



UNIVERSITA' DEGLI STUDI DI PADOVA
DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI
“M.FANNO”

**CORSO DI LAUREA MAGISTRALE IN BUSINESS
ADMINISTRATION**

TESI DI LAUREA

**DIGITAL MARKETING STRATEGIES OF LUXURY FASHION BRANDS IN
CHINA: THE PRADA CASE STUDY**

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ANNO ACCADEMICO 2019 – 2020

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A handwritten signature in black ink, appearing to read "Emanuele Jius".

Outline

Introduction	4
1 Part 1: Luxury Fashion Industry.....	6
1.1 What is Luxury?.....	6
1.1.1 Fashion & Luxury	7
1.1.2 The Luxury Brand.....	9
1.2 Global Luxury Fashion Industry.....	11
1.2.1 Industry Outlook	11
1.2.2 Success drivers for the Industry	14
1.2.3 Key Markets	17
1.3 Key Players	23
1.3.1 LVMH	24
1.3.2 Kering group	25
1.3.3 Richemont	26
2 Part 2: Chinese Market	27
2.1 Introduction.....	27
2.2 Country Profile.....	27
2.2.1 Contemporary History.....	28
2.2.2 Politics.....	31
2.2.3 Understanding the Chinese Culture	32
2.2.4 COVID – 19: Main Facts	33
2.3 Chinese Fashion and Luxury Market	35
2.3.1 Chinese Luxury Customer	38
2.3.2 Millennials and Generation Z.....	41
3 Part 3: Digital Marketing Strategies of Fashion and Luxury Brands in China.....	45
3.1 Digital Marketing in Luxury Goods Market.....	45
3.1.1 Omnichannel Strategy	47
3.2 Chinese Digital Ecosystem.....	49
3.3 Digital Marketing Strategies of Luxury Fashion Brands in China	49
3.3.1 Luxury Brands in China	54
3.3.2 E-commerce	55
3.3.3 Social Media	61
3.3.4 Influencer Marketing and Key Opinion Leaders	67
4 Part 4 – The Prada Case Study	69
4.1 Prada Overview.....	69

4.1.1	A Brief History.....	70
4.1.2	Miuccia Prada.....	72
4.1.3	Brand Identity	74
4.1.4	Financial Highlight	78
4.1.5	Marketing Strategy.....	83
4.1.6	CSR During Covid-19.....	86
4.2	Digital Marketing Strategies	86
4.2.1	E-Commerce	91
4.2.2	Social Media	94
4.3	Prada in China	97
4.4	Digital Marketing Strategy in China.....	99
4.4.1	Digital Timeline	100
4.4.2	Customer Target.....	101
4.4.3	E-commerce	103
4.4.4	Social Media and Communication.....	108
4.4.5	KOLs and Influencers	115
<i>Conclusion and Recommendations.....</i>		117
<i>References</i>		119

Introduction

This dissertation aims at analyzing the Digital Marketing strategies of the iconic luxury brand Prada in the Chinese Market. China has increasingly gained more share in the total spending on luxury goods, with Chinese customers accounting for 35% in 2019. Millennials and Generation Z in particular represent a growing portion of the luxury consumption in Asian markets, as they are the major targets for luxury brands, which are adapting to their preferences in terms of product offerings, communication and engagement strategies.

The case study's purpose is to analyze how Prada is trying to engage with the customer target through digital communication and omnichannel shopping experiences.

Digital Marketing is indeed one of the biggest challenges for the Western luxury brands that want to reach Chinese Millennials. The young Chinese luxury market necessarily requires a more complex digital experience, as the customers are known to be more digital experts and accustomed to higher standards than the European average. Young Chinese customers want to connect with luxury brands to find the perfect lifestyle that distinguishes them into an exclusive community.

Prada was late to add digital to its strategy, therefore the brand struggled to keep up with competitors in the industry that took the leadership. Since 2017 however, Prada has embarked on a series of investments aimed at attracting young Chinese luxury buyers through digital integration. The brand is trying to build a community promoting artistic and cultural events and contents that show Prada's values of innovations the customers can identify with.

The dissertation is structured as follows:

Part 1 introduces the definition and the main features of the global Luxury industry. It investigates the most important geographic markets, the key players and the success factors that are leading the industry.

Part 2 focuses on the most important aspects of the Chinese market. It describes China from a geographic, social and political perspective and it also analyzes the evolution of the luxury industry in the Chinese market. The analysis will then aim at understanding the motives and preferences of Chinese consumers, particularly focusing on Millennials and Generation Z.

Part 3 investigates the global relevance of digital marketing in the luxury industry, explaining the main digital channels used by fashion luxury companies. It introduces the Chinese digital environment, as well as the most used E-commerce Platforms and Social Media. Chapter 3 will

also investigate the digital marketing strategies that are more effective in the China Luxury Market.

Part 4 carries out an in-depth study on the history and the evolution of the Prada brand. The analysis will focus mainly on the relationship that Prada has built with China and its customers. The case study emphasizes on the evolution of Prada's digital marketing strategies. The qualitative study especially highlights the brand's strategic choices regarding digital communication, online distribution and customer experiences.

The final section presents some concluding remarks concerning the Prada case study.

1 Part 1: Luxury Fashion Industry

1.1 What is Luxury?

Luxury does not have a unique dimension and definition, as it can refer to goods belonging to completely different product characteristics and being closely linked to the psychological and emotional dimension of the customer. Over the years there have been many attempts to define this concept precisely.

The concept of Luxury can be analyzed from different perspectives: the first one stems from the etymology of the word, the second one from its social function, the third one is connected to the psychological dimension of the customer and the fourth and final one is related to the characteristics that the concept conjures up in the minds of the customer.

If one looks the word etymology up in the dictionary will find meanings such as pomp and magnificence on the one hand and dissolution and sin on the other. Hence, not only can the term Luxury be used to refer to the capability of generating the customer's satisfaction and granting him a unique emotional experience, but also to refer to simple and pure ostentation, aimed at defining one's belonging to the other layers of society.

Luxury from a social point of view has a strong interdependence with context. In fact, it has had and still has today, different socially relevant functions: create a social stratification, distinguish between what is useful and what is superfluous and drive economic growth (Kapferer and Bastien, 2012).

Another approach to defining the concept of luxury derives from its close link with the psychological dimension of the customer. In this context it is particularly significant to resume the definition of "my luxury" expressed by Kapferer and Bastien in the book *the Luxury Strategy. Break the rules of marketing to build luxury brands:* " My luxury is a very personal revelation about one's secret dreams, something rare, highly emotional but not inaccessible, if only people had the courage or will do it ".

The experience and perception of luxury are, therefore, linked to the way the customer conceives it and to the sensations that it is able to offer him. Each person buys luxury goods because they attribute a personal and particular meaning to it, which can materialize in the desire to highlight his social position or his wealth, in reaching a feeling of fulfillment, or even to express one's loyalty and recognition of the values and aesthetics expressed by the brand. This is the reason why in the luxury goods market there is a lot of focus on customer loyalty with additional services, after-sales assistance, exclusive memberships. What stems from the

description made so far is the strong connection between luxury, desire and dream. The desire for luxury can be stimulated by advertising, aesthetics and hedonism.

Luxury is first of all tied to the idea of exclusivity: according to Kapferer (2015) the concept of luxury refers to rare, hedonic, very high-quality objects and service sold at a price far beyond what their functional value would command, source of self-rewards and of image lift vis-à-vis some relevant others.

It is the luxury brand that activates and embodies the intangible element of the dream, and the symbolic access to a specific universe of privilege. Brands that want to be considered Luxury must have certain features: brand strength, exclusivity, innovation, product craftsmanship, premium pricing, and high-quality are the core ones.

Finally, Luxury is also one of the most profitable and fast-growing industries as it includes 9 segments: Personal Goods, Cars, Hospitality, Fine wine and spirits, Cruises, Design and Furniture, Food and Private Jets and Yacht. Many companies that are nowadays identified as Luxury belong to more than one of the above-mentioned groups. Luxury brands sell unique lifestyles that will not fit in just one category: for instance, Giorgio Armani, which started as a fashion luxury brand, has now spread to the hospitality sector, too.

1.1.1 Fashion & Luxury

Luxury and Fashion both play a crucial role in social life: luxury represents social stratification, while fashion allows people to express themselves, to fit them in a particular group to or to distinguish them from the rest of the crowd.

Luxury fashion is a product of its time, era and the dynamics of class in specific countries: luxury fulfills social and economic goals and is more than a status of conspicuous consumption game.

In the 19th century there was no distinction between Fashion and Luxury as buying clothes for leisure was a privilege only the highest social classes had.

In the 20th century the two concepts began to grow apart, which resulted in the marginal overlap we can notice today. In fact, Fashion Luxury represents only a small, yet very profitable, part of both fashion and luxury industries.

(Luxury and fashion represent two worlds, both economically important but still very different, that overlap only marginally). Luxury Fashion brands success relies on a tandem arrangement.

The Brand, which is responsible for the Luxury aspects, and its Creative Director, who is in charge of the Fashion side, join forces to create value for both the customers and the companies.

The highest representation of this Luxury Fashion partnership could be the excellent work of Karl Lagerfeld at Chanel.

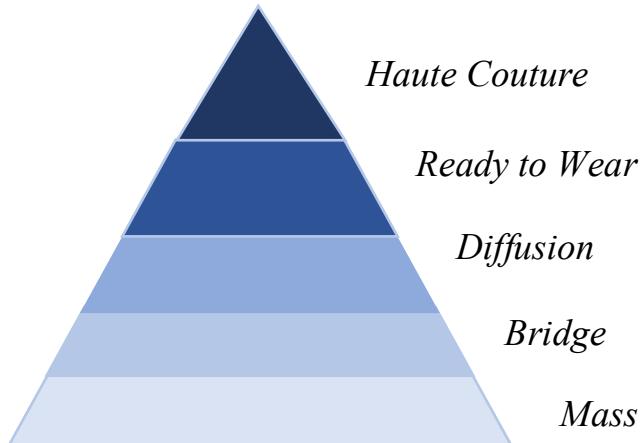


Figure 1 - Fashion System Pyramid

As figure 1 shows, if Luxury Fashion is the top of the Fashion System Pyramid, the Haute Couture level represents the overlap between luxury and fashion: it inspires and sets trends for all the layers in lower positions.

Haute Couture is at the top, where Price Creativity and Quality reach their highest level. The target of these segments is very restricted and the products (that are mainly dresses) are very unique and intended for very important events only. The purpose of the Haute-Couture line is to build the image of the brand rather than making profits.

Under the Haute Couture segment lies the Ready-To-Wear or Pret-à-Porter level, where the price is still very high, and the creativity of the designers serves also as a trend-setter for lower the industry levels. Despite the industrialized production, the brand manages to grant high-quality products to its really demanding customers. The purpose of the RTW is to develop the image of the brand.

The third level is the Diffusion: the target is a younger and wider audience than the RTW one. Price is at a medium level and the production is outsourced as the main goal of this “second young line” is to expand the target audience.

In the Bridge segment the main purpose is to connect the high-end to the mass market: the creativity is not extreme or radical and the quality of the product is not a success factor. At the

bottom of the pyramid there is the Mass market, where prices are below the average market price and the products are “inspired” to the Designer Brands, the trend setters of the industry.

Luxury fashion is a product of its time, epoch and the dynamics of class in specific countries: luxury fulfills social and economic goals and is more than a status of conspicuous consumption game.

1.1.2 The Luxury Brand

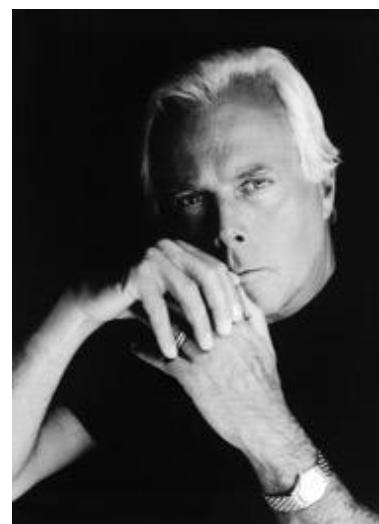
In order to succeed in the long-term, luxury companies need to balance two elements: the intrinsic value of the product, precious, excellent and made out of the best materials, and the brand, the intangible element that gives the dream effect the customer is looking for.

According to the American Marketing Association: “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.”

Therefore, the brand is the element that actually embodies luxury, empowers the lifestyle and the dream that the company wants to evoke as the product itself can hardly be perceived as luxury. Customers do not only buy physical articles; they buy emotional associations with the worlds the companies are able to create. The Sicilianity for Dolce Gabbana and The Art of Journey for Louis Vuitton are perfect examples of it.

The identity of a brand is constructed in time and it starts from the brand’s heritage, symbols and experience (Kapferer & Bastien, 2012). Only an authentic and distinctive group of values will make a brand more valuable and last-longer than its competitors.

To create a powerful brand identity, it is faster and more effective to rely on the myth of a person rather than the myth of a brand. Designers are not just talented inventors, they become a very influential communication tool. They are the ones endorsing the brand’s values. We can observe this just mentioning the names of some of the most famous luxury fashion brands: Coco Chanel, Yves Saint Laurent and Giorgio Armani.



SAINT LAURENT
PARIS



CHANEL

GIORGIO ARMANI

Figure 2 - Yves Saint Laurent - Coco Chanel - Giorgio Armani

In “The new strategic brand management” (4th edition, 2008) J.N. Kapferer revealed the distinction between two different business models for luxury brands.

The first refers to brands with a ‘history’ behind them such as the European companies, while the second covers brands that, lacking such a history of their own, have invented a ‘story’ for themselves, which refers to the US companies.

As we can see from the figure below, the European brands focus on the storytelling of their history and heritage as well as on the product that makes them fully recognizable (the Fendi’s Baguette bag and the Birkin bag by Hermès), whereas the American approach is more about the fictional stories invented by the brand and the experience that customer receives at every touchpoint.

