehl's, Amorepacific's Hera and Shiseido have all opened stores on e-commerce giant Tmall. In China, Estée Lauder has grown seen a sales uplift more than in any other country due to e-commerce.

6.2 Key local players in China

The Chinese Beauty market is dominated by international Groups. However, there are many local companies that are growing in size. One of the Brands that are experiencing fast-paced growth is WEI Beauty. It combines traditional Chinese medicine's methods with the most advanced technologies. WEI Beauty is currently operating, backed by Sephora, even in other countries such as Singapore and the USA. As declared by the company itself, the choice to expand its business to Singapore was the right choice and perfectly in line with their mission. WEI Beauty's mission is to ease the stressed life of people living in fast-paced cosmopolitan cities. WEI Beauty wants to provide stressed people with products that are safe, natural and highly effective. Nevertheless, the company is aware of the cultural differences in terms of tastes, preferences and mindset between the people living in China and the ones living in Singapore. A major difference can be identified in the variety of Chinese regions and climates that make perhaps Chinese people prefer different kinds of products.

Herborist surely represent an additional case in point of a successful Chinese Brand. The Brand was founded 110 years ago in Shanghai and it can rely on a long-lasting tradition. Herborist is a premium Chinese Brand that aims to provide its customers with the best skin care products based on traditional Chinese medicine. This Brand has proved the effectiveness of its products with advanced scientific laboratory tests.

Lu Ming Tang Longjing is another Brand operating in China by selling on Sephora. It was founded by the French woman Marie Amiand who understood that the Hangzhou Longjing tea had healing benefits and it could be applied on the skin for Beauty purposes.

Pechoin is a quite successful local Brand that has been founded in 1931. Pechoin has increased its Brand awareness through the years by exploiting a long lasting sponsorship deal with a TV talent show. Starting from Chinese smaller cities, Pechoin has spread its popularity in China with the Chinese-language Brand Bai Que Ling. Moreover, this Brand has widely used e-commerce channels to promote its vast array of honey and aloe vera moisturizing products for hair.

In spite of the several Chinese Brands operating in the market, most of the Chinese customers keep being attracted by multinational Brands. This preference explains why many local Brands are on the acquisition radar of big foreign companies. Big international Groups can provide these companies with greater financial resources. Attempting to fight back the international Brands' influence on the market, some local companies have tried to change their current marketing activities. For instance, Shanghai-based Huayin Commodity Co, which owns Bee and Flower Brand, has radically changed the packaging of its products aiming to grab market share in the lower and mid-tier cities. In order to gain a larger market share, Huayin plans to build a new plant that can produce 15 million liters of shampoo per year. Aside from the remarkable investment in fixed assets, Huayin is trying to meet the preferences of Chinese consumers by promoting products made of natural ingredients such as jasmine and pomegranate. Huayin promotes chemical-free products that are highly appreciated by Chinese consumers. The Brand's products prices are set at a reasonable price (averaging 20 RMB) on official stores as well as e-commerce giants like Tmall. This dual strategy turned out to be a success. In fact, the average Chinese consumer is quite sensitive to low prices, discounts and promotions as well as online and offline activities. Chinese local companies have the main competitive advantage of having a better comprehension of the domestic market. These local players leverage these insights to fight back big international Groups like Unilever, Procter and Gamble and L'Oréal.

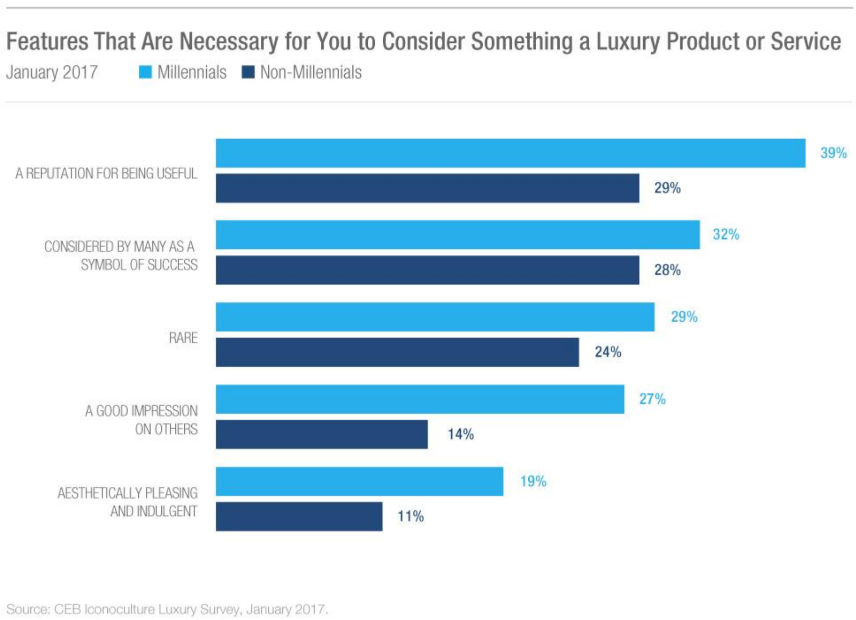
Zhejiang Proya Cosmetics is a leading Chinese Brand specialized in skin care products. In recent years, the company has made a huge investment in production processes and Branding strategies. Chinese government showed its interest in the company's innovation and internationalization process. In fact, it has included the company in the government-funded "Made in China 2025" program aimed to upgrade the Chinese Industry. In particular, the Chinese government plans to give financial means to local companies that strive for innovation in intelligent manufacturing, IT processes, “internet of things” and big data.

Some Chinese companies operating in the Beauty Industry are experiencing a remarkable expansion. In order to drive their growth, they have been listed on the stock exchange market. In 2014, the listing process in China over the counter equities market named National Equities Exchanges and Quotations (NEEQ) has involved two major cosmetics companies based in Guangzhou: Guangzhou Baihua and H and B Cosmetics Corporation Canton.

7. <u>LUXURY CONSUMERS</u>

7.1 Luxury consumers

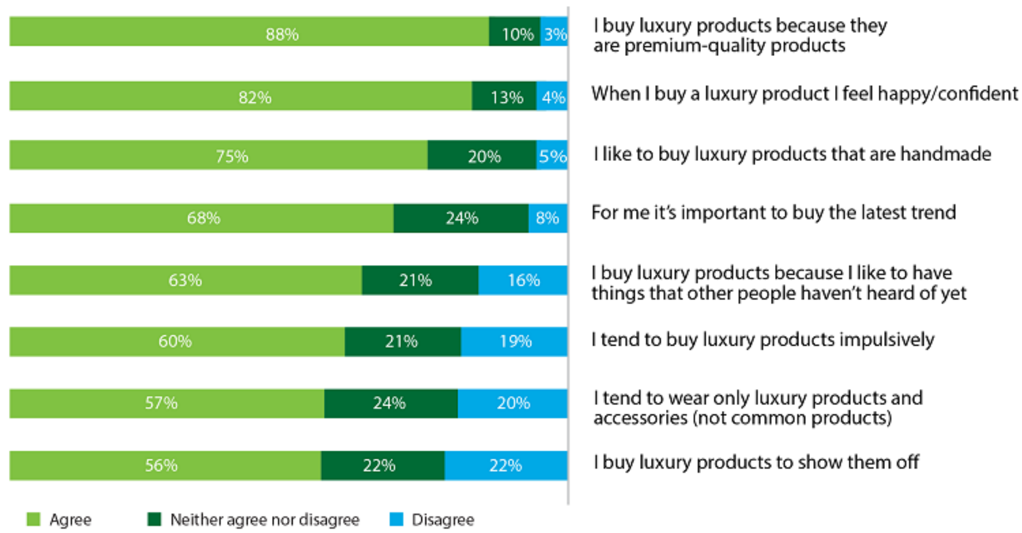
The need for Luxury products derives from a transnational type of culture represented by a set of tangible and intangible components. The scholars Wiedmann, Hennigs and Siebels (2007) highlighted that Luxury consumers are “influenced by four aspects: financial, functional, individual and social”.. Luxury consumers are characterized by peculiarities that differentiate them from other types of customers. In fact, they are willing to pay a premium price for goods and services that satisfy their more sophisticated needs. Luxury consumers’ needs are expected to evolve rapidly and the companies should consider of utmost importance to be up to date with the latest trends. According to Gartner L2, Luxury is not anymore just for old white men. Luxury consumers’ majority, in fact, will be soon multicultural since a wave of new customers from emerging countries is seeking more sophisticated products. Moreover, young Luxury shoppers turn out to be more socially driven. The Millennials, in fact, are used to post their daily life moments on Instagram showing off their fashion outfit. Buying Luxury fashion apparels is for Millennials a way to impress others on social networks.



Millennials differ from older generations for many reasons. They are keener to think about Luxury in terms of success. Millennials are used to think that owning a rare, impressive fashion item is a sign of power to show off. Most of the time, they post on social media their latest Luxury purchases. They also buy Luxury products because they seek a more sophisticated experience. They are keen to try on new Luxury products and discover the latest trend.

According to a Deloitte research, there is a wave of new trends that have recently affected Luxury consumers' decisions. First of all, the essence of Luxury is shifting from physical to experiential aspects. However, the physical characteristics of the products keep being of utmost importance for Luxury shoppers. As a matter of fact, Luxury consumers remain attracted to premium-quality products that make them feel satisfied.

Figure 1: Why Consumers Buy Luxury Products



Percentages may not add up to 100% due to rounding.
Source: Deloitte Luxury Multicountry Survey for Global Powers of Luxury Goods 2017

Moreover, Luxury consumers prefer products hand-made and are up to date with the latest trends. Furthermore, more than half of respondents stated that they prefer to buy products that are still unknown for the majority of the people. Approximately half of the respondents stated that they buy Luxury products because they like to show them off. From the survey Chinese Luxury shoppers turn out to be the most interested in high-quality hand-made products.

7.2 Chinese Luxury consumers

According to research done by the consultancy Bain&Company, there are 350 million Luxury consumers in the world. It is interesting to mention that 50 of them live in China, 35 million in Japan and 25 million in the other Asian countries. As it can be noted, Chinese Luxury shoppers represent a large part of the total Luxury consumers. The growing number of Chinese Luxury consumers is mainly due to the rising disposable household incomes in China. There are basically two types of Chinese Luxury shoppers: the ultra-rich and the rising middle-class with incomes between $9,000 and 34,000. The rising middle-class has been deeply analyzed by the Western Luxury Brands since it represents an untapped profitable target. Chinese middle-class consumers are usually located in second-tier cities and are attracted by the Luxury Brands since they are perceived as a symbol of a higher social status. Undoubtedly, these newcomers cannot spend the same amount of money as the ultra-rich but they are greater in terms of numbers and so they are even more appealing for Luxury Brands. According to research carried out by Atsmon, Magni, Li and Liao (2012), there are 500 million people in China that are considered belonging to the middle-class and this number is going to increase up to 550 million by 2022.

There are several factors that determine the Chinese willingness to pay for Luxury products. The well-known consultancy company KPMG, by carrying out a survey in China, has found out that:

1) More than 70% of Chinese surveyed saw Luxury Brands as a way to demonstrate their status and success
2) Fewer than 30% reject the idea of paying a higher price for a Luxury Brand
3) Over 60% buy Luxury goods to reward themselves for their hard work

Interestingly enough, Chinese Luxury consumers are much younger than their Europeans and American peers. As a matter of fact, 45% of Chinese Luxury consumers are under 35 being so 14 years younger than their European peers and 25 years younger than their American peers. The average Chinese Luxury shopper is 33 years old and it is estimated that 80% of all Chinese Luxury shoppers are aged in a range between 25 and 44.

Furthermore, Chinese women are becoming a key target for Luxury Brands. Chinese women are gaining in recent years more access to the workplace that was reserved in the past only to men. These new consumers are then financially independent and enjoy a higher social status. Like their male counterparts, Chinese women work hard for a better future and are willing to reward themselves for their personal accomplishments.

Moreover, a common practice in Mainland China is giving gifts, eventually Luxury products, during the festivals. In Chinese society, it is common to give Luxury products as gifts, eventually in a red envelope to show respect, friendship or even good luck. This practice is linked with the Guanxi concept. Guanxi refers to traditional Chinese networking practices that are particularly relevant in second and third-tier cities. Guanxi practices are mainly related to the exchange of favors for business and personal gains causing an increase in the sales of Luxury goods.

Another Chinese consumers' interesting peculiarity is that they spend more on Luxury retail stores overseas. In fact, it is estimated that 60% of Luxury shopping is made outside China's mainland. This is a direct consequence of the greater disposable amount of money owned by Chinese consumers that find it easier to travel and get their Luxury gift abroad.

There are many reasons that explain the frequent travels made by Chinese shoppers in other countries to buy Luxury goods. One of the reasons is that Chinese Luxury shoppers perceive that a product bought abroad is more likely to be authentic. As a matter of fact, in China it is common to find counterfeit goods since intellectual property laws are not properly enforced as it happens in other countries. Chinese Luxury consumers are willing to pay a premium price for high-quality products but they want to be sure of the product's authenticity. The second reason behind this phenomenon is that there is a large price gap between Luxury products sold in China's mainland and abroad. Luxury goods are more expensive in China due to many factors: high import duties, consumption taxes, increasing rental and labor costs of Luxury goods stores and, in some areas, still inefficient logistics and distribution systems.

Moreover, nowadays Chinese Luxury shoppers show sophisticated tastes and preferences. In the past, many Chinese Luxury consumers were attracted by flashy logos to wear in order to show their wealth. Nowadays, instead, Chinese Luxury shoppers are much more informed about Luxury essence, the style and the current trends affecting the market. They assign a greater relevance to the Brand heritage and the craftsmanship behind the products. However, it should be noted that many other Chinese Luxury customers are relatively new to this Industry. Hence, they are still fascinated by flashy logos rather than other factors. The main challenge for the Brands is to keep their coherence but, at the same time, be appealing for different types of customers.

Furthermore, in recent years, Chinese Luxury consumers are assigning a greater relevance to the in-store experience. The companies are trying to meet their expectations by improving their customer service, hosting VIP events or even reserving some floors exclusively to these customers.

8. E-COMMERCE CHANNEL

8.1 E-commerce

E-commerce is becoming widespread among the younger generations. This new channel has brought about major changes especially in the purchasing process of the young shoppers. For instance, the people born from 1996 to 2016, better known as Generation Z, represent the first generation to make connectivity an essential aspect of their lives. They have access to social networks, news and events on a daily basis. It is a unique phenomenon that has left a meaningful footprint on these people's daily choices. According to a Wikia's research 46% of the people belonging to Generation Z are connected more than 10 hours per day. In addition, 25% of them are actively connected (checking email or sending messages) within five minutes of waking up and 73% of them within an hour or less. According to Google over 70% of young people are spending over three hours a day watching video and 52% over three hours a day on Messaging Apps. IBM estimates that 74% of the people belonging to Generation Z spend their free time online and 25% spend five hours or more each day. It is worth highlighting that this generation is not willing to get rid of face-to-face communication. As a matter of fact, this remains the favorite way to connect across all the generations. According to The Guardian, 80% of the people belonging to Generation Z prefer to meet their peers in person rather than online. Although this preference, this generation loves being online. A Havas Media' research has found out that: "over half of 16-22 year olds would rather give up their sense of smell than an essential tech item". Generation Z has been called the first "known everything" generation they have always been used to ask Google for whatever doubts they might have had. They can easily access to several information and change the way they interact with Brands. These young tech-savvy consumers are used to review comparison portals to have an improved comprehension of the items they are going to buy. Generation Z is a whole universe to be discovered by the Brands. The young consumers are keen to get information by having access to videos rather than pages to read. According to Acumin Media, 67% of consumers belonging to Generation Z could not live without YouTube, and 48% without social media. This trend is confirmed by another research carried out by Fluent which found out that 32% of them watch video for at least an hour a day, 30% for two hours, and 21% for three hours. Most of the videos watched last less than 10 minutes and only $1/3^{rd}$ are longer. As a result, undoubtedly Generation Z has a short attention span but it could be engaged with longer videos if they are entertaining enough. Younger generations love watching live videos as well as personalized contents. These young consumers' habits should be better investigated by the Brands. Havas report highlights that "40% of the consumers aged 16-34 complain that Brands don't take young people seriously enough". They are keen to be engaged with Brands that develop an in-depth comprehension of their tastes and preferences. The same report points out that 60% of young consumers consider Brands as an important source of creativity. A large percentage of those consumers (79%) prefer that Brands would care about the customers' needs by acting accordingly. They are quite familiar with advertising campaigns and they have developed a strong attitude to avoid Brand messages that add no value. Moreover, being tech-savvy, Generation Z is keen to use more specific social media platforms like Snapchat and Instagram. In order to engage with this wave of new young customers, the Brands have to establish innovative guidelines to follow. In fact, this generation has characteristics which are completely different from the previous one. Hermès, for instance, is striving to go digital at least as much as its competitors. The Brand has been always perceived as the "million-dollar bags" seller which is quite unapproachable for a young audience. Traditionally, Hermès has delivered a sense of exclusivity to its customers. In order to reach this objective, over the years the Brand has deliberately made its website tough to navigate. In the last few years, the Brand is changing its image shifting the focus from lavish products to livable ones. The Brand has still not introduced athleisure accessories but it is radically changing its stores and the shelves inside of them. For instance, in order to refresh its image, the Brand has introduced roller skates to its shelves and more windows have been added to the stores in order to make it less lavish. Since the Brand ranks still behind of its competitors in terms of digital interaction, it has recently improved its website by making it more compatible for mobile devices. Social media presence and an improved approachability of the Brand boost the e-commerce channel. Nevertheless, while Gucci and Louis Vuitton are working hard to sign up the most influential pop stars to attract the younger generations on social media, Hermès is showing its weakness in terms of digital attractiveness. In addition, most of its new items still are marketed at a very high price reinforcing the idea of a lavish and unapproachable Brand. Therefore, using e-commerce is not only an additional mean for selling but rather an opportunity to attract and retain customers. Through their websites, the Brands have to ease the way the customers dive in their core values. Generation Z is defined as the first caring generation since it is a natural part of their state of mind. They look for Brands which share a positive view of life and reinforce the importance of caring. The Brands have to adapt their online communication strategy depending on these new characteristics. For instance, according to the Intelligence Group, the younger generations are perceived as catalysts of change and are keen to leave their footprint on the society. According to the Guardian, 92% Generation Z consider helping others is important and 70% actively fight against inequality. A research carried out by FutureCast points out that 60% of Generation Z will definitely advocate Brands that fight for human rights and other social issues. The young generations are shaping the world by making it more homogeneous. Local cultures continue to have an impact on the local communities but the younger generations are getting more similar than it was decades ago. They share similar mindsets and they are concerned about what has been called VUCA: Volatility, Uncertainty, Complexity and Ambiguity. Younger generations seek for meaning and happiness for themselves and for the others. They are aware of the Brands' potential value but most of these young shoppers continue to be disappointed from those Brands. Consumers belonging to Generation Z think global and love being constantly informed on what happens in the world by watching videos or googling any doubts. They love being connected online but look for physical interactions as well. In order to boost e-commerce, Brands have to be visual and exploit the power of videos in their websites. Moreover, new digital tools like Virtual Reality are just becoming widespread in the marketplace; hence the companies have to be updated to these latest innovations. In order to retain consumers and attract new ones, the Brands have to ensure that their websites are compatible across all mobile devices. The younger generations like to use mobile phones but they appreciate Brands which are compatibles also with all the other devices. In order to boost sales through their e-commerce channels, Brands need to be interactive with the audience. The Brands have to provide their websites with interactive videos that showcase the Brands' core values. In addition, the Brands have to take the time to talk with the consumers making the channel more similar to face-to-face communication. The online interaction between Brands and consumers is becoming widespread especially in the emerging markets. For instance, in China e-commerce and digital innovations have a positive impact on sales. By leveraging their excellent reputation, Luxury Beauty Brand are now able to get priority placement in Tmall search results. In addition, those Brands are improving their WeChat accounts' appeal and functionalities by introducing Mini Programs. In order to engage with the younger Chinese generations, the Brands up young pop idol Brand ambassadors. According to Gartner L2, those Brands are increasingly using the trendiest apps like Douyin and RED in order to convey their messages. Nowadays, E-Commerce is creating new opportunities and threats for Brands. As a matter of fact, the purchasing channels are extremely different from some decades ago and even the customers' purchasing behaviors have changed remarkably. In fact, new digital tools like price comparison portals and peer reviews have made customers more conscious about their purchases.