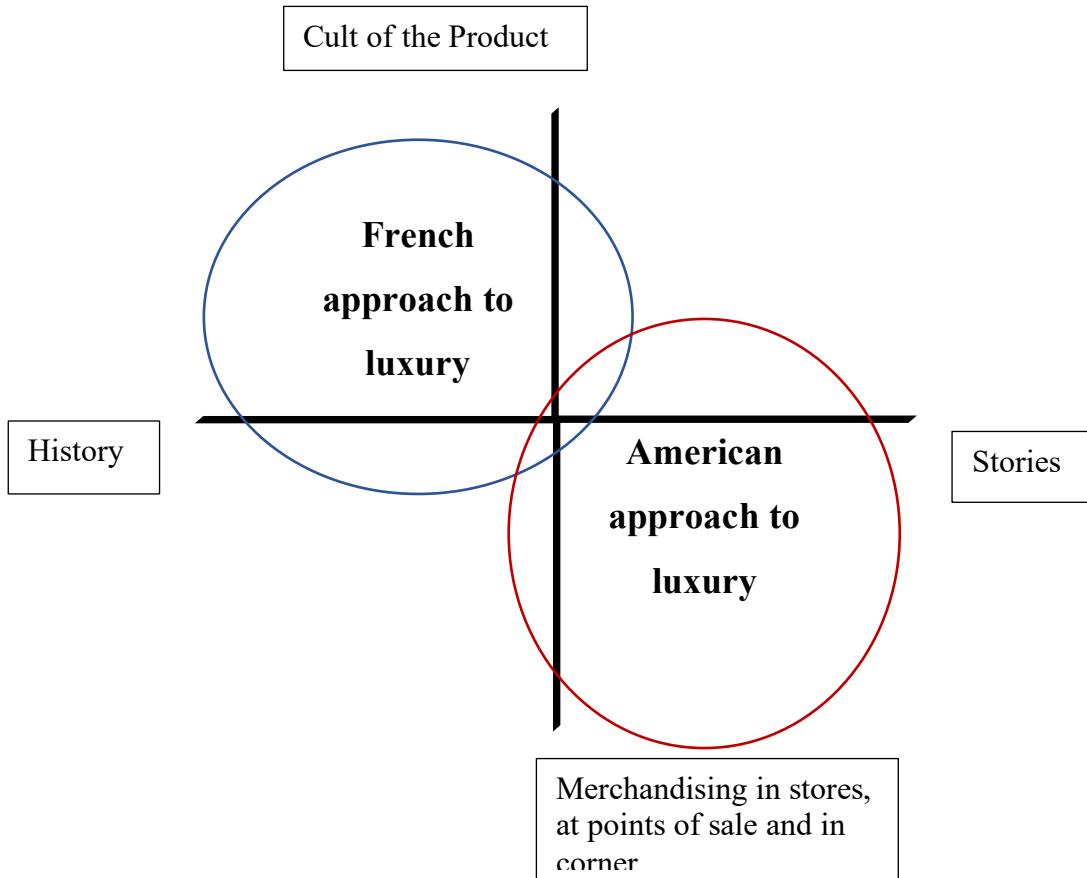


Figure 3- Kapferer: History-based and story-based approaches to luxury

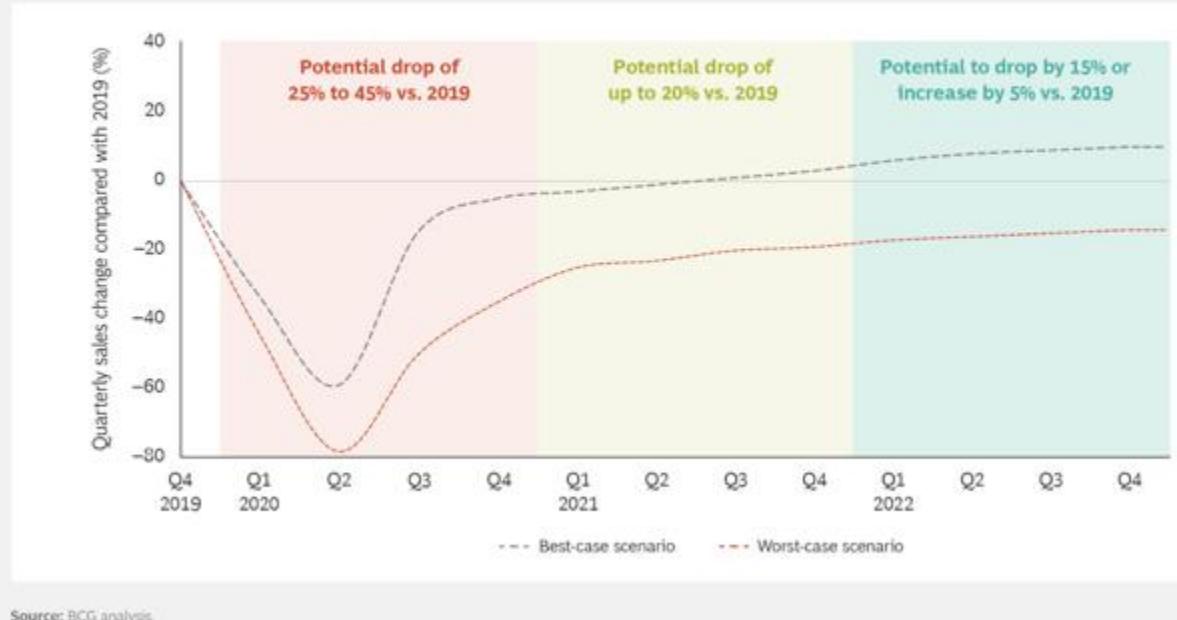
1.2 Global Luxury Fashion Industry

1.2.1 Industry Outlook

Luxury market is facing an unexpected and unprecedented crisis due to the Covid-19 emergency. Every possible forecast made before the worldwide lockdown is now obsolete and non-truthful. The crisis actually accelerated the diffusion of some trends the industry was driving through, and Luxury Fashion companies must follow these in order to escape from this downturn.

According to the Boston Consulting Group forecasts, sales of luxury goods could drop by 25% to 45% in 2020. In a best-case scenario, where a vaccine becomes available or the economic ramifications of the pandemic are not too severe, people will resume shopping and travelling giving a boost to luxury goods sales. On the contrary, if the vaccine takes longer to develop or the recession is more severe, companies will struggle to regain momentum and people's ability and willingness to buy luxury goods will suffer.

Exhibit 1 | Luxury Brand Sales Could Take More Than Two Years to Recover



Source: BCG analysis.

Figure 4 - Source: Boston Consulting Group 2020

Both of the leading luxury groups, LVMH and Kering, released their half-year results revenues and profits fell by double digits in both cases. According to *Vogue Business*, François-Henri Pinault, the chairman and CEO of Kering, stated, “Our results today underscore the extent of the disruption exacted by the pandemic on our operations.” Kering reported a profit decline of 58 percent year-on-year, and LVMH’s operating profit fell by 68 percent as its operating margin fell to 9 percent, which is exceptionally low for a luxury company.

With regard to the previous years and historical financials of the Industry, the Luxury Goods market has enjoyed a remarkable expansion.

With 29%, Luxury Fashion accounts for the biggest share in the Luxury Goods market. Luxury Fashion is the largest segment of the Luxury Goods market with sales values of US\$99 billion in 2018, followed by the Luxury Watches & Jewelry segment (US\$ 88 billion), (Statista 2020).

Although customers are spending less on luxury goods during and immediately after lockdown periods, timeless products have not and will not be affected as much as those that are more dependent on fashion trends and fads.

Boston Consulting Group stated in its analyses that skin care, makeup, footwear, and leather goods are in the best position to rebound. Sales in these categories depend less on season, holidays, or other key moments than the others, and their online sales are already relatively strong.

However, watches and jewelry will on average face more challenges because of their continuous strong reliance on sales through physical and wholesale channels, and because of the extreme drop in international travel. The expected sales in these categories will drop by 35% to 50% this year and not reach pre crisis levels until at least 2023.

The luxury sector appeals to a global customer: 20 to 30 percent of industry revenues are generated by customers that make luxury purchases outside their home countries. In 2018, Chinese customers took more than 150 million trips abroad where they bought luxury goods not only to benefit from European lower prices, but also because shopping has become an integral part of the travel experience: buying a brand in its country of origin comes with a sense of authenticity and excitement. Brands, clearly, will need a new approach to attracting luxury shoppers, since they will have to reactivate Asian luxury customers in their home countries. The brands focus should be on creating tailored local experiences, strengthening their digital and omnichannel offerings, and engaging more deeply with customers.

Travel retail, a critical revenue source for the luxury industry, has practically come to a standstill, and its recovery may take years. The absence of international travels among the continents has shelved all luxury purchases by Chinese residents in Europe and North America. The return to spending from outside China is part of what led the market to shift, and this change will have a lasting effect as these customers' habits solidify over time.

Even though most of the data forecasted before the Covid-19 are not useful anymore, the industry trends now represent a requisite for brands that want to be competitive in the market.

Indeed, this has been seen by many experts as the end of luxury for brands that are choosing to focus on cost management while forgetting about customers. A new dawn is expected for the playful and bold brands stories that are able to connect deeply with their customers and create value in the most extreme ways. There is no alternative to excellence when times get tough. It is an opportunity (nay, a duty) for brands to redefine themselves, reconnect, and reinvent to indulge, inspire, and innovate (Langer D., 2020).

Bain & Company listed the directions for brands that want to succeed in the new luxury world. The first one is the Customer Centric approach, which not only includes an improved Customer Relation management but also involves the needs of the customer at every phase of the brand's strategy definition. For example, demand for sustainability is growing and brands must rethink their entire value chain to ensure that it is environmentally and ethically sound. Diversity and

inclusivity are also must-haves. 2020 will be known as the year of turmoil and of change as well, hopefully. The luxury business, as every other industry, must use the opportunity to make diversity and inclusivity a priority for their workforce and customers.

The second driver of success for luxury brands is Creativity. Bain & Company encourages companies to be bold and expand this competence to each layer of the organization: being experimental and leaving no room for classical and antiquate strategy especially in a highly digitalized environment.

Of course, the success of luxury firms goes through major investments in digital integration. As stores were closed in many parts of the world, e-commerce and social media played a crucial role in keeping sales up, communicating with customers, and forging a sense of community around the brands. It is important to accelerate digital investments and to shift media spending to online channels, focusing on customer activation rather than brand building. Digital marketing could help not only to boost online sales but also to entice customers to visit stores once they reopen.

As shopping preferences and habits evolve, brands must develop tools to engage with high-end customers. This can be seen in Clienteling 2.0, which combines people and data using machine learning to share relevant information with salespeople in order to improve how they engage with customers. A number of brands and retailers are already testing this concept; some actually found success during pandemic-generated lockdowns after turning store associates into digital stylists and having them engage with customers and sell merchandise directly through WeChat and Instagram (Boston Consulting Group, 2020).

The adoption of artificial intelligence (AI), advanced analytics, and other components of an enterprise-wide technology backbone will become a key differentiator in the industry.

Brands must create online experiences that feel exclusive and beyond what non luxury retailers offer. Experiences should take into account not just shopping and purchase transactions but also related activities such as fashion shows, private showings, personal shoppers, white-glove delivery, and other customized services.

1.2.2 Success drivers for the Industry

After years of double-digit growth, the luxury industry is observing a slowdown. The market is in a “transition phase”: customers are changing, technology is taking over and sustainability has become a fundamental issue.

Looking at the luxury customer from a geographic point of view (figure 5), there is evidence of a predominance of Luxury buyers coming from Asia and especially from China (35% of the total purchases of the industry).

"The global luxury market this year confirmed the moderate growth that is now characteristic of the era of the 'new normal', driven mainly by Asian customer ", states Claudia D'Arpizio, Partner of Bain & Company and lead author of the study, "the customer of luxury is present and increasingly active, and is significantly rewriting the rules of the industry game."

Although China is a lucrative opportunity, it is important not to be extremely dependent on this market and to be ready to set new targets into other emerging markets including India, Southeast Asia, the Middle East and Russia.

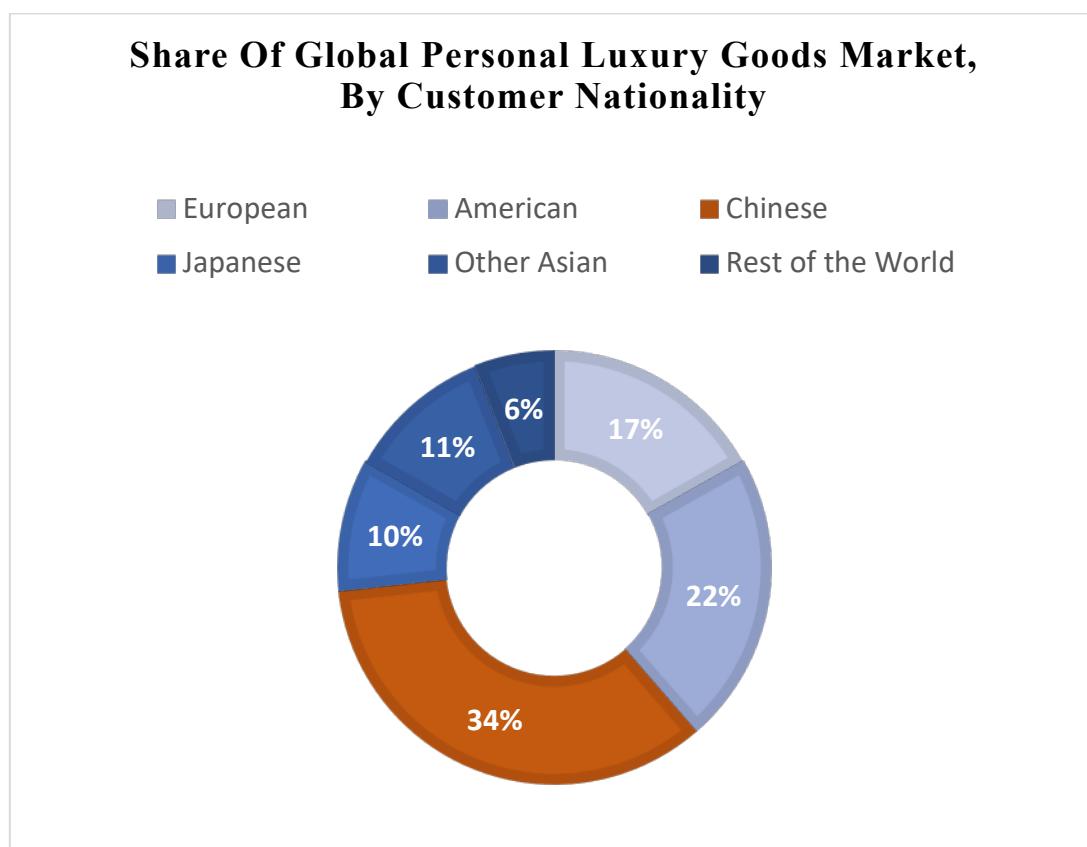


Figure 5-Data Source: Bain & Company 2019

From a demographic point of view, there is evidence of an important generational shift as the generations of Baby Boomers and Gen X are making way for Millennials and Gen Z.

According to the report "The millennials state of mind" published by Bain & Co and Farfetch in 2016, "Millennial" is not simply just an age group, it's a state of mind that affects customer behavior across generations. The research estimates that millennials will represent 40% of the global personal luxury goods market by 2025.

Millennials are actually establishing the rules to the luxury companies, they want to interact with brands across digital platforms, rather than only through in-store experiences. Furthermore, the emotional and personal context, which represents luxury brands main appeal to millennial customers, has widened considerably. Luxury brands are supplementing traditional attributes such as quality and scarcity with lifestyle values such as sustainability in order to attract millennial customers. The emphasis on sustainability is evident in many areas especially in advertisements and in e-commerce platforms (Deloitte, 2018).

According to the report edited by McKinsey “The State of Fashion 2020”, in the uncertain macroeconomics environment that companies are facing digitalization represents a critical point as well as the customer’s concern about sustainability.

The study suggests that the use of big data should gain greater importance in the choice of social media strategy and e-commerce experience. Data represents an incredible opportunity to understand and design a customized purchase experience for the customers, which is key to the luxury industry.

The generational shift means that the use of social media platforms should be reconsidered in the attempt of exploiting more effectively the existing ones and capitalize on the rise of new ones. For people that are native digitals is extremely important to find contents and purchase experiences that go beyond their expectations and of course are far from the easy influencer sponsorship.

Sustainability awareness is increasingly spreading in the conscience of young generations so the brands that want to succeed in the future must show that they are proactive in this way.

The first major trends in this issue are represented by the development and use of alternative materials. The R&D expenses are expected to be focused on the research of organic, low climate impact and hi-tech materials.

The other sustainable booming trend is the circular economy, i.e. 2nd hand and rent shops for luxury fashion goods. McKinsey mentions three of the most important platforms; Rent the Runway, Stock X and the RealReal, which have billion-dollar valuations and show the economic relevance of this phenomenon.

1.2.3 Key Markets

For decades the luxury industry has concentrated on the European countries, which have the main production and expenditures tradition, and on the US that as we discussed before represents the other largest part of the industry.



Figure 6 – Data Source: Bain & Company

The graph in figure 4 was elaborated with data retrieved from Bain & Company and shows that most of the purchases in the Luxury market are performed in the European Market and in the Americas.

Another important note is the increase of the Asiatic market share. Apparently, this is mainly due to the shift in the tourism preferences: Chinese customers are actually now travelling and purchasing a lot in the Asiatic continent (Japan, South Korea etc.).

1.2.3.1 Mainland China

Chinese customers accounted for 35% of the total value of luxury goods sold in the world. Mainland China is for sure a growth driver for the luxury industry, which is confirmed by the growing data that appear every year. In 2019 the local market size grew by 26% and it reached \$25,4 billions thanks to the support of governmental policies and a shift in Chinese customer flows withdrawing from spending abroad.

China was the first country to close due to the coronavirus and the first to reopen and is the testing ground for the rest of the world as what happens there could also have a reflection in other countries. Between January and March 2020, many top luxury brands saw a 95% reduction in prêt-à-porter and accessories; at the end of March 2020, with the restart of the Chinese economy and consumption, the industry saw an improvement of 50% compared to the 2019 levels. With the prospect of an 80-90% recovery (compared to the same period in 2019) in consumption in China by the fourth quarter of 2020, the desire for a return to shopping with good customer confidence already exists.

Despite the positive signs and the recovery of economic activity in China, travel, restaurants, luxury and fashion continue to be least affected sectors by the recovery. If half of Chinese consumption was predicted to be located directly in China by 2025, now this is expected to happen even earlier thanks to the forced repatriation of luxury consumption due to travel restrictions. (PGDS Consulting, 2020)

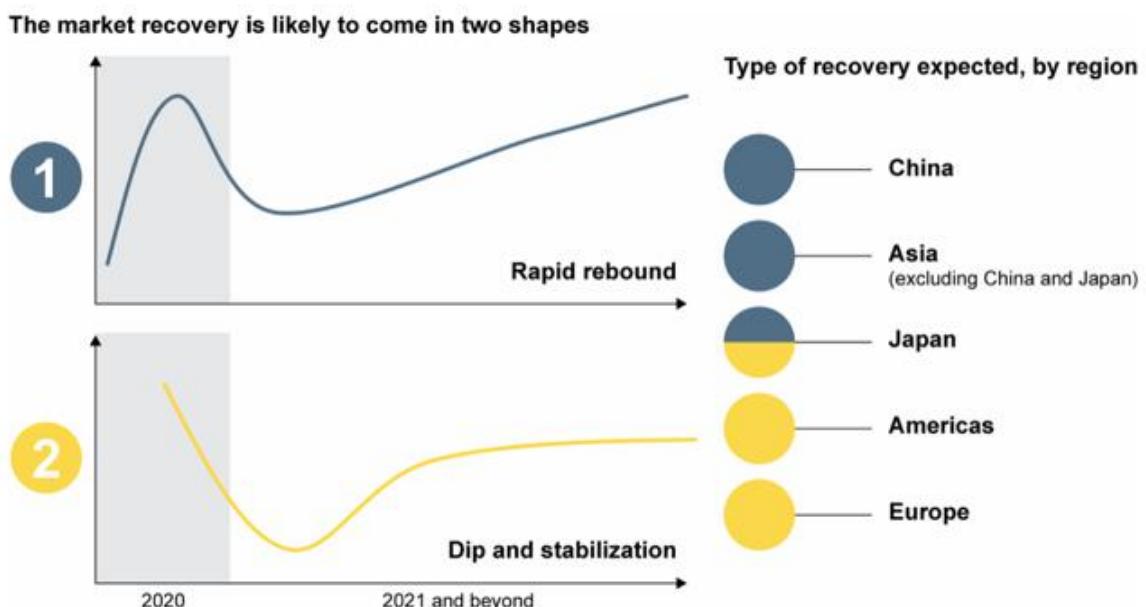


Figure 7 - Source: Bain & Company

China experienced the worst of the crisis ahead of most other places, and the Chinese economy has already recovered to the point where GDP growth is forecast to surpass the 2019 increase and continue to expand. Sales of luxury goods in China are expected to rebound at the end of the year as much as 10% above the 2019 mark because more Chinese who normally shop for luxury goods when travelling stay home and spend inside their country.

Given the Chinese economy's solid rebound after the lockdown period, the Chinese market is not just important in the long-term. Over the short-term (the next 18 months), brands that are not able to connect with Chinese customers will suffer badly because other markets are still lagging. Chinese customers are incredibly sophisticated: they worship luxury brands, but they are also incredibly savvy about every detail of a brand's storytelling. Brands that don't resonate with them don't have a chance (Boston Consulting Group, 2020).

Meanwhile, this moment is a painful awakening for weak luxury brands that had not been focusing on China before the crisis. Brands that struggled before the outbreak will continue to lose momentum and relevancy, which is a deadly proposition in the short- or the long-term. The issues of these brands will drastically accelerate, since a crisis always exposes and amplifies weaknesses.

In this difficult situation, luxury brands must now be able to pivot fluidly between the physical and the digital experiences. They need to be where the customers are and to serve them in a way that provides a consistent brand experience, regardless of the touchpoint.

Having a strong digital infrastructure is now more important than ever, the ability to operate at the same level across all touchpoints and consistently tell a brand story are major weaknesses that have accelerated many brands' downfalls during this crisis and have impacted their chances of rebounding after it. Moreover, luxury brands must reduce their dependencies on travel retail and undertake locally targeted actions reaching customers in their country instead of in their travel destination.

Chinese luxury buyers, who historically made their shops while travelling in western countries, have slowly turned to other Asian destinations, enhancing the performance of these markets. Japan grew by 4% at constant exchange rates to \$20 billion, while the rest of Asia grew by 6% at constant exchange rates, reaching \$35,5 billion (Bain & Company 2019). In 2020 this trend almost disappeared since pandemic made it impossible for people to travel.

Consequently, local luxury purchases in Mainland China have increased at double digit levels. Price harmonization, customer-centered strategies and governmental initiatives continued to favor local purchases.

In Hong Kong Luxury consumption has been adversely affected by ongoing protests against the Chinese government since 2019. During that year the market registered a fall by 20% in sales of personal luxury goods. Luxury brands including Prada, Valentino and Tiffany & Co. have already permanently closed retail outposts in the city while others are reconsidering.

Covid-19 forced Hong Kong to close its borders in March, which resulted in a further unsettling of tourism, with arrivals dropping by 98.6 per cent year on year in the same month. Much of the city's luxury consumption relies on tourists coming especially from Mainland China.

Hong Kong Retail Management Association chairwoman Annie Tse Yau On-yee stated that total sales in February 2020 matched the 2006/2007 ones. Hong Kong luxury market registered 79 per cent year-on-year decline for sales of jewelry, watches, clocks and valuable gifts (Leung, 2020).

1.2.3.2 Europe

When it comes to luxury goods production, Europe has the most classic tradition, especially in Italy and in France where all the biggest brands come from. Buying an Hermés bag in France or an Armani suit in Italy is a unique experience for foreign customers.

Even if Europe experienced a slow 1% growth, it maintained the biggest share for Luxury Goods purchases. In 2019 the market reached \$74,5 billion in size, but in 2020 negative results are expected due to the impact of the lockdown on both production and sales.

From a macro-economic point of view, the European continent is losing ground because of political evolution following recent elections and unclear development on the Brexit agreement, which could potentially damage overall confidence of local customers towards luxury spending.

The slow growth registered in 2019 is also due to the fact that Chinese buyers have turned their sights to other Asian destinations, boosting the performance of these markets. Tourism is fundamental for the European Luxury Market, since Asiatic customers prefer to buy precious bags and products in general in the brand's country of origin.

In 2020 the luxury market in Europe has been stable for the first two months and a half of the year, although with substantial variation between countries. The Italian market suffered the worst, as quarantine caused double-digit sales to decline across the country. Sales rose overall in France, Spain, Germany and the UK, thanks to tourism waves from Russia and the Middle

East and the stable local demand during the early stages of the outbreak. Unsurprisingly, customer confidence had begun to weaken in those territories even before governments put restrictions in place to stop the virus advance across the continent.

European countries such as France, Italy, and the UK could suffer from the effects of the crisis well beyond 2020. The expected market rebound is not as rapid as in China: in fact, Europe is facing a new wave of infections that is still making the economies suffer. In addition, less international travel and weak local demand amidst extended economic fallouts from the crisis will continue to hurt sales of luxury goods.

1.2.3.3 USA

Covid-19 impacted the American market a lot and McKinsey estimated that the physical shops 2-months-stop resulted in huge distress for Fashion Luxury companies based in the USA.

The luxury market in the Americas is also starting to feel the full impact of coronavirus disruption. A decline in (predominantly Chinese) tourist spending did not appear to have had huge consequences in the first two-and-a-half months of the year but the positive trend came under intense pressure as most players shut their American stores. The trend was negative in the airport channel, as the drop-in air traffic from Asia was only partly balanced by continued tourism within Europe and the Americas.

Luxury retailers in the USA are going through major financial distress: Neiman Marcus for instance filed for bankruptcy. The luxury department store founded in 1907 could not afford the forced closure of its 43 shops; they are not liquidating but waiting for an acquisition. Department store group Nordstrom stated that 16 stores are going to close permanently. Historic department store group Lord & Taylor may opt to liquidate inventory in its 38 stores.

The crisis of US luxury retailers was actually prior to the Coronavirus situation, as shown by the fact that Barneys, once an icon of luxury fashion, filed for bankruptcy in early August 2019. Macy's recorded stagnant financial sales in the second quarter.

The fiercely competitive promotional atmosphere in the US is difficult to resist as the bricks-and-mortar climate deteriorates and the ease of price comparison results in the creation of discounts at a domino effect: with the exception of brands like Louis Vuitton and Chanel, the rest is being forced to offer deep discounts. Gildo Zegna, the CEO of Ermengildo Zegna, highlighted in a recent interview that the American market has become very sensitive to mark-down and discounting policies and discouraging Luxury companies to invest in this market.

1.2.3.4 Japan

Revenue in the Japanese Luxury Goods market amounts to US\$26,248m in 2020 (Statista, 2020). The market was expected to grow annually by 6.8% (CAGR 2020-2023) but the pandemic stopped the positive trend and Japan registered a double-digit slowdown in Luxury sales. The stop of tourism highly affected Japan's performances because the country has been attracting high-spender travelers from Mainland China in the last years. The Japanese luxury goods market is also being affected by a significant change in local demand, particularly amongst younger customers. Millennials and Gen Z customers prefer to spend their money for experiences rather than accruing possessions, especially if those experiences are suitable for sharing. With the Japanese population continuing to fall and younger customers turning away from possessions to focus on experiences, luxury goods manufacturers are expected to increasingly rely on the rise of inbound tourist numbers to generate growth during the forecast period.

The most valuable segments of the Japanese luxury market are the Prestige cosmetics and Fragrances, the Luxury Watches and the Leather goods.

1.3 Key Players

The big Conglomerates

At the beginning, the luxury fashion industry was formed by family owned companies such as Hermés, Gucci, Prada, Louis Vuitton and many others. Around 1990 two big players in this industry emerged: Kering and LVMH. They started a series of acquisitions of luxury fashion brands, like Gucci, Balenciaga, YSL to mention some, which now represent a big share of the market.

LVMH, Kering (formerly PPR) and Richemont are the most relevant key players as they all leverage large portfolios of luxury brands that are active in all the segments of the luxury industry: personal goods, jewel & watches and hospitality.

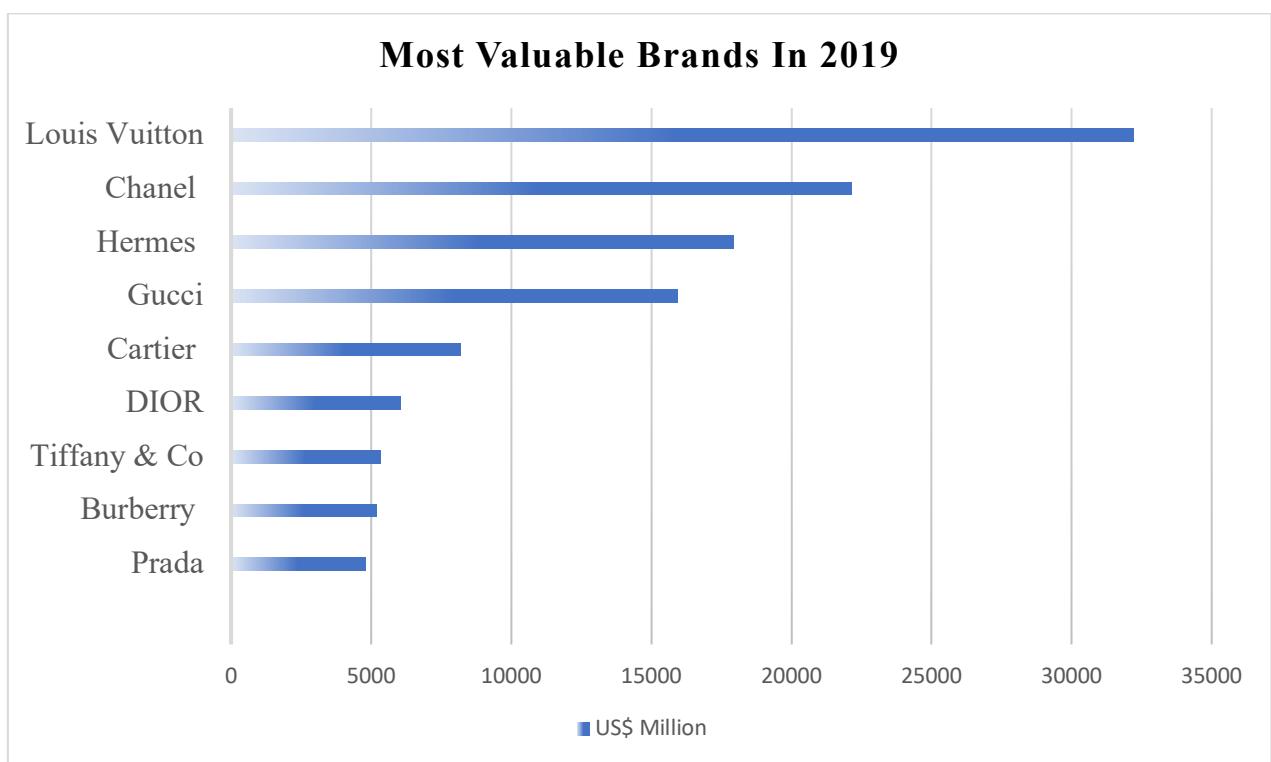


Figure 8- Data source: Interbrand 2019

The graph below shows the rank of the most valuable Luxury Brands published by Interbrand in 2019, as we can see the French Maison are leading, Louis Vuitton Chanel and Hermes represents the best tradition of fine leather goods. Gucci is the brand that showed the fastest growth in the last years (+23%) thanks to a specific strategic decision that allows it to take the right pace on the fashion side.