Furthermore, customers usually take unexpected shortcuts in their purchasing journey. They frequently revisit past decisions, add a new Brand to their consideration set at the last minute by surfing the Internet or recommend their favorite Brand to others by writing reviews. Leading Brands, conscious of the latest customers' behaviors changes, are upgrading their strategies in order to make the audience less likely to buy last-minute products of other Brands. As a matter of fact, companies are recognizing that last-minute consideration has the same relevance of premeditated consideration.

Last-minute online decisions can be a threat for established Brands in specific markets where the characteristics of the product are not fundamental in the purchasing process. Last-minute choices are frequently made by the customers in markets in which the consumers can easily have access to comparison portals. Digitization process, in essence, has made tougher the competition among Brands. They are forced to develop accurate insights into the online purchasing process and the influence made by the peer's choices.

The spread of E-Commerce has shaped a new type of consumer that has different interests, different purchasing behavior and different interaction with the Brands. The online decision-making process is usually divided into three phases: the input phase, the process phase and the output phase.

The input phase

This phase is made up of two factors:

a) Website marketing efforts: these are all the activities carried out by the Brands in order to promote their products. They include promotions, advertisements, discounts and, in general, all the initiatives that aim to make the potential customers aware of the existence of the product and its characteristics.
b) Socio-cultural influences: these are all the influences that come from social interactions. They are particularly relevant in the case of "word of mouth" spread by youngest generations that are more willing to buy online and browse the internet.

The process phase

This phase includes all the information provided by the input phase. In fact, all the psychological factors such as motivation, emotions or personality, influence the customer's behavior. Furthermore, these psychological traits serve the main goal of processing influences coming from the external environment.

The output phase

This final phase is made up of two activities: the purchase behavior and the post-purchase evaluation. The purchase behavior is made of a trial that, if successfully carried out, will be an incentive for future purchases. The online shopping process gives to the customer an experience that will be evaluated in the post-purchase phase.

The three processes described so far seem to be similar to the traditional purchase activities. This is true only to some extent since the incentives and the opportunities of online shopping are completely different from traditional shopping.

The motivators of online shopping

One of the clearest incentives of online shopping is the "convenience factor". Buying online can bring about several advantages. The consumer does not need to waste time in dealing with long-lasting crowds or eventually rude shop attendants. Furthermore, customers can know in advance the product availability as well as keep track of their expenditures. The proliferation of internet blogs is giving customers the opportunity better understand the characteristics of the products.

According to Alan Smith and William Rupp (2003) consumers that get a positive online experience will remain loyal to the Brand and this loyalty will remain constant even though there are other retailers offering the same product just "few clicks away". Some experts (Fry, 2001) rank convenience and time saving as key factors which are far more relevant than price tag. The customer faces a cognitive barrier when it comes to purchase online for the first time. Once the customer has learned how to purchase online, the e-retailer will appear more attractive to him. This effect is called "cognitive lock-in" in which after the first positive experience, the customer will feel as locked in the process for a long time.

The de-motivators of online shopping

There are some drawbacks to take into account. One of them is surely the "immediacy factor". As a matter of fact, acquiring online means waiting for the shipping process and this turns out to be an inconvenience for many. Despite the many efforts that the Brands are making for speeding up the delivery process, the customers cannot get rid of the waiting time.

Another drawback is related to the lack of physical contact with the product purchased from the customer. Trying on the garments or feeling the products are extremely relevant activities for any customers in the purchasing decisions.

Moreover, security issues are still ranked as one of the main threats of buying online. A company's main task is to ensure that the customers feel safe in buying online. Therefore, companies need to implement efficient and reliable websites.

Luxury consumers buying online: conclusions

First of all, is worth mentioning that Luxury customers do not consider the motivators of buying online as relevant incentives to use this channel. As a matter of fact, Luxury shoppers do not attribute a great relevance to the convenience of online shopping such as the possibility of saving time or increasing relax related to buying from home.

The de-motivators have meaningful impact on this sector since the Luxury shoppers attribute greater relevance to the availability of trying on the products before buying them. The Luxury shoppers are often interested in buying Luxury because they look for an immersive experience. The company's main role is to ensure that the online experience would not be less attractive than the traditional one.

Taking into account the above considerations, Brands should develop innovative website applications that would be able to motivate Luxury shoppers to buy online by enriching the overall experience.

By analyzing the fashion Industry, the scholars Eun Young Kim and Youn-Kyung Kim's (2002) have identified three relevant online shopping applications that are perceived as risk-reducers and motivators:

- Incentive programs to online membership in order to encourage repurchasing for loyal customers
- Design for virtual experiences, including three-dimensional simulations, virtual tours, word of mouth and all the activities that make buying online similar to an in-store experience.
- Interactivity between buyer and seller including the consumer's right to examine the products, access to updated information, etc.

The two scholars Park and Stoel (2005) proposed seven dimensions of online customer service that serve as risk reducers:

a) Ease in searching;
b) Availability of FAQ's;
c) Availability of in-stock status information;
d) Ease of comparison shopping;
e) Availability of additional service of personalized shopping;
f) Availability of product updates.

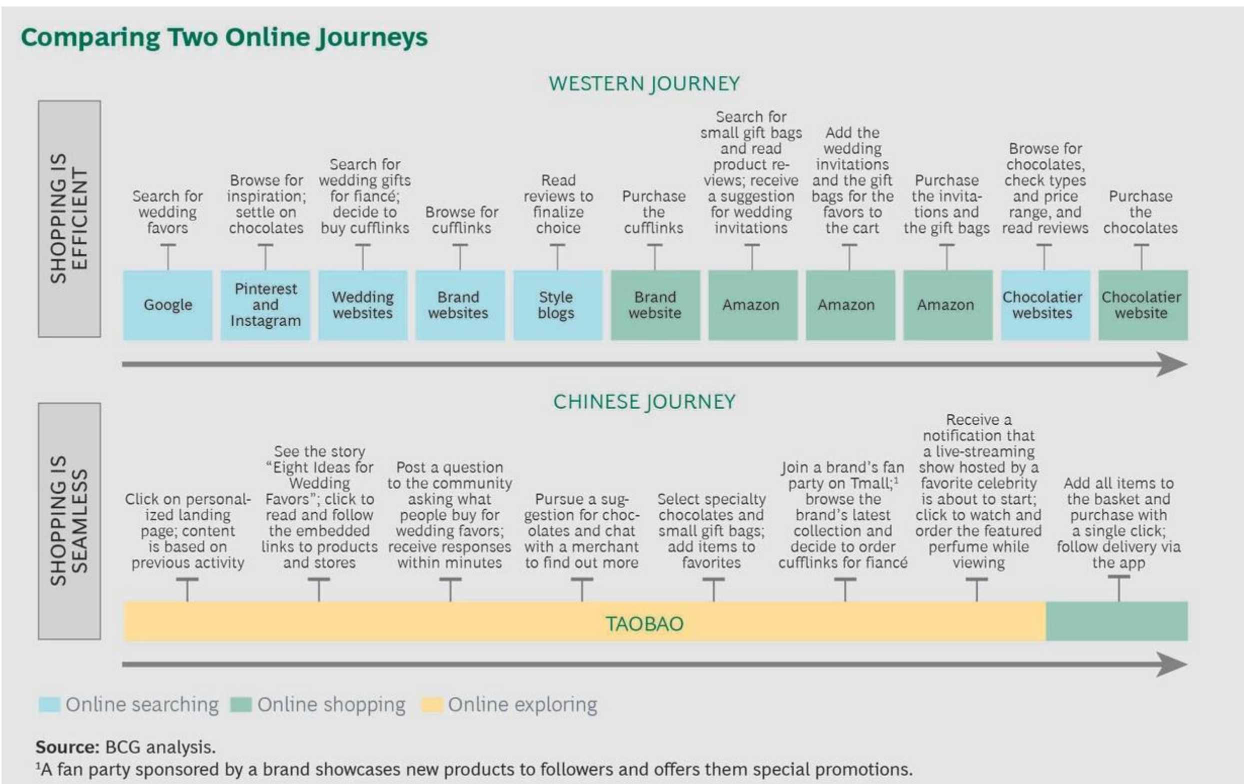
Riley and Lacroix (2003) argued that Luxury shoppers' satisfaction is related, especially in the apparel Industry, to "edgy design application directly related to coherent aesthetics to the web, and customized interactive features". The authors ranked the features that Luxury shoppers expect from a Luxury website: Aesthetic (60%), communication via email (47%), information on products (44%), easy to navigate (40%), information on Brands PR events (36%), personalized advice with club and newsletter (33%), secure connection (32%), community, boards, chat (31%), clear postage and package charges (28%), real-time communication (27%), worldwide availability (27%), purchase possibility (26%). By studying the Luxury apparel Industry, Riley and Lacroix argued that companies still have to explore to the maximum the interactive potential of the internet.

8.2 **Chinese e-commerce**

It is worth highlighting that the e-commerce channel presents important differences in the way eastern and western citizens use it. In the West, e-commerce originally was created to make purchases more efficient. Several e-commerce players try to make their platforms more user-friendly by easing the functions, payment features and delivery capabilities. The main goal of the

Western e-commerce platforms is to provide customers with a more efficient way to shop so that they can buy frequently and quickly.

E-commerce in China, instead, has been conceived as being a richer alternative to traditional shopping. Generally, consumers in China like to spend time on shopping websites so the main goal for companies is to find out a way to attract them. Chinese e-commerce platforms are a mix of entertainment and shopping in order to be more similar to a social experience rather than a mere purchasing experience. The pre-purchase phase in the western e-commerce platforms is mostly about searching: once filled the form with the necessary information (such as the type of the product, style, color and size), the payment page automatically shows up and the process come to its ends in few seconds. In China, the typical customer acts more like a character of a journey in which exploration and discovery are the main drivers for searching.



Generally, Chinese customer likes to check what is new in the website. The typical Chinese online shopper reviews the products offer very frequently as if he was with his family or friends in a brick-and-mortar store. Online e-commerce platforms in Western countries offer product suggestions on the basis of a consumer's searches or buying history. In China e-commerce websites such as Taobao uses the customer's searches and buying history but it typically uses even other types of data like social interaction, location, artificial intelligence, personalization and so on. The incredibly accurate customization made by the Chinese e-commerce platforms usually leads to remarkably high click and follow-through rates as well as longer online visits. The distribution channels in China are fully integrated with other communication tools such as social media, music video, online fashion show, makeup tutorials or any other website. The final result of this integration is that Chinese consumers can usually end up buying goods just because of the stimulus that other related websites originate. Moreover, the related websites are provided with purchasing links that make it easier for customers the shopping process: in this way discovery and purchasing are fully integrated. The discovery and purchasing steps are less straightforward in Western countries since different websites and apps pursue different goals and are not fully integrated. In order to reach a high level of engagement with customers, Chinese e-commerce platforms are going through a relevant experimentation process. Tmall, for instance, offers buyers a “digital mirror” app for their smartphones. Customers can use this tool as it was a real mirror applying up to 2000 makeup shades from the most famous Brands. The tool involves a socialization process since the user can take selfies and suddenly share them with friends and finally complete the purchasing process directly from the app.

Furthermore, on WeChat and Taobao, KOLs with a large group of followers can monetize their fame by directly selling the products they promote. This process is a “two-way street” that goes from the promoters to the buyers and vice versa. Brands and promoters sell products to the customers which, in turn, send back valuable feedback. This process generates a cycle of innovative ideas. Chinese e-commerce platforms have been recently affected by a revolution that shifts the focus from a traditional multi-channel approach to an integrated omnichannel approach. The line that separates online and offline activities in China is becoming blurred mainly for two reasons: first of all e-commerce technology is more advanced in China than in other countries, secondly brick and mortar retail shops are less developed. There are many examples of these Chinese innovative approaches to e-commerce. Alibaba, for instance, has used virtual reality to make online customers feel as if they were at a physical mall so that they can easily buy products using their eyes. Chinese grocery retailer Wumart represents another example of this digital revolution. Wumart has launched an innovative mobile wallet that helps customers in their purchasing process and allows the company to integrate offline as well as online data that can be useful for customization purposes.

Brands operating in China face different obstacles depending on the Industry they are in. According to an EY research, there are seven obstacles that Luxury Brands face in the digital marketplace:

Image

The most relevant concern for Luxury Brands is their image and exclusivity. Since online shopping is generally perceived as a marketplace to buy cheap products, it seems to be an inappropriate place to market Luxury goods. Hence, the main challenge for Luxury Brands is to change this perception. Online shopping should be perceived not just as a fast and convenient marketplace, but also a valuable distribution channel that enhances the overall experience of the high-end product purchases.

Grey market/Daigou

Luxury Brands have to protect their products from being copied in the marketplace. In China, some unauthorized channels distribute counterfeit products of the most important Luxury Brands. Moreover, Chinese people are used to buy Luxury products through a practice called “Daigou”. “Daigou” is a popular way for Chinese consumers to buy Luxury products overseas for a customer in Mainland China. In fact, the prices of a product bought overseas can be 30% to 40% lower than the same one bought in Mainland China.

Touchpoint

Luxury Brands should use e-commerce to enhance the purchasing experience of the products. However, many times Luxury Brands lose contact with customers in an online transaction because they are not able to offer the same special treatment offered in an offline shop.

Governance

Third parties’ behaviors with customers are hard to control. Building up an efficient and reliable network of third parties logistic providers is a crucial element to manage since the final distributors represent a touch point to the customers.

IT and supply chain capabilities

Luxury Brands in China have outsourced much of their supply chain and IT functions. Customer service, supply chain and IT functions are of utmost importance and have to be carefully managed by the outsourcing company.

Pricing

E-commerce channel requires transparency on product information and pricing. Luxury Brands have to take into account that all the channels both online and offline have to be aligned in terms of price. In order to balance an omnichannel strategy, Brands are required to align prices and conditions among the channels.

Tax

E-commerce platforms are spreading in China and they are attracting more and more Luxury products from abroad. Import duties on Luxury goods are constantly changing; therefore business models should take into account that legal and tax play a role of utmost importance.

9. CASE STUDY: ARMANI AND L'Oréal

The main goal of this chapter is to analyze in detail two of the most important companies in the fashion and Beauty Industry.

9.1 L'Oréal: company overview

L'Oréal is an industrial French group specialized in cosmetics and Beauty products. It was founded in 1907 by the French chemist Eugène Paul Louis Schueller. The founder set up the company to introduce into the market its hair-color products but soon the company's focus turned even to other businesses. In fact, the company is now operating in the following businesses: hair-color, permanent, hair styling, skin care, cleansers, fragrance and makeup. L'Oréal did not just expand its businesses but even its distribution channels since it can be found almost everywhere: hair salons, supermarkets, Beauty outlets, pharmacies, etc. L'Oréal has experienced a fast-paced growth since the very beginning and now it is the world's number one company operating in the Beauty Industry. The company currently relies on 82,600 employees efficiently trained. Those employees represent the driver of the company’s success. L’Oréal owns 34 Brands and operates in 150 countries. In 2017, the company registered 498 patents that help L’Oréal to increase its profits. As a matter of fact, in 2017 the company registered 4.68 billion euros in operating profit and 26.02 billion euros of sales. L’Oréal represents a point of reference in makeup and skin care products but it is growing even in other product categories.