Then we can find Cartier, Dior and Burberry, and finally Prada that has a negative growth in the last year (-1% in respect to the previous year).

1.3.1 LVMH

Louis Vuitton Moët Hennessy is a French multinational luxury goods conglomerate headquartered in Paris, France. The group was formed in 1987 under the merger of fashion house Louis Vuitton with Moët Hennessy.

In 2019, LVMH revenues are US\$53,7 billions, with an organic revenue growth of 10%. This performance derives mainly from the Fashion & Leather Goods segments that accounts for 41,4% of the revenue of the entire LVMH group.

In the First Half Year Report 2020 LVMH stated that the group showed good resilience, notably from major brands Louis Vuitton and Christian Dior. Specifically, sales in Fashion Luxury segments went down by 23% in respect to 2019. The brands experienced a strong growth in online sales and a solid rebound from Asiatic market in the post-lockdown phase.

At present, LVMH comprises 75 brands, including luxury fashion houses such as Louis Vuitton, Fendi, Christian Dior, Marc Jacobs, Givenchy. The group is present in almost every category of the Luxury industry, from Wine and Spirits, to Fashion Luxury and Watches and Jewelry. LVMH is a symbol of craftsmanship tradition, excellent quality and design innovation.

Since the outbreak of the coronavirus epidemic, LVMH has shown solidarity through the actions against the spread of the virus undertaken in all the countries where the Group is based.

To combat the risk of shortage of hand sanitizer gel, on March 15 the LVMH Group called upon the production sites of some of its renowned perfume and cosmetics Maisons - Guerlain, Parfums Christian Dior and Parfums Givenchy - which converted its production lines to make hydroalcoholic gels.

In addition, LVMH has organized and financed a major operation to import 40 million surgical and FFP2 masks, to be delivered directly to the French health authorities. In this demanding context, the Group supplied itself with masks, ordered their production in China on behalf of the French state, before organizing their transport by a chartered cargo plane to take them to Charles de Gaulle airport in the capital.

1.3.2 Kering group

Kering is an international luxury group based in Paris, France, and specialized in luxury goods. The company was founded in 1963 by François Pinault with the name Pinault-Printemps-Redoute (PPR). After the acquisition of some luxury fashion brands, in 2003 PPR changed its name to Kering in order to fully achieve its shift towards luxury.

By placing creativity at the heart of its strategy, Kering enables its Houses to set new limits in terms of their creative expression while crafting tomorrow's Luxury in a sustainable and responsible way.

The group owned 12 brands including Gucci, Bottega Veneta, Yves Saint Laurent, Balenciaga, and Alexander McQueen, which contributed to most of the revenue for the group.

In 2019 Kering Group registered revenues for US\$15,447 billion. In 2020 the first half of the results reported a reduction in sales of 29,6%. Japan and North America registered major contractions compared to 2019 results. E-commerce sales grew by 72% in comparison with the previous year, representing the 12% of total retail sales.

Kering Group is getting the attention of young luxury buyers through brands like Gucci, Bottega Veneta and Saint Laurent, matching new needs and trends thanks to major investments in digital and sustainability.

The Kering Group is playing its part in fighting the Covid-19 pandemic in France, Italy and China.

Kering provided the French health service with 3 million surgical masks, which the Group will purchase and import from China.

Meanwhile, the French workshops of Kering's Houses Balenciaga and Yves Saint Laurent are preparing to manufacture masks while complying with the staff members with the strictest health protection measures, with production getting underway as soon as the manufacturing process and materials have been approved by the relevant authorities.

On March 11th in Italy, Kering and its Houses made donations to the four major foundation hospitals in Lombardy, Veneto, Tuscany and Lazio.

More recently, Gucci responded to the request made by Regione Toscana to fashion industries donating 1.100.000 surgical masks and 55.000 medical overalls in the coming weeks, subject to relevant authorizations.

1.3.3 Richemont

Compagnie Financière Richemont SA is a Switzerland-based luxury goods holding company founded in 1988 by South African businessman Johann Rupert. Through its various subsidiaries, Richemont mostly produces and sells jewelry, watches, leather goods, pens, firearms, clothing, and accessories. The luxury brands it owns include Cartier, Montblanc and Van Cleef & Arpels.

Each brand focuses on increasing awareness and desirability by developing creative products and appropriate marketing programs. The brand's products are sold through a network of directly operated boutiques, franchise boutiques and external multi-brand points of sales.

Compagnie Financière Richemont SA owns some of the world's most prestigious luxury goods Companies, each with a proud history and heritage of craftsmanship and design. The group's businesses can be divided into three main segments: the "Jewelry Maisons" (51% of the group's sales), the Specialists WatchMakers and the Online Distributors.

The group in 2018 acquired the Luxury E-commerce Yoox-Net-a-Porter entering in a segment that is key for the future of the business, as the online business accounts for 15% of total group's revenues in 2020. Yoox Net-a-Porter is one of the most important e-tailer conglomerate in the luxury industry.

Revenues for 2019 accounts for US\$15,609m, the main business segment in Richemont group is the Jewelry and Watches one. In the first quarter (as on June 30th, 2020) of the 2020-2021 financial year, sales of Richemont, nearly halved -47%. The decline, linked to the temporary closure of stores and the absence of tourists, is greater than analysts expected. The drop was particularly strong in Japan (-64%) but was also clear in Europe (-59%) and the Americas (-61%). Asia Pacific fared a little better (-29%), thanks to the 49% increase in sales in China, driven by the online channel.

2 Part 2: Chinese Market

2.1 Introduction

China is undoubtedly a very particular country, with a long history, a unique culture, very different from the Western ones. That is why it is necessary to look deeply into the contemporary history of this nation and understand how luxury has penetrated in its culture.

China is a very important market for the luxury and fashion industry, the annual spending on these goods has grown dramatically in the recent decades. In particular, it is very interesting to see how the importance of the Chinese customer has changed over time and consequently how luxury brands have adapted their strategies to engage these customers.

2.2 Country Profile

The People's Republic of China (PRC) is the world's most populous country, according to the estimate made by the National Bureau of Statistics of China in 2019 its population amounts to around 1.4 billion people. according to the estimate made by the National Bureau of Statistics of China in 2019.

The country is a socialist republic and it is governed by the Chinese Communist Party founded in 1921. China is organized in 22 provinces, 5 autonomous regions, 4 municipalities and 2 special administrative regions.

The most spoken language is Mandarin, but there are numerous other Chinese languages due to the huge number of ethnicities that have populated the country. Standard Chinese, which is based on the Mandarin dialect of Beijing, is the official national spoken language for the mainland; it also serves as a lingua franca within the Mandarin-speaking regions. It became the language of the whole People's Republic of China only after the first half of the 20th century.

China can be considered a very multi-ethnic nation. Han Chinese make up to over 90% of the population, but there are also 55 minority ethnic groups living in China. Han Chinese descend from the Han Dynasty, which ruled for 400 years, making it the longest-ruling empire in China's history (Donda, 2014).

2.2.1 Contemporary History

Despite there is substantial evidence supporting the idea that the concept of luxury is not entirely new to China; that traces were deliberately ‘erased’ during the Cultural Revolution and the Maoist era. The Ming and Tang Imperial dynasties in fact, with their exquisite silk fabrics and exclusive porcelains, demonstrate a clear presence of the concept of luxury in China during the Imperial Age.

After his victory in 1949, Mao Zedong made sure to affirm the Chinese Communist Party as the only party in power, and to convert the Chinese society into a socialist one. The country, formerly agrarian, was remodeled by a multiple general intervention plan on several fronts: the agrarian reform led to the redistribution of the land from the hands of the owners of large estates to small farmers.

Mao’s second five-year plan consisted in a further increase of agricultural and industrial production. This led to a disaster in production: in 1959 China was hit by a famine of substantial proportions, causing malnutrition, hunger and disease in the entire population. Following this failure, Mao decided to step down as president of the People's Republic of China in 1958.

The Cultural Revolution in China resulted in three years of Great Famine (1959-1961), which led to the impoverishment of the society and to the mass production of useless capital goods. Its main characteristics were egalitarianism and the individual’s submission to the community and to the state, as well as the contempt for culture, which played a fundamental role in the establishment of the working-class culture.

In the following years, greater moderation prevailed in the economic field, giving peasants little freedom. Even though conservative consumption remained a feature of the Chinese customers society, the country’s opening up and consequent economic reforms, have allowed repressed desires of consumption to be displayed (Lin and Wang 2010). Deng Xiaoping’s motto, ‘To Get Rich is Glorious’ could be seen as a starting point in these open spending patterns. He pioneered the Chinese economic reform theory, which aimed at justifying the transition from a planned economy to an economy that is open to the market yet supervised by the state in the macroeconomic outlook.

When Deng Xiaoping took power, the country opened up to the outside world and its planned economy was reformed into a free market. The reform policies also contributed to China’s shift

from a production to a consumption-focused economy, creating a rising middle class that could purchase Western luxury brands as symbols of success and affluence. As entrepreneurial activity and financial success were encouraged under the reformed system, possessing visible luxuries became a way for Chinese customers to compensate for their previous state of extreme thriftiness (Rucker and Galinsky, 2008).

In 1971, China became a member of the United Nations, which must be seen as a first step towards an approach to the United States. China was already considered an important pole for the future, both in terms of the potentiality of its internal market and of the exploitation of cheap labor from an emerging country.

In the 80s there was a normalization of China's foreign relations with other world countries: ruled by the very strong dictatorship of the Communist Party, China was increasingly opening up to Western interests and capital, especially those of the United States. The United States provided China with large amounts of money and capital, investing in the industrial development of the country.

Following a series of special economic reforms in the 1980's, French luxury brands Louis Vuitton, Chanel and Dior were the first European luxury fashion brands to invest heavily in China. In the early 1990s, made-in-Italy fashion brands like Giorgio Armani, Gucci, Versace and Bulgari began to export high quality products to the Chinese public mainly in Hong Kong and Beijing.

During the initial phase of the Chinese luxury industry development, potential customers were driven primarily by the appeal of the logo. However, as the luxury customers in tier one cities gained greater maturity and experience, heritage has become an increasingly important attribute to the brand story. The 'Made in . . .' approach therefore represented an effective entry mode strategy and a key factor to success.

The 90s saw the fulfillment of most of the social and political initiatives undertaken during the 70s and 80s: the government of Zhu Rongji implemented another important program for the Chinese economy, pulling an estimated 150 million farmers out of poverty and sustaining an average annual gross domestic product growth rate of 11.2% (Donda, 2014). China has risen to second place among the great industrial powers in terms of export production and its GDP is one of the highest in the world.

Although the PRC was mainly focused on the economic growth, the government began to worry this could potentially start deteriorating the country's resources and environment. Moreover, certain sectors of society were not sufficiently benefiting from the PRC's economic development as proven by the wide gap between urban and rural areas.

As a result, under the government of Hu Jintao, China began to implement policies to address the equitable distribution of resources. At that time, more than 40 million farmers had to abandon their land as a result of the economic development, which in 2005 led to 87,000 demonstrations and riots across China. For the vast majority of the PRC's population, however, living standards improved very substantially and freedom increased, even if the control of the Communist Party remains tight (Donda, 2014).

Contemporary China deals with a complex scenario where its Communist past is intertwined with the Chinese luxury customer's desire to catch up with a real lost luxury tradition. Therefore, the consumption of luxury goods represents a means of self-affirmation as it basically reflects the structure of social dynamics. In traditional Confucian culture, luxury does not appear as something superfluous or frivolous, but deep-rooted in the character and spirit of each individual.

Its unrivalled economic growth in the past decade has transformed modern society: China is no longer simply the factory of the world but has become one of the world's largest customer markets. The rapid increase in income, fueled by the rapid growth of the middle class, has created a new customer phenomenon.

2.2.2 Politics

The current President of the People's Republic of China is Xi Jinping, who rose to power in March 2013. Since then Xi Jinping has introduced several measures to enforce party discipline and to ensure internal unity.

The president shows a simple and captivating idea that filled the Chinese media and covered the walls of cities: the Chinese Dream. This project refers to a collective national effort to make China regain a position of great importance on a global level. It is therefore linked more to patriotism than to personal success and emphasizes the role of the national community in pursuing individual goals.

The Chinese Dream was intended as a tool to improve the livelihoods of ordinary people, designed goals that are to be achieved in the following decades. These specific goals fall within the "Two 100" concept, referring to the double anniversary of the founding of the Chinese Communist Party in 2021 and of the People's Republic of China in 2049 (Cesif, 2020). As regards to the first one, China's purpose is to become a "moderately well-off society" in which every citizen enjoys a higher standard of living, an ambition that actually equates to doubling per capita GDP by 2020, starting from around 10,000 dollars of 2010.

The goal for 2049 is instead to make China a fully developed nation, completing the rejuvenation process that will lead it to once again play a role of world leader in science and technology, in culture, in economics and diplomacy.

Since the founding of the People's Republic of China, industrial development has always been the focus of attention in the economic programs of the Communist Party of China. The country's GDP has grown at an average rate of 10% in the last 30 years, transforming the country from a backward agricultural economy to a world economic power. From 2010 to 2019 the annual GDP almost doubled, as it is shown in figure 6.

Since 2015 the economic model that has led China's growth for years, founded first on the export of low-cost products and then on the extensive use of public investments, was reckoned to be no longer sustainable. This change in direction of the government mainly concerned the attention to quality rather than quantity, to the internal market and to the reduction of financial risk.

Among the promotion terms of Chinese economic policies, the Made in China 2025 is worth mentioning. Not only is it a specific policy, but it is also the representation of the inevitable process of the Chinese industrial fabric, which has deep roots in the need to strengthen productivity.