Furthermore, the company has obtained astonishing results in Asia where it registered over ten billion euros in sales.

In terms of digital results, the company implemented an effective e-commerce channel. L’Oréal e-commerce sales grew by +34% and the overall values of online sales reached two billion euros.

Moreover, the group takes care of its social responsibility. In 2017, it made a reduction of its CO_2 emissions by -73% compared to 2015.

The company, through its annual report 2017, made clear the seven reasons that set L’Oréal apart from the crowd.

1) First of all, the company knows how to serve the Beauty sector that has been affected by rapid changes. This sector has become more attractive since new middle and upper classes demand more sophisticated Beauty products. Furthermore, the Beauty market is developing faster than ever due to urbanization and ageing populations.
2) L’Oréal is considered the “Beauty Pure Player” since it can rely on expertise developed on 109-year history to serve the new customers in the best way possible
3) L’Oréal fundamentals are the real drivers of its success. The company’s actions are driven by its obsession for innovation and premium quality.
4) The company has shown superior digital effectiveness that is an extremely relevant competence in order to beat the competitors.
5) L’Oréal has efficient and effective distribution channels in all the regions of the world I which operates
6) L’Oréal has proved to be environmentally sensitive and it has implemented social programs in order to reduce the gender gap and other inequalities
7) L’Oréal is aware that being agile in today’s world is a great asset. The group has then implemented a decentralized organization and it has spread an entrepreneurial spirit on its teams in order to better face future challenges.

As stated in the annual report, L’Oréal has the following mission: ensuring “Beauty for all” by “offering all women and men worldwide the best of cosmetic innovation in terms of quality, efficacy and safety to satisfy all their desires and all their Beauty needs in their infinite diversity”.

L’Oréal is aware that, in a growing market, the degree of competitiveness is quite high and the need for developing innovative products is fundamental. L’Oréal has satisfied through the years the consumer’s needs and this is reflected in its sales results compared to the competitors. As matter of fact, L’Oréal ranked first in terms of sales reaching $28.6 billion in 2017, followed by Unilever ($20.5 billion), Procter and Gamble ($15.4 billion), Estée Lauder ($11.4 billion), Shiseido ($7.7 billion), Coty ($5.4 billion).

In recent years, L’Oréal focused its efforts on the Luxury cosmetics market. This market has experienced fast-paced growth mainly driven by the expansion of the high-income class and the increasing number of Chinese consumers willing to buy these kinds of products worldwide. Driven by these factors, the Luxury cosmetics market represents now 23% of the Beauty market and 40% of worldwide cosmetics market growth.

Although L’Oréal is a top-performing group in the Beauty Industry, it has to face some concerning weaknesses and threats too. Hence, a SWOT analysis can better clarify L’Oréal strengths, opportunities, weaknesses and threats.

Strengths

1) L’Oréal dominates the Beauty Industry. The group owns a vast array of products which covers all the customers’ Beauty needs. L’Oréal dominant position in the market is due to well-executed online and offline strategies.
2) High quality. L’Oréal sells products which are highly appreciated by the customers for their perceived quality. The group can rely on a large community of consumers that repurchases the same Brand again and again. The consumers are loyal to the group since they perceive that L’Oréal products quality is above average and there is no need to try other Brands.
3) Well balanced Brand portfolio. According to the well-known matrix made by Boston Consulting Group, the Brands can be divided into Stars, Cash Cows, Question Marks and Dogs depending on their market size and potential growth. L’Oréal owns many stars and cash cows (Maybelline, Garnier, L’Oréal Paris) since they have great potential growth

especially in the Asian countries and generate stable cash flows in the Western countries. These Brands can financially help the group to invest in new products and Brands.

4) Ubiquitous group. The group operates in 130 countries, the distribution leads to economies of scale and efficient cost control.
5) Natural products. The group's decision to ban animal tests has been highly appreciated by the customers.
6) Continuous and innovative R&D. L'Oréal's R&D department employs 3,870 people coming from 60 different nationalities. Furthermore, it collaborates with laboratories and groups of scientists in order to provide customers with the best products in terms of safety and efficacy.
7) Strong financial structure. L'Oréal has reached astonishing results: 22.53 consolidated sales in billions of euros, 3.89 operating profit, 5.34 net earnings per share, and +8% dividends.

Weaknesses

1) High research and development costs. In order to keep being the top performing company in the Beauty Industry, L'Oréal is forced to invest a huge amount of money in R&D which may divert resources from other departments in the long-run.
2) Decentralized organizational structure. L'Oréal owns many divisions which have to be carefully managed. The divisions keep high the level of complexity in the decision-making process. In fact, this complexity slows down the production of the company since several Board members have to interact before making a decision.

Opportunities

1) New markets. L'Oréal can take advantage of its presence all over the world. In particular, L'Oréal is focusing on the Asian countries that are turning out more and more interested in Beauty and cosmetics products.
2) Online shopping. The latest researches described above show that there is an increasing interest in e-commerce by the Millennials. Enhancing E-commerce channel represents a priceless opportunity for L'Oréal that can benefit from its ubiquitous and effective presence online

3) Eco-friendly customer demands. As customers are becoming more sensitive to environmental issues, L'Oréal should follow this trend by increasing these kinds of products and ameliorate their characteristics.

Threats

1) Competitors. Although L'Oréal is the top-performing company in the Beauty Industry, many competitors are willing to take the lead. Procter and Gamble, for instance, represents one of the main L'Oréal's competitors. Procter and Gamble got strong financial results in the last years mainly due to its bet on demand for high-end Beauty products.
2) More compelling regulations. Many countries are changing their regulations in terms of free animal tests and usage of safe products ingredients. L'Oréal should follow this trend and adapt its practices to the countries regulations.

9.2 L'Oréal's Brands portfolio

As mentioned above, L'Oréal is a group that owns several Brands. These Brands are divided into four main divisions that develop their own specific vision of Beauty:

1) **Consumer products:** in this division L'Oréal owns the most famous Brands such as L'Oréal Paris, Garnier, Maybelline New York, Dark and Lovely, Niely and Essie. The group, in this division, has experienced a +35.5% growth in e-commerce sales. These Brands target the so-called "augmented consumers". Augmented consumers are the consumers hyper-connected with the Brands through the massive use of mobile phones. This constant dialogue between customers and Brands has created a revolution on the distribution channels. As a matter of fact, nowadays brick and mortar stores and digital channels work hand in hand to provide customers with an omnichannel experience. L'Oréal Paris is perhaps the most famous Brand belonging to this division (it ranked number one Beauty Brand in China) and it is positioned as an affordable Luxury provider. Other important Brands are Garnier (considered a key player in the natural category) and Maybelline New York (considered a reference point in the makeup sector).

2) **L'Oréal luxe:** this division includes L'Oréal iconic Brands and licensed products: Lancôme, Yves Saint Laurent, Giorgio Armani, Kiehl's, Urban Decay, Ralph Lauren, Diesel, Atelier Cologne and many more. It has experienced an astonishing growth of its Brands over the last years. In 2017, for instance, Lancôme had a +10% like-for-like growth and Yves Saint Laurent doubled its sales growth in just three years. Giorgio Armani and Kiehl's exceeded 1 billion euro in sales in 2017. These astonishing results are due to various factors:

- the strong mobile connection between the Brands and their customers,
- the new sophisticated demand for Luxury products including top-end skincare and makeup.
- The growing Chinese consumption of Luxury products even related to the Travel Retail phenomenon.

3) **Professional products:** this division includes various Brands: L'Oréal Professionnel, Redken, Matrix, Kerastase, Pureology, Decleor and many more. The division relies on 250 training studios worldwide, 450,000 hairdressers trained each year, as well as 1.5 million partner hairdressers (out of 7 million totals worldwide). The expertise of these highly trained professionals, together with the well-equipped salons, set L'Oréal Brands apart from the crowd since they can meet the unique and personalized consumers' requests.

4) **Active cosmetics:** this division includes the remaining Brands included in the L'Oréal umbrella: La Roche-Posay, Vichy, CeraVe, SkinCeuticals, Roger&Gallett, and Sanoflore. This division experienced a +5.8% like for like sales growth. The role of e-commerce for this division is particularly relevant since it accounts for more than 10% of the division's total sales. This division targets the customers willing to use healthy products with natural components. In order to provide its customers with these kinds of products, L'Oréal relies on medical experts who help to develop the products with innovative ingredients. Furthermore, L'Oréal relies on a strong connection with its consumers that are highly satisfied with its products. These consumers are the most valuable ambassadors of the Brands and they spread the values of the company through a positive word of mouth.

9.3 L’Oréal key value drivers

L’Oréal has become the first cosmetics group worldwide due to its key value drivers: Research and Innovation, Operations, Digital, Human Relations, Administration and Finance and Corporate Social Responsibility.