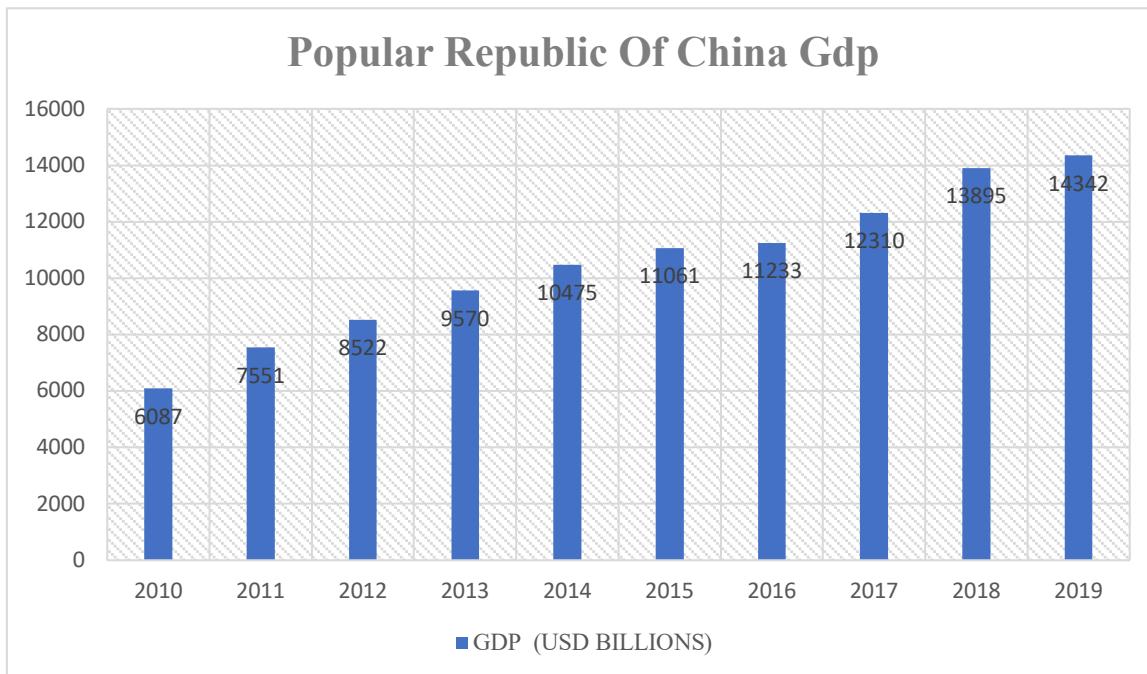


Figure 9- Data retrieved from World Bank

The basic element is that in 2015 Beijing promoted a structural revitalization plan of the national industrial fabric, starting from the cue of Industry 4.0 and expanding the discourse to a transformation of all Chinese production.

2.2.3 Understanding the Chinese Culture

China is considered to be a Pole of civilization. It has one of the world's oldest cultures, which dominates East Asia. The area this culture influences is extremely diverse and heterogeneous, with customs and traditions varying greatly between provinces.

There are 56 ethnic groups living together in China. Among them, Han Chinese is the most populous group, making up over 91% of the nation's population. The other minorities, despite their small percentage, are widely distributed throughout the country and are indispensable to the Chinese culture.

China has several religions which enrich the Chinese culture. Among them, four main religions dominate in the spirituality, traditions and influence: Buddhism, Taoism, Confucianism, and Christianity (Zimmermann, 2017).

The traditional Chinese way of life advocates harmony among the individual, family and society. The basic unit of the society is considered to be the family, which is superior to the individual. The blood relationship is the most important element of society: this is why, while modern families normally include only two generations living together, the tradition and the ideal of four generations living together still endures.

Today, Chinese lifestyle is not very different from anywhere else in the world due to Western influence, which is especially evident in the Tier one cities. Chinese businessmen have imported many ideas from foreign countries such as buildings and clothing.

In general, Chinese people are diligent. They work a lot and work hard every day. Students study the whole daytime at school, time after school is spent on homework. This can be due to the fact that in the most populated country in the world, there do not seem to be enough opportunities for everyone. The Chinese believe that if they do not do their best, there are plenty of people that can work harder, quicker and better than them. In China, modesty is a virtue as it is as part of the Confucian belief. It is easy to see people from different classes in China expressing modesty in life. Chinese tend not to show off.

Chinese are ambitious and hungry for success. Like in the American dream, there are many stories of rags-to-rich told in China. They dream of wealth and respect and will try to reach their goals in spite of failure.

2.2.4 COVID – 19: Main Facts

The 2019-2020 COVID-19 is a pandemic caused by the COVID-19 respiratory disease that sprouted around the end of December 2019 in the city of Wuhan, the capital of the Chinese province of Hubei, and then spread to several world countries causing a major health and economic emergency all over the globe.

The first cases mainly involved workers in the Wuhan wet market, which sold fish and other animals, including living ones. On December 31, 2019, China contacted the World Health Organization and admitted that cases of unknown pneumonia linked to the Wuhan market were found (Thomala, 2020).

Many theories about the origin of the virus actually emerged, especially once the disease spread around Europe and the US and the fear of this uncontrollable emergency increased.

At the end of January 2020, the characteristics of the virus had not been well determined yet, although the ability to be transmitted was identified, details about the infection remain uncertain. On January 22nd Wuhan introduced safety measures that would later be adopted by many other countries and starting a four-month quarantine.

In the first days of February the Huoshenshan Emergency Hospital was quickly built with a capacity of 1,000 beds in order to expand the hospital capacity in the epicenter of the crisis. On March 11th, the World Health Organization officially declared coronavirus a pandemic. A week later, the Chinese government reported no new domestically transmissions for the first time (Thomala, 2020).

During these times, China's foreign affairs have strongly intensified, especially with American President Donald Trump, who explicitly blamed the virus on the Chinese by it "The China virus".

The "Chinese Dream" ambitions or the economic and technological primacy in the medium to long term have been seriously threatened by this pandemic. The image of modern China has been damaged in the eyes of other countries and this has put great pressure and expectation on the management of this critical situation.

The total number of this pandemic as of today (November 2020) are shown in the following table (data retrieved from <https://www.worldometers.info>). The current situation is still very critical especially in the USA, India and Brazil, where the progression of the virus is accelerating. Europe is also dealing with a second wave of Coronavirus, while also facing the consequences of a very unstable economic situation.

	Total Cases	Recovery	Deaths
China	86,087	81,061	4,634
Rest of the World	47,986,897	34,432,040	1,222,759

Meanwhile, China is heading towards an economic recovery that will not equal pre-crisis levels but seems to be driving the renewal of the world economy. Chinese consumption is key to many foreign industries especially in the luxury industry, as we will see later on this chapter.

Many luxury companies experienced a V curve in their sales report thanks to the so-called “revenge spending” of Chinese customers. The stores reopening in Mainland China and the e-commerce sales drove the recovery of the luxury industry in the second half of 2020.

2.3 Chinese Fashion and Luxury Market

In the last decade, China has acquired great importance in the luxury and high fashion market. Thanks to the growing economy and a purchasing power that increases year after year, Chinese customers are expected to represent 40% of the global market for luxury goods in 2035 (Bain & Company, 2019).

Luxury goods are typically cheaper outside China due to a combination of exchange rates and taxes, which entices Chinese citizens to combine a memorable vacation with a luxury shopping that saves them significant money.

However, many Chinese customers have begun to buy domestically over the past few months because of the Coronavirus emergency, though this was already in act before the travel stop. Some of these luxury-buying behavioral changes are expected to last since habits form over time, and there is no end in sight to the world’s travel restrictions.

According to the new Fortune China Luxury Report "2018: digitalization and the new revolution brought by Generation Y" which conducted the "2018 Chinese Luxury Brand Questionnaire" survey on 32,900 senior executives, the places where respondents purchased the most luxurious luxury goods in 2019 were (figure 7): overseas (38.39%), mainland China city (36.22%), Hong Kong, Macau and Taiwan (25.39%). Although statistically, Chinese customers who choose to buy luxury goods abroad still represent the majority, there has been a clear trend towards the return of cross-border purchases.

Location Of Luxury Purchases In 2018

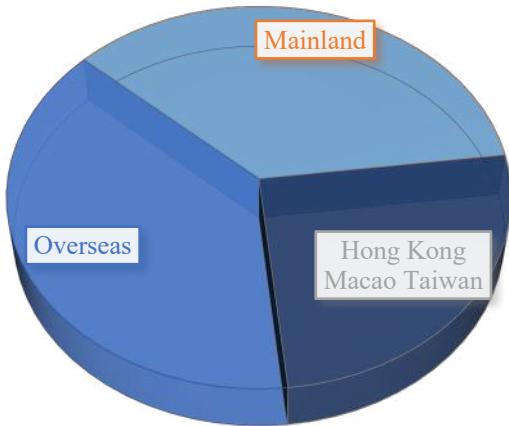


Figure 10- Data: Fortune China 2018

Between 2017 and 2018 the percentage of people who chose to shop abroad has fallen by 6.31 percentage points. Customers who choose to buy luxury goods outside mainland China, "more favorable prices" (48.5%) and "authentic guarantee" (30.2%) are still the main reasons.

The fear of counterfeiting in China is a real issue for luxury buyers. According to the Global Brand Counterfeiting report 2018, Greater China is the source of 86% of the world's counterfeit goods, a portion valued at a staggering US\$397 billion.

This phenomenon seriously damages luxury brands and has always been one of the reasons why they have been reluctant to sell online. In 2015, the Kering Group filed a lawsuit against Alibaba precisely for admitting the sale of counterfeit Gucci brand products in their platform. In 2017, the two companies set up a task force to fight this phenomenon together, as this problem was harmful to both. The growth of Alibaba's platform in the high-end market was definitely threatened by the bad practice of its users and the lack of legislation that could protect the luxury companies.

In 2019, the response from the Chinese government arrived: they implemented the country's most comprehensive E-commerce regulation legislation, aiming at extending legal protections for both customers and brand owners. This law discourages counterfeiting in China through severe fines and places more responsibility on digital platforms to remove sellers of counterfeiting goods (Clark, 2019).

When it comes to China, luxury brands need to think more holistically by seamlessly combining their strategy, positioning, and story across all digital and physical brand experiences and through the most relevant products. Cultural sensitivity is crucial, especially in China, and it must inform all aspects of the brand. (Langer 2020).

Thus, cultural awareness is extremely important when approaching new markets, especially if they present many differences with the one that the brand is used to. It follows that in order to be able to earn the esteem and purchases of Chinese customers, the youngest in particular, brands must invest a lot in direct strategies in this market. The requirements for not missing the opportunities China offers are a high level of research and an excellent selection of local partners that can help build a good reputation.

The history of luxury brands approaching China is filled with failures like the one where in 2018 Dolce & Gabbana had to apologize to the Chinese public for an allegedly racist and sexist advertising campaign displaying offensive stereotypes about China. The company was also excluded from several Chinese e-commerce platforms.



official Twitter account

In 2019 something similar happened to Versace that was made accountable by the Chinese media for selling T-shirts and sweatshirts that featured a list of city-country pairs that implied Hong Kong and Macao were independent territories and therefore for attacking national sovereignty. This episode clearly shows how important it is to know the Chinese culture in order to do business in China.

Figure 11- Source: Versace

Another important aspect to take into consideration in the Chinese world is the importance of "naming". As a matter of fact, many Chinese do not know English and struggle to pronounce the names of luxury brands, so often a new name is assigned by the community, if not by the brand itself. Choosing the right name is very important, because it gives a first idea of the brand's values.

Dialects, lucky and unlucky names and characters all have a bearing on the decision. In 2013, Bottega Veneta changed its official Chinese name from "Baotijia" to "Baodiejia" because it was already registered in the mainland. However, the pronunciation of the new name has a negative connotation that means "a steep drop in price": it was harshly criticized because it does not match the brand's high-end image, and sounds more like a name for cheap stores instead. The public backlash prompted Bottega Veneta to stop featuring its Chinese name on its Chinese official website and other social media channels, including WeChat and Weibo.

Sometimes the original brand name is kept because it means or it sounds like something in Chinese: Gucci, for instance, sounds like the Chinese word for "ancient". Most of the time however brands need to find a new name, just like Ralph Lauren did by adopting the name "horse with three legs", referring to its logo.

2.3.1 Chinese Luxury Customer

Chinese customers are different from Western ones: they are young, well-educated /sophisticated, digitally native and they have great expectations.

The population's average age is 37 years old, which makes it one of the world's youngest populations. At the moment, the average income per capita is lower than in the United States and Europe, but the growth rate shows that China is catching up really fast, thus a new wave of luxury customers with good spending power is expected in the next decade.

Forecasts all agree on the fact that the percentage of Chinese purchasers will account for almost 40% of the global luxury market in the next fifteen years, as it is shown by the graph below.

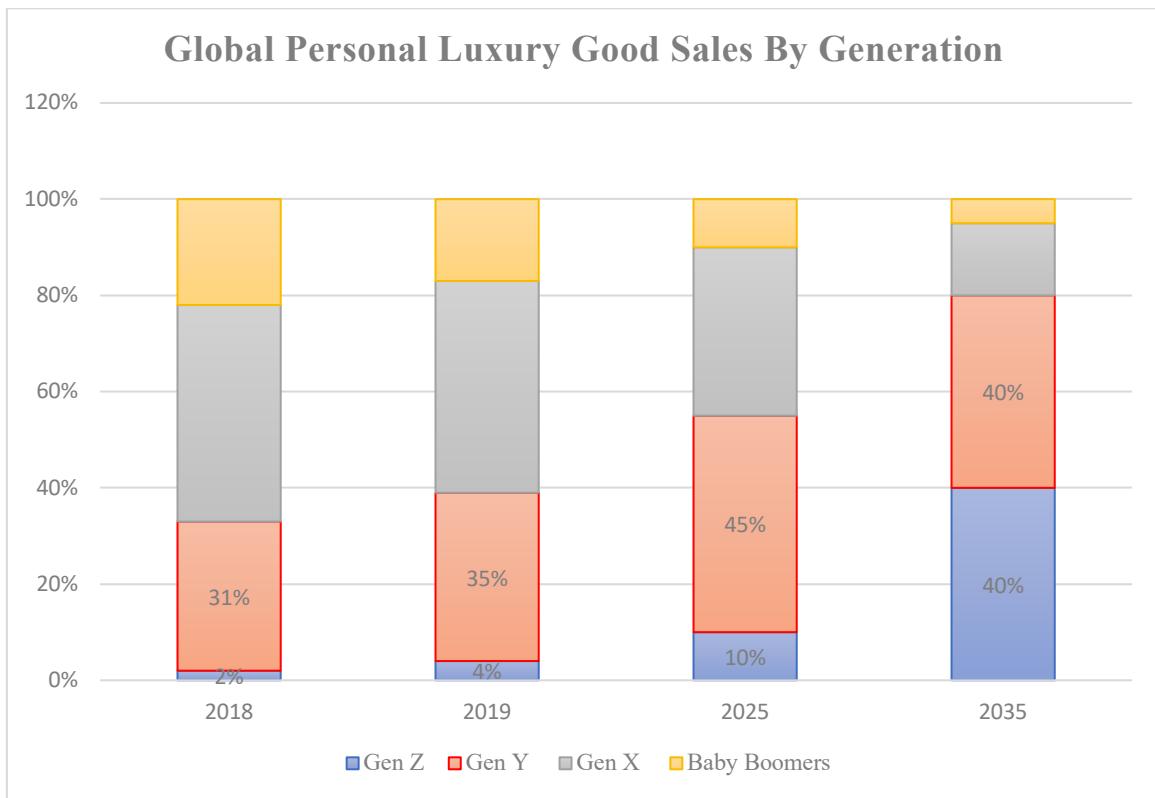


Figure 12- Data: Bain & Company 2020

The Generation Y, also known as Millennials, includes people born between 1980 and 1996, who represent the biggest spenders on Luxury Goods. The post 90s generation, the Gen Z, is about to match Generation X's spending. It is extremely important for luxury brands to be ready to target marketing strategies at the latest luxury customers in order to stay on top of the market.