Research and Innovation

L’Oréal is aware that, in order to be competitive in a tough Industry, it should focus on technological solutions that can better meet customers’ needs and preferences. The main L’Oréal’s strategy is to be, at the same time, quick and inventive. The group is quick since it can rely on a huge amount of data, patents and research that help the company to be a key player in the Industry. The group is even perceived as innovative since one of its main goals is to provide disruptive scientific and technological innovations in the cosmetics Industry.

Moreover, the group makes extensive use of predictive models to check its products’ safety. L’Oréal invests 877 million euros, corresponding to 3.4% of its sales, in Research and Innovation and keeps track of the safety issues in 20 research centers distributed around the world.

In order to be flexible in a fast paced changing environment, L’Oréal pursues an open innovation strategy that consists of signing several Agreements with research institutions, startups and external laboratories.

Operations

L’Oréal is aware that new customers have different needs from the past. In fact, they want to have access to the products anytime and anywhere but at the same time they want the company to be sensitive to environmental issues. L’Oréal has then implemented operation processes that could combine the agility with environmental protection.

In order to enhance its agility, the group has decided to implement the most advanced technologies, for example it introduced robots that can collaborate with humans in the production process. L’Oréal has set up new equipment that can produce goods at high speed in order to meet customers’ huge demand. In fact, it has been estimated that L’Oréal records an order every two seconds.

Furthermore, L'Oréal has proved to have a high degree of social responsibility. In fact, L'Oréal has set a policy following called "3R": Respect the consumer and the environment, Reduce packaging volume and weight, Replace materials with a high environmental footprint with recycled materials.

Digital

L'Oréal has proved to be very strong online; in fact 8% of consolidated group sales come from e-commerce. The group considers online as being its "third country" after the United States and China. L'Oréal's marketing strategy takes into account the relevance that nowadays have both social networks and influencers on the consumer's choices. The connection between customers and Brands has created a huge amount of data that are carefully managed by the group in order to keep them as much confidential as possible.

L'Oréal is aware that, in order to be appreciated by the new customers, a company should make the online experience fascinating. The group has developed the so-called "Beauty companions" in order to make the online experience as much as possible similar to the in-store experience. The Beauty companions are digital services that guide the customers in their selection process that is similar to what customer get in the store. Furthermore, the customers can check online their skin status or test products virtually with 3D functionalities. It must be noted that L'Oréal has created a real asset from its presence online since more than 38% of its media budget has been invested in digital platforms, a billion people used to visit its Brand's websites and it has 250 million followers on social networks.

Human relations

L'Oréal has a strong connection with its employees and it always tries to reduce the gender gap. It ranked first in a gender equality ranking promoted by Equileap and eighth as the most attractive company for students according to Universum 2017. The Group considers the workplace a fast-paced changing environment and so it needs reliable employees that can make a valuable contribution to the company. By empowering the employees in their daily decisions, L'Oréal receives as compensation a high quality work that is remarkably appreciated by its customers. Furthermore, L’Oréal makes the workplace a better place by assigning employees benefits, flexible work hours and training on the job.

Administration and finance

Last but not least, L’Oréal holds a solid relationship with its stakeholders. It has proved to keep professionalism and ethical approaches in its activities and this approach is reflected in the group’s solid financial results. L’Oréal ensures its profitability by carefully manage its activities and by protecting its intellectual property. L’Oréal focuses on two tasks: ensure that there is no infringement of third parties intellectual property rights and ensure that its Brands are not copied by other entities.

9.4 Armani: company overview

Giorgio Armani S.p.A. is an Italian Luxury fashion Brand that was founded by Giorgio Armani and Sergio Galeotti in 1975. Armani experienced, since the very beginning, a fast-paced growth that set the company among the most famous Luxury Brands in the world.

From 1980 Armani decided to expand its business into related fields and he signed an important Licensing Agreement with the French company L’Oréal. During that period, Armani launched its first three collections Emporio Armani, Armani Jeans and Armani Junior.

In 1981 the company opens its first store in Milan and, in the same year, two new collections called Emporio Armani Underwear and Emporio Armani Swimwear were launched. Due to the extraordinary entrepreneurial spirit of its founder, the Brand in 1987 opened its Japanese division and in 1988 signed a strategic agreement with Luxottica to market Luxury sunglasses.

At the end of 1999 the company started to implement e-commerce channel and introduced the new accessories division. In 2000, Armani launched its official website and set up a joint venture with Zegna Group in order to spread its collections all over the world.

In 2008, Giorgio Armani S.p.A. acquired 80% of the Basketball Company Olimpia Milano that has been sponsored by the Luxury Brand itself from 2004.

Currently, the Brand markets a vast array of products: leather goods, watches, shoes, accessories, jewelry, eyewear, cosmetics and even home interiors. Armani’s apparels sales account for half of its total profits, followed by perfumes (29%), eyewear (9%), watches (6%) and others (6%). The Brand is privately owned by its founder who is fully engaged in designing its high-end products. The Brand has been reorganized from its former division in a simpler one.

In fact, the Group included several Brands: Giorgio Armani Privé, Giorgio Armani, Armani Collezioni, Emporio Armani, Armani Jeans, Armani Junior and Armani Exchange. Armani has recently stated that the company will go through a consolidation process by deleting some of the collection and keeping intact only three of them: Giorgio Armani, Emporio Armani, and A|X Armani Exchange. The Italian company has followed a trend that has involved also other fashion Brands like Ralph Lauren, Burberry and Dolce & Gabbana just to name a few of them.

Armani is one of the greatest Luxury fashion Brands. In 2016, its sales were estimated at around $2.65 billion. Armani has always been aware that new customers have to be treated in a completely different way from the past. New high-end customers are much more sensitive to ethical issues. Accordingly, Armani banned fur from its production stating that there are “valid alternatives at our disposition that render the use of cruel practices unnecessary as regards animals”.

The Brand’s success has been built on 3 pillars: class, quality and exclusivity. These pillars have been transferred to the products by Giorgio Armani’s unique creativity and personality. Hence, the Brand has been built on the image of its founder and, as it usually happens, this might be a challenging issue for the future when Armani will cease to run the business.

Armani has been one of the first Luxury Brands to market its products in Asia. Chinese Luxury market, in fact, has not been fully exploited yet. Hence, the market represents unique opportunities for growth for Western companies. There are around 10–13 million Chinese Luxury customers who are increasingly interested in Western Luxury Brands’ craftsmanship. From the very beginning, Armani was aware of the Chinese Luxury market potential. Hence, it opened its Emporio Armani store in Shanghai in 2004.

9.5 Armani's Brand architecture

Armani has gained huge popularity throughout the years. As it usually happens, a well-known company tries to expand its business into related ones by leveraging its Brand equity. The Brand, by implementing this kind of strategy, can tap into new product categories and reach new customers. Armani has extended its Brand creating five sub-Brands, each one targeting different customers at different price levels. The following sub-Brands made up Armani's Brand architecture pre-consolidation:

Giorgio Armani Privé

This is the haute couture Armani's line specifically designed for the red carpet in 2005. This exclusive collection is the essence of Giorgio Armani collection and it is chosen by celebrities in a gala or award shows.

The signature Giorgio Armani line

This line represents the ultra-premium quality clothes designed by Giorgio Armani. The apparels belonging to this line are particularly suitable for 35 to 50 years old high-end customers.

Armani Collezioni (dismissed)

The apparels belonging to this line were sold at slightly lower price targeting a less rich audience. This line represented affordable fashion for customers that want to have some high quality and luxurious clothes in their daily life. As a matter of fact, the apparels belonging to this line were typically sold at a price that is 20% lower than the previous one.

Emporio Armani

This line is specifically designed for 25 to 35-year-old group of customers. Emporio Armani Brand has been remarkably famous for its fashionable and contemporary design that turns out to be appealing for younger generations.

EA7

This line was created for the famous football player Andriy Shevchenko who wore the number 7 shirt. It was made for sports lover customers who want to wear exceptional clothes even in their workout activities.

Armani Jeans (dismissed)

This line was made for young adults in the 18 to 30-year-old age group. It expressed the lowest degree of luxe in the Armani range. The line was created to attract the new generations to the Brand even though the apparel did not contain the same premium quality of the signature Giorgio Armani line.

A|X Armani Exchange

This sub-Brand serves the main goal of providing the whole range of clothes and accessories to the customers. This line targets the mass market, hence the quality of products is medium but still fashion as each Armani apparel should be.

Armani Junior

Armani junior is the line specifically designed for kids and it is well identifiable for its simplicity as well as classic style.

These sub-Brands do not represent the full list of category products marketed by Armani. In fact, the Brand leverages its Brand equity in order to tap into related product categories like eyewear, watches and cosmetics. These related products are made available for each sub-Brand in order to reach all the customers segments. It should be said that Armani has gone even beyond the Brand Extension definition since it expanded even in categories that are not so closely related to apparels.

The following is a list of further Brand Extensions that Armani S.p.A. has implemented through the years:

Armani Casa

The products sold by this sub-Brand express Giorgio Armani's idea of living as well as his aspiration to perfection. The sub-Brand sells all the furniture, accessories and decorative items that have to be present in a fashion house. Showing an increasing interest in this new trend, Armani has invested in China's capital Beijing to build a Luxury home project. This project will consist of homes, shopping street, underground malls and related facilities that will be managed by the sub-Brand.

Armani Beauty

Armani Beauty Brand includes the vast array of fragrances and cosmetics signed by Giorgio Armani. The Brand can rely on several Agreements signed with the most important makeup artists like Linda Cantello. Apart from the collaboration with makeup artists, Armani has signed with L'Oréal an important Licensing Agreement for spreading its products all over the world.

Armani-Branded dolci

This Armani's line leverages Brand equity to expand its business into pralines, chocolates, honey, tea and cakes. The products are hand-made and provided with sophisticated and well-designed packaging.

Armani-Branded Fiori

Armani Fiori was created in 2000 in order to offer premium quality flowers and decorations. The focus of this line is on the clients that are carefully guided into their selection process through personalized services

Armani Restaurants

Armani has extended its Brand even to the food business. It has opened several restaurants all over the world, in particular: two in America, 9 in Asia and 9 in Europe. The Brand essence is reflected in the exclusivity of these restaurants that serve high-quality food in a stylish environment.

Armani-hotel

The Brand has extended its portfolio even into the hotels' sector. In particular the company owns Luxury properties in Dubai where it built, in 2007, the tallest building in the world. In 2011, the company launched Armani Hotel Milano in the center of the prestigious Quadrilatero della Moda.

9.6 Armani's Brand challenges

The founder's dilemma

Giorgio Armani is recognized by many as the real asset of the Brand since his charismatic and entrepreneurial spirit has driven the Brand growth. Undoubtedly, the founder is an advantage for the Brand but this can cause issues when the Brand's survival and success is too much linked to the existence of a single person. Giorgio Armani seems to be the real star of the scene, even more than its Brand that is worth half of his founder's personal fortune. Taking into account the above considerations, Armani should consider sooner or later a succession plan to ensure the business continuity of his Brand.

Brand dilution

A strong Brand provides the company with the opportunity to stretch its influence over other untapped markets by reaching new customers. This strategy aims to get revenue streams that can sustain Brand growth. However, in some cases, Brands have been diluted due to an over-stretching process. For instance, Calvin Klein and Pierre Cardin used their Brand names for a large variety of product categories, thus they have been perceived by customers as less strong or, even worse, opportunists. Armani should consider the Brand dilution due to over-stretch and the lesson learnt on this mistake done by competitors. Armani should pursue Brand Extension only if the new product categories encapsulate its Brand essence and avoid pursuing Brand Extension for revenue purposes solely.

Managing Brand architecture

Armani owns a complex Brand portfolio structure as it operates in several markets, serving very different customers. It is an extremely challenging task for a Brand like Armani to manage its architecture and maintain its consistency across all of its communication strategies and marketing activities.

Maintain financial independence

Armani has, since its inception, kept financial independence. It represents a rarity in the Luxury fashion Industry that is nowadays affected by a consolidation process. Undoubtedly, Armani has taken advantage through the years of its financial independence since the founder is free to propose new trends and design new apparels regardless of meeting shareholders' expectations. However, in an Industry that is heavily affected by consolidation, Armani could have some issues in the near future to compete with big fashion groups.

9.7 L'Oréal (ARMANI BEAUTY) IN CHINA

Licensing Agreements is a ubiquitous practice across the industries. In particular, Luxury fashion and Beauty industries have been strongly affected by this phenomenon. Eyewear and cosmetics are the most licensed product categories in the fashion and Luxury industries. Companies like Luxottica and Safilo are ruling the eyewear Licensing business by manufacturing and selling eyewear for top Luxury Brands like Dior and Chanel. On the other hand, companies like L'Oréal and Coty are ruling the cosmetic Industry producing for Brands like Armani, Yves Saint Laurent and Gucci. For the above-mentioned companies, Licensing represents an effective way to grow by tapping into a new geographic market and new product categories. Revenues coming from Licensing Agreements can represent a relevant percentage of the total sales. In 2014, about 90 percent of the $160 million in sales registered by Calvin Klein derived from Licensing. Many Luxury fashion Brands choose to sign Licensing Agreements with top-performing companies operating in the Beauty Industry. Beauty companies have experience within the market so they can easily launch new product lines. Luxury fashion companies, on the other hand, have a strong reputation that helps them create a loyal consumer base for their new venture.

One of the most successful Licensing Agreement has been signed by L'Oréal and Armani. The French top Beauty Group and the worldwide top fashion Luxury company signed a Licensing Agreement for the first time in 1988. In 2018, the two companies extended their partnership until 2050. By signing this agreement, L'Oréal has gained the right to develop and sell, through its Luxury Division, high-end lines of perfumes, skincare and makeup for Armani. In 2017, Armani revealed that its Beauty division generated revenues of more than 1 billion euro. According to the global president of Giorgio Armani Fragrances & Beauty, the Division has grown at twice the speed of the rest of the market combined. Sales growth in this Division has mainly been driven by the emerging Asian economies. However, the full details of the Licensing Agreement have not been disclosed yet. According to L'Oréal CEO Jean-Paul Agon, the renewal of the agreement with Armani is due to the high level of confidence for the upcoming results. For L’Oréal, in fact, there is a real synergy between the Group’s experience in the Beauty Industry and the exceptional creativity of Giorgio Armani. L’Oréal managers are confident that Armani’s Beauty success will last for many years, being backed by the Beauty company’s know-how. Giorgio Armani, on the other hand, highlighted the extraordinary partnership’s results. In particular, L’Oréal mission and professionalism turn out to be aligned with the Armani premium quality and unique products.

Armani’s Beauty Division astonishing results are undoubtedly due to the growing Chinese consumers’ interest in Luxury Beauty products. In China, the Beauty Industry is experiencing fast-paced growth. China is now the first emerging cosmetics market and 80% of China’s cosmetics market is dominated by foreign Brands. China’s cosmetics market represents valuable opportunities for western Luxury Beauty companies since Chinese consumers are fascinated by high-end cosmetics Brands. L’Oréal and Armani can take advantage of this trend by leveraging their renovated partnership. The two Groups can exploit their effective presence online in a market where social networks and e-commerce is of utmost importance for Brands. As a matter of fact, Chinese e-commerce is booming: Internet purchases represent 25% of China’s cosmetics market.

A new wave of young Chinese consumers is increasingly using E-Commerce platforms such as Tmall, JD and Kimiss to purchase Beauty products. Kimiss, in particular, is a widely known online Chinese platform specialized in Beauty and cosmetics where the customers hare their opinions about the products. It is, then, extremely relevant for L’Oréal and Armani to keep their Beauty products on those platforms in order to be more visible especially for young customers.

Armani and L’Oréal’s first Licensing agreement was signed 30 years ago. Many analysts have forecasted expansion of the high-end cosmetics Industry in China over the next years. L’Oréal and Armani predicted this trend a long time before and wisely signed a Licensing agreement. The companies know that Chinese consumers’ perception of Luxury Beauty products has remarkably changed from the past. Chinese consumers no longer perceive cosmetics and Beauty products as an unaffordable Luxury. In 1980, just 8 years before L’Oréal and Armani signed the agreement, the Chinese cosmetics market was worth only 200 million CNY (26 million euros). Today, the Chinese cosmetics market has an overall value of 134 billion CNY (approximately 17 billion euros). The success of L’Oréal and Armani Licensing Agreement is partially due to the fact that the two companies have been among the first-movers in the Chinese market. However, even if foreign Brands are in a good position, the Chinese high-end Beauty Industry is experiencing rapid changes. Local Brands, for instance, are becoming bigger and more powerful. Undoubtedly, the two companies can rely on their Brand reputation but the competition keeps being a threat to them. It is worth mentioning that Chinese high-end customers are particularly attracted by French Brands that are associated with premium-quality products and craftsmanship. Italian Brands are generally associated with high quality too, but Chinese customers are more keen to rank French Brands first and Italian slightly behind them in terms of Luxury. This difference is mainly due to the fact that French Luxury Brands were the first movers in the Chinese market; therefore Chinese customers are used to associate Luxury to French Brands. Nevertheless the agreement between these two Luxury Groups has blurred these differences. Furthermore, Chinese Luxury consumers are now more educated from the past and recognize the real value of the Italian craftsmanship.