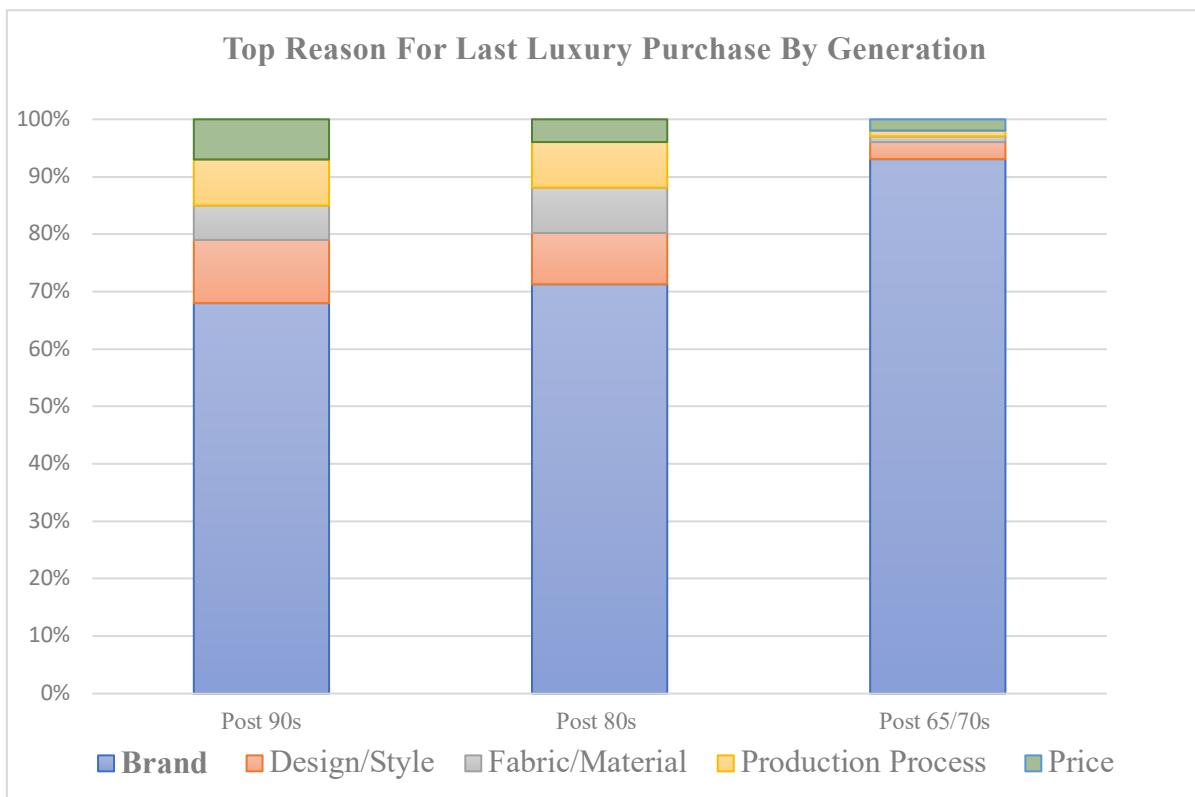


Figure 13- Data: McKinsey 2019

In the China Luxury Report 2019, McKinsey highlights the different drivers to purchase of the Post 90's, 80s and 65/70s. The first thing to notice is that brand is still a very important factor, but the graph also shows how its importance is making way to other aspects such as the Design, the Process of production and the quality of the material. The new generation is at the middle of a sophistication process and they are beginning to appreciate more the elements of the luxury industry.

Another trend that is emerging among the Chinese young luxury customers is the trust in domestic brands: Gen X and Baby boomers are absolutely reluctant to buying a luxury product of Chinese brands, whereas younger generations are exploring new domestic designers.

Chinese customers are very different from one another, especially if we group them by generation. In the following paragraph the analysis will focus on the Millennials and Generation Z segments, that is considered to be the engine of the future of the luxury market.

Younger Chinese shoppers are no longer impressed by craftsmanship or well-known names, but they look for meaningful interactions with brands; they want brands to play a role in society and to take stands for important issues.

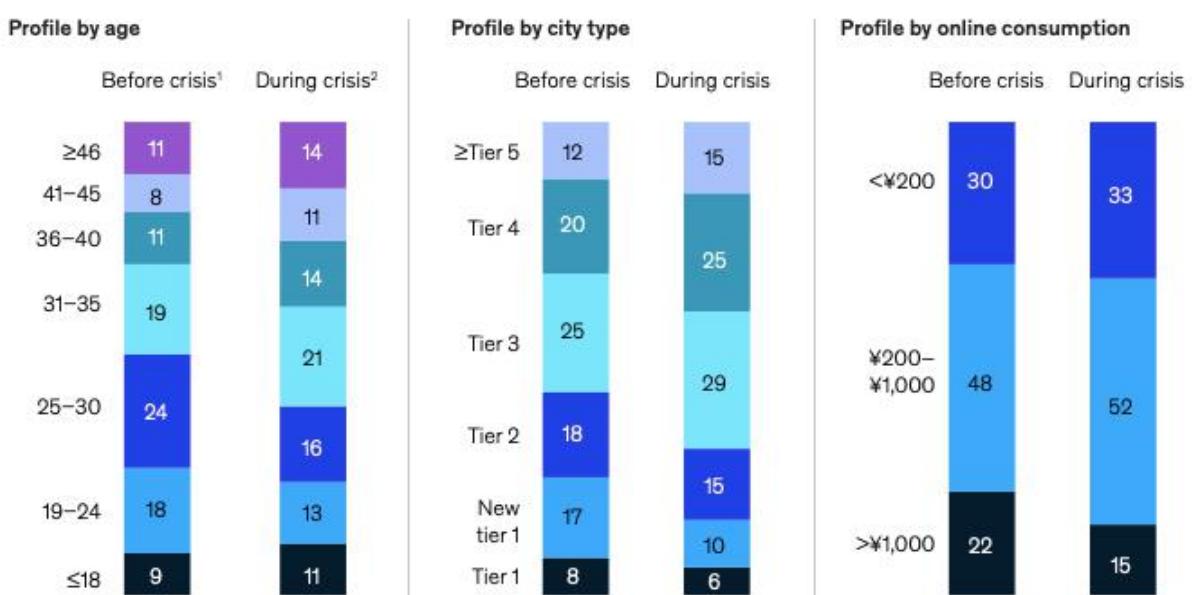
After surviving lockdowns and negative scenarios, luxury customers really want to be inspired. Brands like Gucci, Dior, Givenchy, and Chanel have been incredibly active in 2020 creating collections and collaborations that stir desire. This is the strategy luxury brands should follow: creating excitement, unbound desire, and profound inspiration instead of destroying brand value by selling goods at drastically reduced prices.

Western heritage labels should not underestimate the importance of social media. Leveraging the power of these social platforms in order to communicate the brand's equity is a no brainer. But smart labels go even further: they invest in emotional marketing and create digital content that conjures aspirational emotions.

Another important factor about China is that it is a sprawling and diverse country that includes different social and cultural geographies and has relatively different standards of living.

In China, e-commerce user profiles shifted during the coronavirus outbreak.

E-commerce user profiles before and during COVID-19 crisis in China, %



¹Data from Jan 14, 2020, to Jan 31, 2020.

²Data from Feb 3, 2020, to Feb 16, 2020.

Figure 14 - Source McKinsey & Co 2019

As we can see in the image retrieved by the McKinsey report, the Chinese user profile changed during the lockdown. As a consequence, older audiences seem to be more involved now in the digital environment. What is interesting is that lower tier cities are increasingly gaining shares among Chinese luxury buyers and they probably have different tastes or habits.

Shoppers in Beijing have a different understanding of luxury than people in Hangzhou, therefore audience segmentation is key to success in China. Thus, instead of promoting a single-size solution and trying to reach this massive market with one message, brands should target small audiences in specific locations instead. In China, target-market analysis is fundamental to luxury brands because it saves time and financial resources.

2.3.2 Millennials and Generation Z

In the customer centric scenario that luxury brands are now exploring, it is fundamental to thoroughly analyze the buyers most promising target. Having a clear and well-defined customer strategy is a compelling requirement for luxury brands to compete in the market.

In 2019, Generations Y and Z all contributed to the market's growth; combined, they will represent approximately 55% of the 2025 luxury market and will contribute to 130% of market growth between now and then, offsetting a decline in spending by older customers (Bain & Company, 2019).

They are the new frontier of tomorrow's luxury market; their behavior is very different from the one of older generations. They see themselves as critical actors of the creativity and conversations with luxury brands; they look for connection and emotional engagement. They do not expect to buy superior products, but they want to be involved in the creation process, to feel engaged with the brand and their ambassador.

According to the report edited by McKinsey in 2019 "The Chinese Luxury Customer" there are four distinct clusters of buyers that can be identified across Millennials and Gen Z.

Across two generations, four distinct clusters of consumers emerge.

Post-'80s and post-'90s luxury shoppers in China

- % of luxury spending
- % of luxury-buying population

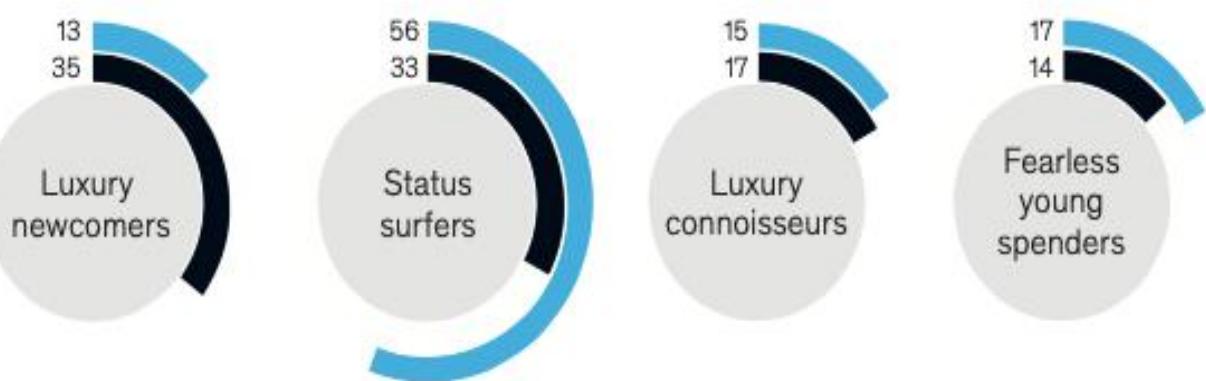


Figure 15 - Source: McKinsey - The Chinese Luxury customer 2019

Luxury newcomers care most about brands, while status surfers are the least loyal to the brand, they have a less nuanced understanding of the heritage upon which the market traditionally trades. Together they account for 70% of the young luxury market.

Luxury connoisseurs, with more sophistication and higher aspirations, often are business owners with higher incomes or they belong to rich families that are used to luxury consumption. Fearless young spenders' shop for what is trendy rather than branded products.

The “customer’s first moment of truth” for these generations is no longer happening in the store, but it happens on their phone and it could be at every moment. The brands need to create desire through the digital journey before a customer comes to the store.

What emerges from the McKinsey Report is that even if the purchase of luxury products still happens offline for this age segment, the discovery and the choice of the product happen online. They value the influence of the Key Opinion Leader, who they trust and listen to before buying an expensive product. They help brands to successfully engage with potential customers on local social media platforms like WeChat and they are much more powerful than traditional advertising.

Furthermore, as we have already seen, young Chinese customers are not loyal to brands in the same way older generations were they are more willing to venture beyond them for new luxury experiences. Instead of legacy reputations established over hundreds of years in Europe, these new luxury customers are inspired more by what is happening right now, leaving room for brands with the right strategy. Luxury companies need the right mix of incentives to get young customers to try on renewed and refreshed product lines and marketing that creates the sense of newness they look for.

Although in many market studies these two age groups are bounded together, it is above all convenient to analyze them separately and to understand what their values are and the drivers that push them to approach luxury.

Generation Z is the demographic segment that goes between 1996 and the early 2000s. They are the result of the single-child policy, growing up in households without siblings and enjoying the full attention and love of their parents and grandparents. In comparison with older generations that are more likely to start purchasing expensive products after they have accumulated a certain amount of wealth (thus at a later stage of their life), Gen Z starts to buy things that they cannot afford yet and usually they will ask support to their family (Vogue Business, 2020).

This demographic segment places great value on advertising honesty and transparency. They are not fascinated by photoshopped images of perfect-looking models, so retailers that promote fake standards of beauty or deceitful marketing messages will be cast aside. Inclusivity and reality are two very important principles to pursue in order to catch the attention of the youngsters, as in the case of Gucci that is implementing this strategy in the most effective way.

McKinsey & Company (2019) claims that this demographic segment believes “profoundly in the efficacy of dialogue to solve conflicts and improve the world. Finally, they make decisions and relate to institutions in a highly analytical and pragmatic way.”

These customers are fearless researchers, they are willing to take extra steps to gain more information about brands’ supply chains and employment practices before making purchase decisions. In China, this is very focused on environmentally friendly consumption and OC&C Consultant reports a 25% of youngsters that care about this issue in china compared to 13% across the globe.

Generation Y (1980-1996) grew up as China emerged as an economic power and are now at the peak of their career and earnings, they travel frequently, and they spend to show their individualism and success.

Young Chinese customers claim that luxury helps them feel unique and different from the people they live with. They see luxury as a form of social capital that helps to set them apart and achieve personal and social goals.

While Western millennials show a deal-seeking behavior, Chinese millennials are pretentious customers that want to show off their fearless purchase power. They demand premium services and unique products preferring everything that can be personalized and thus enhance a personal sense of well-being.

Chinese millennials are the population that witnessed the technology change in their everyday life and the economy. In June 2019, the popularization rate of the Internet in China was 99.1%, compared to 5.3% in 2003. The age group between 25 and 40yo spend most of the time on mobile Internet, with over 160 hours per person per month (Daxue Consulting).

The highly connected Chinese millennials are omni-channel shoppers, they use whatever channel suits their needs best, online or offline. Social media and mobile shopping are now the major shopping channels the millennials use.

To win this generation of empowered and discerning Chinese millennials retailers must address their needs, which means mobile, social, experiential, customized products and services.

3 Part 3: Digital Marketing Strategies of Fashion and Luxury Brands in China

3.1 Digital Marketing in Luxury Goods Market

Luxury brands initially were reluctant to include digital channels in their business. Digital integration has a decisive role in today's luxury market. Digital native customers are reshaping the industry's directions, compelling companies to create more contents and being more involved in CRM. The pandemic only accelerated the trends the industry was already leading towards.

Luxury brands have avoided online sales out of concern about the perception of their product and control over distribution channels. Online sales have grown really fast in the past few years and in 2020 the industry sales grew at double digit level due to Coronavirus lockdown.

Online sales have not yet matched those in stores nor are predicted to do so any soon, however official websites and social medias are the primary source of information for luxury customers. Young buyers, especially influencers and Key Opinion Leaders, start their journey online, therefore representing an influential window for brands. Digital allows brands to create a community of customers and fans that advocate for the company by spreading values and aesthetics.