L’Oréal has set an ambitious goal for the Chinese market, namely conquering 250 million new consumers by 2020. In order to reinforce its Brand reputation as a top Beauty company in China, L’Oréal has decided to stop selling Brands like Garnier that are not perceived high end enough for wealthy Chinese customers. In terms of distribution, L’Oréal has decided to market its products in the supermarkets’ shelves right next to common Brands. However, L’Oréal provides the supermarkets with a specialized seller that guides customers in the selection process. The Group offers this premium service for differentiating its high-end image from other common Brands in China. L’Oréal keeps the same positioning even for its makeup Brand Maybelline. L’Oréal turns out to be the right partner for Armani since it ensures premium quality for its key Brands in China. By keeping this positioning, L’Oréal attracts the wave of new wealthy Chinese customers and, at the same time, it does not harm its partner's Brand image. Armani Beauty, on the other hand, has focused its efforts particularly on managing E-Commerce channels. In 2018, Armani Beauty, owned by L'Oréal, decided to open its flagship store on Alibaba's Tmall. Armani Beauty tries to reach the new wave of young Chinese consumers that are driving the Luxury expenditures in China. In order to satisfy Chinese consumers' appetite for Beauty Luxury products online, Armani Beauty has decided to offer the full range of its products on Tmall. Armani has decided to include in the online offer also Lip Maestro, its most appreciated lipstick line in China. Armani Beauty's decision to offer its whole range of products on one of the most used E-Commerce platform is perfectly aligned with the latest Chinese Luxury shoppers' preferences. Being up to date with the latest trends is of utmost importance for companies operating in the Luxury Industry in China. Armani was aware of E-Commerce's potential in China since the very beginning. In fact, in 2010, Emporio Armani launched its E-Commerce website which was the first ever made by a Luxury company in China. Armani Beauty, owned by L'Oréal, has followed the strategy of its parent company. On the first day of Armani Beauty's Tmall launch, it registered a total sale of 17 million yuan, namely $2.64 million. Armani Beauty chose to offer its exclusive products on Tmall since this giant E-Commerce platform counts 500 million active users. The large Tmall customer base is mainly represented by young consumers that account for 60% of its total. Tmall, then, offers a great opportunity for Armani Beauty to reach untapped young Chinese customers. Furthermore, Armani is aware that attending shows and events represents one of the most effective methods to gain popularity in China. Chinese consumers turn out to be attracted by shows and events especially if they have been suggested by friends or family members. Armani introduced its 2018 spring-summer collection in Beijing and, simultaneously, it showcased its Beauty division. For Armani Beauty it is of utmost importance to be actively present on social networks and Wechat. Through QR scan code, most of the Western Luxury Brands spread their popularity among the young Chinese customers. By logging into the Brand fan page, customers can view the latest marketing contents as well as the launch of new products. In China it is not unusual to be asked from a Brand specialized seller to scan the Brand QR code using the smartphone. The rewards are typically free samples of products. This strategy aims to show the human side of the company and increases the customers' interest toward the Brand. Therefore, being digital in China is a way to be more likable and approachable to the new Chinese Luxury consumers.

By signing up the Licensing agreement, Armani has taken advantage of the great experience that L'Oréal boasts over the Chinese women's Beauty preferences. L'Oréal has proven to be aware that being digital and closer to the Chinese consumers is the key to success. Armani Beauty has implemented some strategies to become more approachable to the customers through the use of technology. Chinese consumers can often interact with the Brand by simply using their smartphones. For instance, Armani Beauty implemented an AR-driven interactive feature called Unlock Armani Code that challenges the customers to scan the six letters contained in the word "Armani". The customers' task is to collect all six letters for being eligible to win sample kits.

Armani Beauty, guided by L'Oréal's insights on the Beauty Industry, shows an increasing interest toward its presence online. The Group is aware that being digital is a prerequisite for success but building up an omnichannel experience is the real challenge. In order to provide Chinese customers with an omnichannel experience, the Brand and Tmall will jointly include the possibility for consumers to book offline makeup sessions with Beauty advisors. Moreover, the consumers will be able to explore the whole range of Brand's products offerings, including the Latest Ecstasy Shine lipstick which has been designed specifically for Asian consumers. Backed by the L'Oréal experience, Armani has recently set up an innovative boutique store in Nanjing. In order to ensure an omnichannel exclusive experience for its customers, Armani Beauty provided its store with makeup counters 100% digital. Consumers can record their new look and makeup on their own smartphones. Armani's Beauty customers will then be able to review the tips received in the store and eventually share those suggestions with their friends or family members online.

10. CONCLUSIONS

Armani Beauty Division turned out to be a success for both Armani and L'Oréal. The success is due to many reasons. First of all, it is clear that Armani's unique values and style perfectly fit with L'Oréal's mission and high level of expertise. The agreement between the two companies does not harm their Brand coherence. Armani's long tradition into haute couture clothing lines is an asset that the Brand has to manage carefully. The company's strong Brand equity could have been leveraged only by signing a partnership with a top Beauty Group as L'Oréal.

L'Oréal provides Armani Beauty division with an in-depth comprehension of the market. The French Group has signed Agreements with many global and local influencers. These partnerships have been extremely important for L'Oréal to get reliable information about the latest trends in the market. In China, L'Oréal is widely known among consumers for its high-end products. For some wealthy Chinese women L'Oréal is a "must-have". However, the market is changing rapidly and L'Oréal has to keep investing in R&D in order to ameliorate its offer.

In addition, L'Oréal has wisely stopped selling Brands' products that were perceived by Chinese consumers as generic. Chinese Luxury consumers demand more sophisticated products. By selling medium quality products for the average Chinese consumers, L'Oréal could convey an image of the Group that is far from reality. L'Oréal is mainly focused on getting the most out of the booming Chinese expenditures for Luxury Beauty products. It is clear that its partnership with the top Luxury Brand Armani works in that direction. By managing the Armani Beauty division, L'Oréal can strengthen its relationship with its high-end clientele.

Furthermore, the Chinese Beauty Industry is relatively new. It is an Industry where L'Oréal is confident to grow over the next years. L'Oréal's dominant position in the market guarantees a greater level of flexibility to introduce new product lines. The French Group can carry out several experimentations thanks to its innovative R&D department. The Chinese Beauty Industry is heavily affected by disruptive trends, thus product innovation will be the main driver of success in the future. L'Oréal's constant research for innovative and more sophisticated products is an important asset for Armani Beauty division which interacts with a well-educated and experienced audience. Chinese high-end Beauty customers, especially the ones belonging to the Generation Y, have often attended the university, are used to travel and able to get in touch with foreigners on a daily basis. Despite the "Great Chinese Firewall", these customers are always up-to-date with the latest international trends affecting the Beauty Industry. These high-end consumers are keen to use premium quality products to express their high social status. They purchase Luxury products in their life not just to show off, but rather to feel like part of an exclusive community. The high-end customers belonging to the Generation X also seek for a unique style and a higher quality of life; coming from years of hard work, they want their rewards. The real challenge for Luxury companies like Armani is to deeply understand this new wave of customers by signing contracts with local players.

Armani Beauty products perfectly fit with these aspirations and provide the Chinese customers with unique products. L'Oréal's innovative experiments, combined with strong Armani's Brand equity, yields the astonishing results in terms of sales that have been discussed above.

Furthermore, the combined efforts of the two companies to make Armani Beauty more digital are paying off in terms of Brand likability and approachability. Armani Beauty is committed to provide its customers with an omnichannel experience. This is mainly due to L'Oréal's availability of resources and the implementation of advanced technologies in the stores. These strategies combine the exclusivity aspect that typically belongs to Luxury fashion companies with personalized services that are of the utmost importance in the Beauty Industry.

Nevertheless, the agreement between the two Groups can hide some drawbacks. In particular, in order to offer always exclusive products for Armani Beauty division, L'Oréal could spend too much in R&D with negative effects on its balance sheet. Undoubtedly, L'Oréal can rely on solid financial stability, but sustaining Luxury Brand's investments can hinder its profitability over the long term. However, Luxury Beauty companies have to necessarily make extensive use of financial resources to investigate Chinese customers' evolving preferences. In China, new tastes and preferences are evolving rapidly and the mistakes are just around the corner. In fact, it is fundamental for foreign Brands operating in China to gain an in-depth comprehension of the cultural aspects of the local market. For Luxury Brands it is not unusual to make mistakes that can hinder their reputation as it happened for Dolce&Gabbana.

In addition, L'Oréal has to pay royalties to its partner periodically. Although the royalty fees have not been disclosed yet, they are likely to be relevant. Furthermore, this Licensing agreement has been renewed until 2050. Although many analysts forecast a fast-paced growth for the Beauty Industry, it cannot be ignored the risk of an unexpected downturn.

Moreover, it has to be mentioned that Armani could have overstretched its Brand by investing in too many unrelated businesses. Although the exclusive image of its Brand keeps being unchanged for many, Armani should pay attention to tap in further businesses.

Armani has kept for many years its financial independence although the Industry in which operates has been meaningfully affected by a rapid consolidation process. By tapping into the high-end cosmetics Industry, the Brand has linked a part of its revenues to the L'Oréal activities. The French Group, in turn, has shown an increased interest in acquiring Armani. Nevertheless, the Italian Luxury Brand has rejected the idea of losing its financial independence. Although Armani expressed the will to continue only the partnership in cosmetics and fragrances with L'Oréal, the Italian Brand could benefit by linking with closer ties its future to L'Oréal. By deepening the connections, the two companies could strengthen their position in the market. In addition, this strategy could make the two Groups able to counterattack the moves of other Luxury fashion and Beauty Groups that have already gone through consolidation processes. L’Oréal’ potential acquisition of Armani could be even more relevant in the Chinese Beauty Industry where the competition is expected to be tougher than ever in the next years.

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