According to the Gartner report "Luxury US & Europe: Fashion and Watches & Jewelry Digital" marketing and social media investments grew considerably in the 2019 Luxury Index. Year after year, brands registered 27% more paid social media impressions and served Google Shopping ads on 24% more product search terms. E-commerce investments grew as well, with increases in free shipping, free return shipping and the quantity of product page images and videos. These investments reflect luxury brands' increasing focus on direct retail sales and reducing dependency on struggling department stores.

In 2019, during the third edition of Altagamma Digital Awards, Altagamma Gucci and Burberry won the "Best Customer Relationship" and the "Best Digital Offer" awards respectively for distinguishing in the luxury industry. Burberry also received a Special Award for having been at the top of digital excellence for 3 years. The Best Improver 2017-2019 Award went to Moncler and Bulgari.

The Altagamma Awards has ContactLab elaborate the ranking. The figure below shows a more complete rank of Luxury brands performances: the analysis is mostly based on the US market and takes into consideration the Digital Strategic Reach (E-commerce strategy and Customer Engagement strategy) and the Digital Customer Experience (Cross-Channel Experience, Customer Engagement Experience).

Most of the industry competitors concentrate on the cross of the axes: Burberry Gucci Louis Vuitton Fendi and Valentino can be identified as leaders in the digital transformation. Other historical brands like Prada, Armani and Tod's have accelerated their investments and showed a better performance than in 2018.

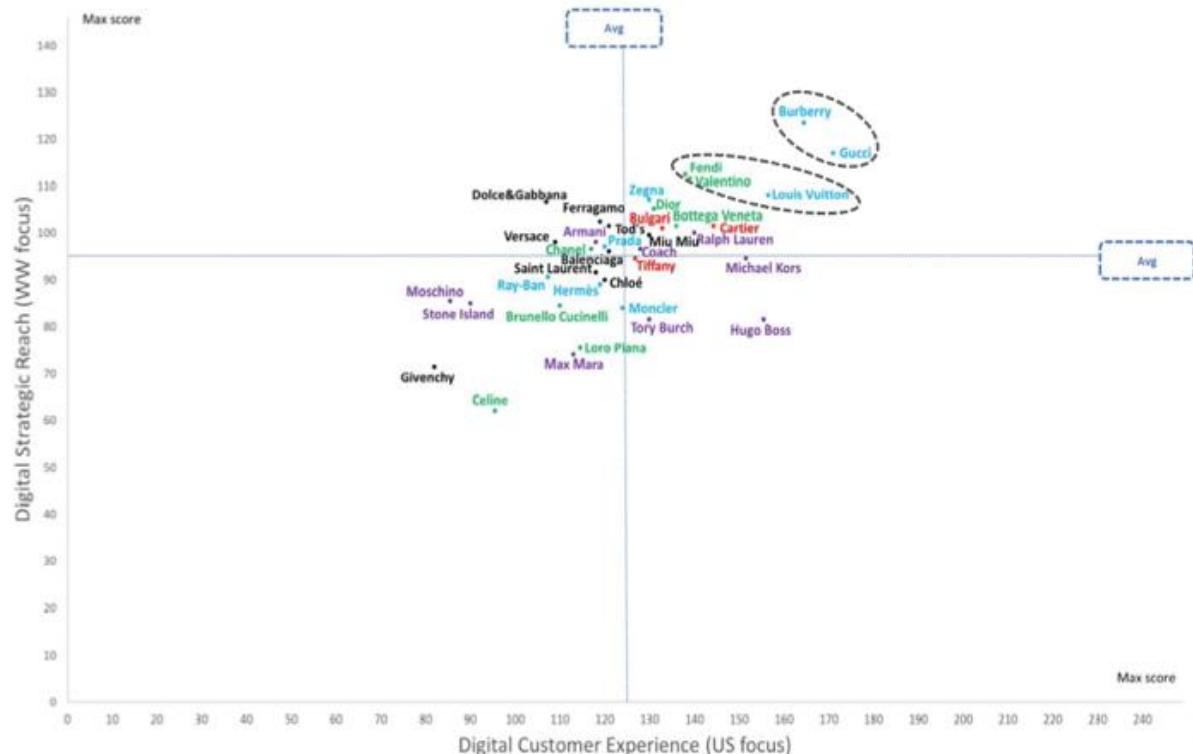


Figure 16 - Digital Competitive Map 2019. Source: Contact Lab 2019

In September 2020 the digital experience took a step forward in the world of fashion shows. Milan and New York hosted a Digital Fashion Week. Fashion shows have been broadcasted in live streaming for quite a few years, but this time it was the only way for fashion brands to present their new collection.

The entertaining level of these latest shows was certainly higher: Giorgio Armani even decided to broadcast his show on national television. Louis Vuitton proposed a series for Men Spring Summer 21 called “The adventure of Zooooom with friends” that combines videos to its physical fashion show - the first show of this kind was in Tokyo. Virgil Abloh the creative director of Louis Vuitton Men RTW wanted to focus attention on the unusual creative process behind the collection since his team worked at distance due to Covid-19. The show was livestream on

every social media platform, Augmented Reality was used to introduce Cartoon characters and animations.

Gucci presented a new experience specifically thought for gamers: through the brand's app, customers can create their own character and dress it with Gucci's collection clothes. This allows Gucci to attract customers, to promote and to sell products in the virtual worlds.

Burberry partnered with Google to create an innovative online shopping experience using AR. Shoppers can now find 3D views of specific products on google and they can overlay it on a real background. Thanks to this feature customers can have a 3D preview of what the products will look like, as if they were shopping in a physical store.

3.1.1 Omnichannel Strategy

Touchpoints with digital multiplied exponentially. To manage and coordinate all of them coherently is a great challenge for luxury companies.

Customer journey is not straightforward anymore. Shoppers can meet brands in different moments of their day or in different and either physical or digital locations either and every experience should be coherent with brand identity and aesthetic.

Omnichannel marketing refers to the brand strategy that wants to integrate all available channels in order to create a seamless shopping experience designed to increase the convenience and commitment during the customer's purchasing process.

The Omnichannel approach or Joined up Marketing guarantees that each piece of the Customer's experience is consistent and complementary. This does not mean that in omni-channel marketing everything looks the same but that everything works together.

The necessary merger between online and offline is certainly a difficult operation for high-end brands. Companies matured a huge knowledge in the brick and mortar retail, and they should use digital technology to amplify their shopping experience. The most proactive way to be successful in this merger is to see digital technology as an enabler and to see data as a conversation that allows companies to better understand the preferences and tastes of their customers.

In the last couple of years, luxury brands started committing to significant investments in order to stimulate the interest of the younger customer segments, namely Millennials and Gen Z.

Since these digital native generations look for individualized, seamless brand experiences, companies are investing to improve brand owned platforms and to integrate digital in physical stores. Customer demand has become the core focus of the business, which moves the omni-channel approach towards an omni-personal one. This means that luxury brands should rely heavily on digital technologies such as Artificial Intelligence (AI) and Big Data in order to design customized customer engagement techniques (Deloitte, 2019). Customization is key to maximize the return on the investments.

Louis Vuitton and Burberry have already started to take advantage of these technologies, using AI-powered technologies such as machine learning and analytics to offer more personalized and more timely customer services. They implemented their own AI-powered chatbots and now they sell products using targeted marketing, personalization, and timely automation.

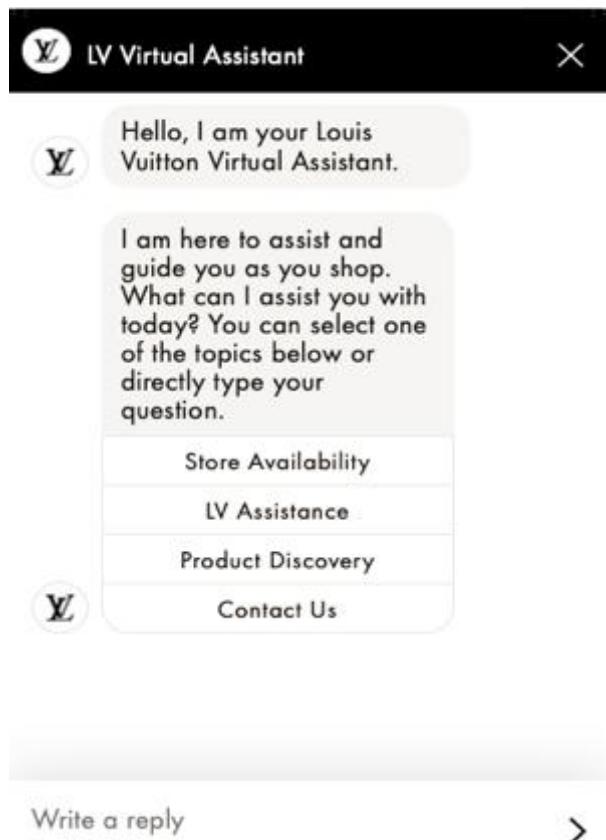


Figure 17- LV Virtual Assistant Source:
louisvuitton.com

3.2 Chinese Digital Ecosystem

The Chinese digital world is substantially different from the European one. The first has the large firewall that refers to the Great Wall, which is a system that isolates China preventing information from the rest of the world from entering the country: Western social networks and Google do not work on Chinese territory, except through a VPN.

The Chinese digital ecosystem is highly integrated, and it is dominated by three large companies: Baidu, Alibaba and Tencent. Baidoo is a search engine similar to Google that has a translator, maps and so on. Alibaba, on the other hand, is an ecosystem of activities and services for the online retail chain. It owns the most used e-commerce platforms in China such as TMALL, Taobao and AliExpress. Alibaba has also integrated a fintech app called Alipay that allows customers to pay through a QR code. Tencent instead is the parent company for WeChat and JD.com, that is messaging apps, video sharing, e-commerce, gaming and much more.

These three big players have driven the development of an integrated system where the introduction of a service is interconnected with the others. The simplicity and practicality of the Chinese system shows its level of wide diffusion, as demonstrated by the data shown initially.

The elevated number of Netizens in China has certainly led to an explosion in the local e-commerce market, which has grown more because of the Coronavirus.

3.3 Digital Marketing Strategies of Luxury Fashion Brands in China

Being relatively new to Luxury, Chinese customers are constantly tapping various forms of content as they want to increase their knowledge of the market. According to the last survey conducted by BCG x Tencent (2020), approximately the 70% of purchases are influenced by or come directly from online brand interaction. In addition, the 50% of the interviewed customers are interested in brand histories. Customers investigate if they share the same values as the brand they are buying.

Young Chinese luxury buyers are looking forward to taking up information at every touchpoint - e-commerce and social media are the most used ones. They want to know about the latest luxury products, the celebrities they are promoted by and the lifestyles they embody. In this dynamic scenario, traditional ads fail to capture the attention of customers.

Given the cultural differences, the language and the complicated digital environment, local digital marketing teams and strategic partnership represent the best approach to be responsive and to experiment with the new media formats and channels young customers like.

Gucci for example started a new joint business partnership with Tencent in 2019. The purpose of this collaboration is to stimulate innovation and leadership in the development of digital strategies in different areas including Internet of Things, Artificial Intelligence, Data Science, Smart Retail, and Content Generation.

According to the Bain & Company studies, the marketing budget of luxury brands has brutally shifted over the last few years. Between 2015 and 2018, the proportion of the marketing budget of luxury brands dedicated to digital went from 35% to 60-70%. This budget went mostly to WeChat, which amounts to 40-70% of the digital marketing budget of luxury brands. The main difference between WeChat and western social media, i.e. Facebook or Instagram, is that a yearly fee is required in order to open an Official Account on the Chinese platform; Western Social Media, on the contrary, are free and need payments only for advertising. This is just another aspect that highlights the fact that the Chinese market requires full commitment of resources and human capital.

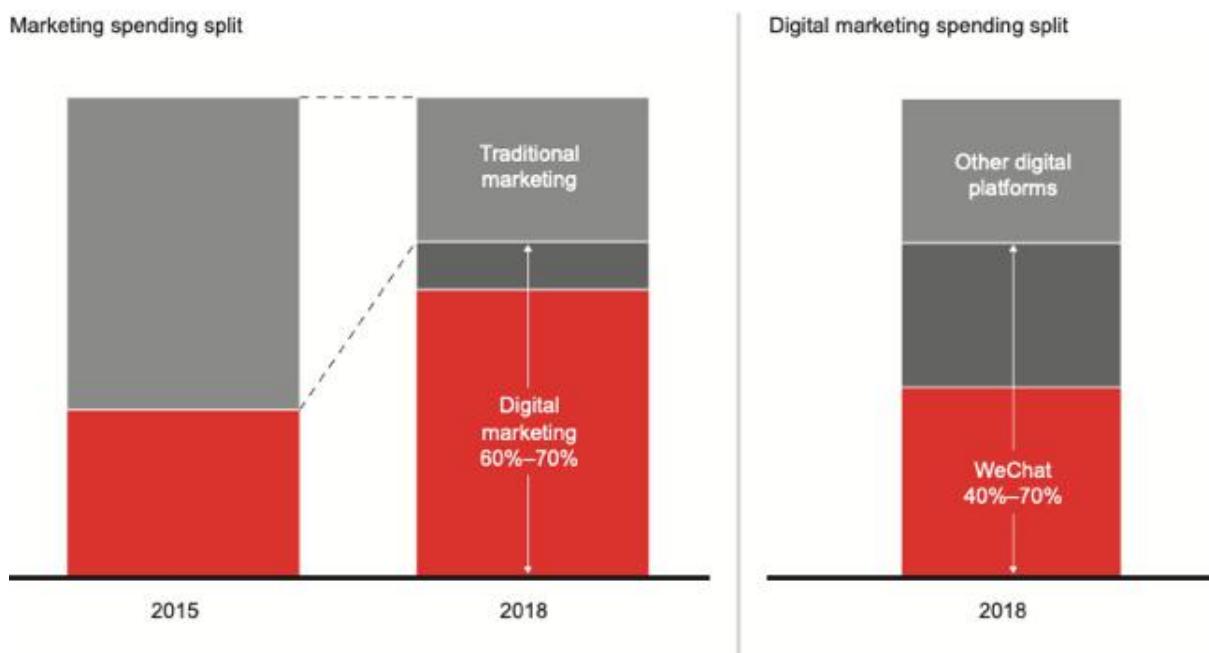


Figure 18 - Marketing Expense - Source Bain & Company 2018

China is a trend setter when it comes to digital, Chinese customers crave for newness and experimentation, therefore the brands should pay a lot of attention to new features and drifts.

Live streaming is certainly an expanding phenomenon. Commerce live sales via the web are wide spreading across multiple platforms and industries.

Live Streaming has become a major avenue for customers to purchase products and educate themselves about brands. The luxury houses that are able to include livestreaming e-commerce into their local and global strategies in a way that fits their brand heritage, image, and ethos are also the ones that earn greater customer awareness and revenue in 2020 and beyond. The phenomenon of live-streaming, which was first used by more mass-market brands, recorded a rapid implementation during the Covid-19 crisis also in the luxury world.

Key Opinion Leaders are involved in the show and generally exhibit the products, illustrating the details and answering to viewers' questions in real time.

Different live streaming platforms target different audiences and address different marketing objectives. As it shows in the infographic retrieved from the Digital Luxury Group "WeChat Luxury Index Jan-Jun 20" presentation, platforms like Yizhibo, Red and Douyin engage larger audiences and consequently report a lower conversion rate. Tmall and WeChat instead let target segmentation leverage and livestreaming results in a higher conversion rate.

LIVESTREAMING STRATEGY FRAMEWORK.

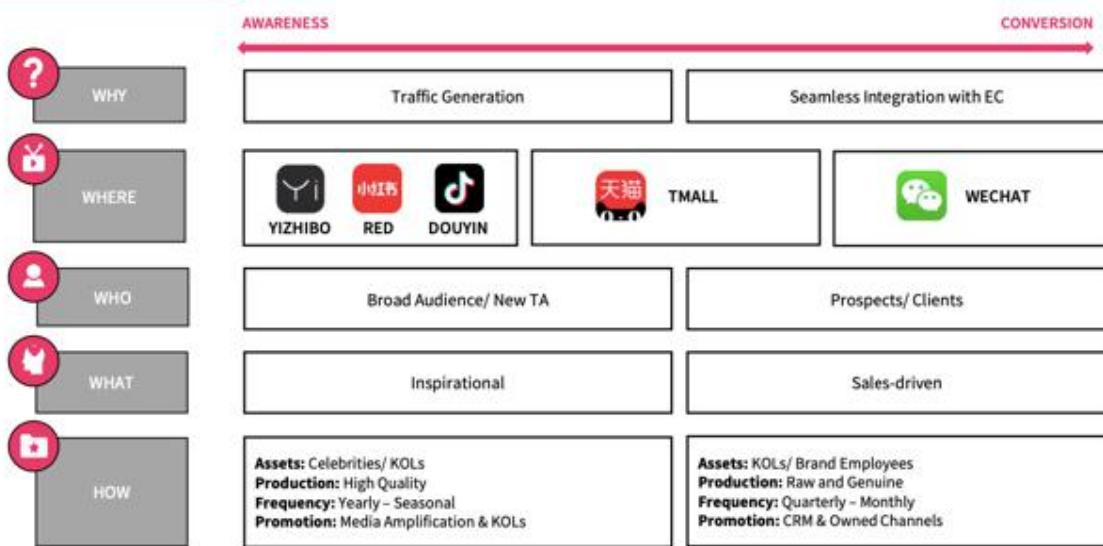


Figure 19 - Source: Digital Luxury Group 2020

YiZhiBo is the pioneer live streaming platform in China and has been long favored in the reach and exposure it provides. Taobao Live has been the brands and influencers choice but, given the scale of the setup and nature of the platform, conversion rates are moderate and investment costs are high. Some brands have also started exploring more targeted live streaming activities

on WeChat – both with Mini Programs and its native live streaming solution, Kandian. (Digital Luxury Group, 2020).

In March 2020 Louis Vuitton's SS20 debuted livestreaming on Xiaohongshu (Little Red Book). The one-hour presentation was conducted by the Chinese Fashion Influence Yvonne Ching and the actress Zhong Chuxi. LV sales associate live-commented the show, suggesting customers to contact them for information and purchases.



Figure 20 - Louis Vuitton Live streaming. Source: Jinddaily.com

The interruption to the traditional customer journey due to Coronavirus encouraged many brands to explore digitalization methods and alternative selling tactics like Social selling. First coined by Nigel Edelshain in 2006, the term Sales 2.0. defines the use of World Wide Web technology and CRM applications that aim at improving the speed, collaboration, customer engagement and accountability of the selling process.

This enables brands to leverage their existing databases, their clients and their prospects. The success of the social selling mechanism lies in the hands of sales associates. They need to be properly trained, equipped and motivated in order to make this strategy successful. In this scenario, sales associates became super-KOLs for brands, enabling them to swiftly communicate with their clients.

Nonetheless, this technique was not fully implemented in China. The Chinese rules do not allow a global vision, so the companies have to adapt these procedures to the local market. However, COVID-19 forced digital flexibility and local teams have been able to utilize Chinese native platforms and practices more freely.

According to Digital Luxury Group, WeChat is now the most crucial vehicle for social selling in China. WeChat's ecosystem spans the entire customer journey (awareness, interest, purchase, and loyalty). Combined with its powerful messaging functionality WeChat is the most appropriate tool for brands to implement Social Selling.

Another crucial point in the digital marketing in China is the Chinese Calendar. Recently, the classic Chinese calendar, which for instance includes the notorious Chinese New Year, has been also enriched with many shopping festivals. These special days or weeks create the chance for brands to develop special capsule collection and attract new customers. JD and Alibaba indeed have sponsored shopping festivals on their platforms to stimulate the customers. The Double Eleven or Single Day in 2009 was initially called “Taobao Mall Sales Day” and had only a few brands participating. This year’s Singles’ Day saw the participation of over 250,000 brands and an estimated 800 million shoppers.

According to Digital Luxury Group luxury brands in 2020 have leveraged in-platform loyalty programs, or pre-order options, and gifts with purchase to increase the value of orders placed online. These tactics allowed the brands to make the shopping experience on 11.11 more attractive for customers, while avoiding the entire notion of discounting. This year, Burberry released a limited-edition scarf on the platform, and it is the third year in a row that it has launched a platform exclusive for this event.

Chinese Shopping Festivals are an important occasion for luxury brands to develop targeted capsule collections or special campaigns. In 2020 in occasion of the 520 day many luxury brands participated, Gucci launched the GG Apple Print collection, Louis Vuitton proposed 90-second short film that features a treasure hunt on the brand’s monogram handbags hosted by actress Song Jia and live streamer Li Jiaqi; the Weibo campaign post garnered over 4.2 million views. Loewe through a WeChat pop up store proposed a pink selection of Loewe’s signature handbags, accessories and perfumes.

The most important festivities of the Chinese Calendar are:

- Chinese New Year
- Saint Valentine’s Day (02/14)
- Women’s Day (03/08)

- 520 “I love you” (05/20)
- 618 JD’s launch birthday (06/18)
- 1111 Single Day (11/11) Alibaba shopping festival

3.3.1 Luxury Brands in China

The 2020 report Luxury China edited by Gartner provides a useful tool to understand the positioning of luxury brands in China. The analyses officially include the Fashion Luxury and the Watches and Jewelry segments.

The Digital IQ index takes into consideration four main points. First the Owned Channels by the brand such as the website, the WeChat account, then the Search that customer performs on Baidoo or WeChat about the brand. Other criteria for the index are Social Media and Paid and Earned Media that include spontaneous brand mentions, KOL mentions and paid media.

The western luxury fashion brands that appear in the ranking are; Louis Vuitton and Gucci which are the leaders and then Dior, Burberry and Prada which have gained positions compared to the ranking of the previous year. LV and Gucci gained the status of “Genius” that Gartner describes as follows: “Digital competence is a point of competitive differentiation for these brands. Creatively engineered messaging reaches customers on a variety of devices and in many online environments” (Gartner 2018). Dior Burberry and Prada instead are in the level “Gifted” where brands are experimenting and innovating across site, mobile, and social platforms. Digital presence is consistent with brand image and larger marketing efforts.

Both Gucci and Louis Vuitton have achieved the maximum points in the management of Social Media and have distinguished themselves for having a high score also in the earned mentions online. According to the authors of the report luxury brands have taken unprecedented steps to capture the Chinese customer because of Coronavirus disruption.

Digital IQ Index 2020

1. Louis Vuitton

2. Gucci

3. Bulgari

4. Cartier

5. Dior

6. Tiffany & Co

7. Burberry

8. Chow Sang Sang

9. Swarovski

10. Chow Tai Fook

10. Prada

3.3.2 E-commerce

3.3.2.1 Brand Owned websites

Since about 2017 Luxury brands have decided to make their clothing and accessories collections available for online sale. The opening of brand owned websites in China took place more than 10 years later in comparison with online availability in Europe and the USA.

The "Brand owned websites" were the first channels used by companies to explore the online commerce in China, given the initial distrust in aggregators such as JD and Tmall, to mention macro-actors. The e-commerce that is to be integrated to the Chinese digital world must use SEO and SEM to provide excellent indexing in the Baidu search and accept the most popular payment methods and the most exclusive customer care services. Moreover, the key to attract customers is creating targeted contents in the platforms used by the desired public.

Brand Owned Websites usually are where customers gather official information about the brand's values, history and commitments. As mentioned earlier in the chapter, the young Chinese customer is always looking for information about the brand they wear, because they want to be sure to be represented by it.

3.3.2.2 E-commerce Platforms

China's Luxury E-commerce landscape is young, with few pure players that manage to bring together both extensive product ranges and customer appeal. Most e-commerce platforms transact on three touchpoints: Website, APP, and within WeChat (Mini Program).

Four different kinds of e-tailer can be identified in the Chinese luxury market. The first one is the Brand- owned channels (e.g. Prada.com.cn), which generally allow companies to have ultimate control and to charge full price. The second kind of e-tailer is Cooperator channels like Tmall flagship stores and WeChat commerce, which give brands some control while allowing them to benefit from the platform's traffic. Then there are the Aggregators, such as JD.com's Toplife and Tmall's Luxury Pavilion that enable brands to outsource the responsibility of building and operating high-traffic channels. Finally, the luxury vertical sites, such as Secoo and Mei.com, that make it possible to move goods at a discount.

In 2018 many partnerships have been formed, like Yoox Net-à-Porter with Alibaba group and Farfetch with Toplife that is a product of JD.com.

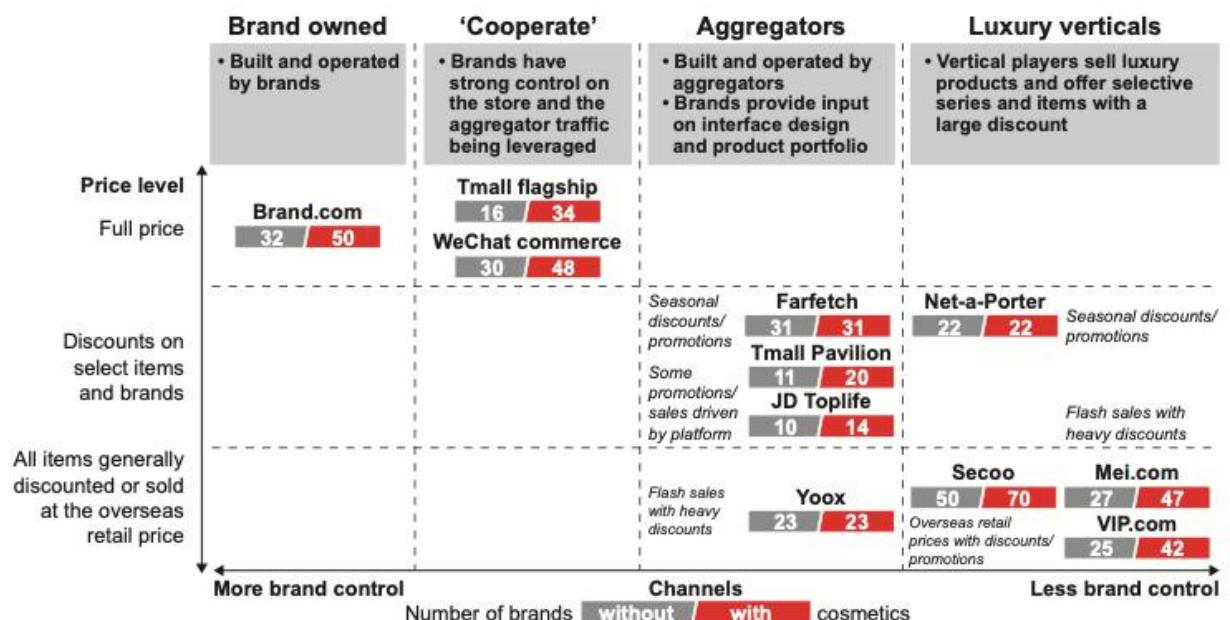


Figure 21 Source: Bain & Company 2019

According to the Gartner Luxury China 2020 report, luxury brands still prefer control over their e-commerce experiences and customer relationships, while brand-owned and WeChat stores remain the most popular channels for online sales. Despite some momentum in attracting luxury brands, e-tailers Tmall and JD.com are not widely used. Since traffic is key for e-commerce

sales volume, e-tailers may have an opening, as it is difficult to come by organic traffic to Direct to Customer channels.

Luxury China: Luxury Brand E-Commerce Adoption, by Platform
April 2019 ■ 2017 ■ 2018 ■ 2019



Figure 22 - Source: Gartner - China Luxury 2019

JD and Alibaba can be considered the two poles of e-commerce, as both tech giants have gotten more aggressive in their efforts to expand their influence over the luxury segment thanks to their strategic alliances with new and existing platforms.

As the image shows, both JD and Alibaba invested in the luxury e-commerce market segment. JD invested in most of the existing platforms, i.e. Secoo and Vip.com, while Alibaba only invested in Mei.com. In 2017 however the company was the first to announce the opening of a Luxury section in its platform, called Tmall Luxury Pavilion. In the same year JingDong announced the creation of Toplife a channel that is a direct competitor to the Luxury Pavilion.

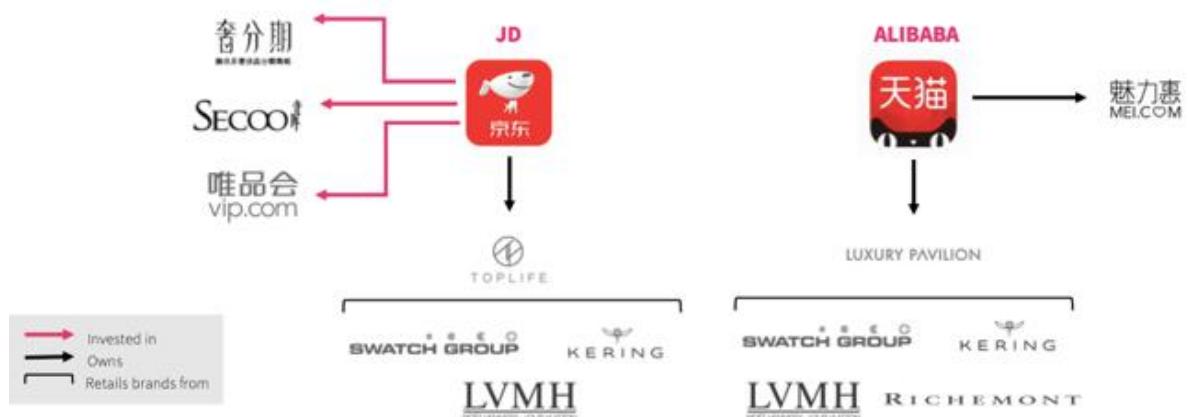


Figure 23 - Source: Digital Luxury Group

JD.com - Toplife

JD.com, also known as Jingdong, is a Chinese E-commerce company headquartered in Beijing and has been online since 2004.

In October 2017, JD.com launched Toplife in order to provide a platform for domestic and foreign luxury brands to set up digital stores. In 2018 the total number of agreements with international luxury brands were over 100.

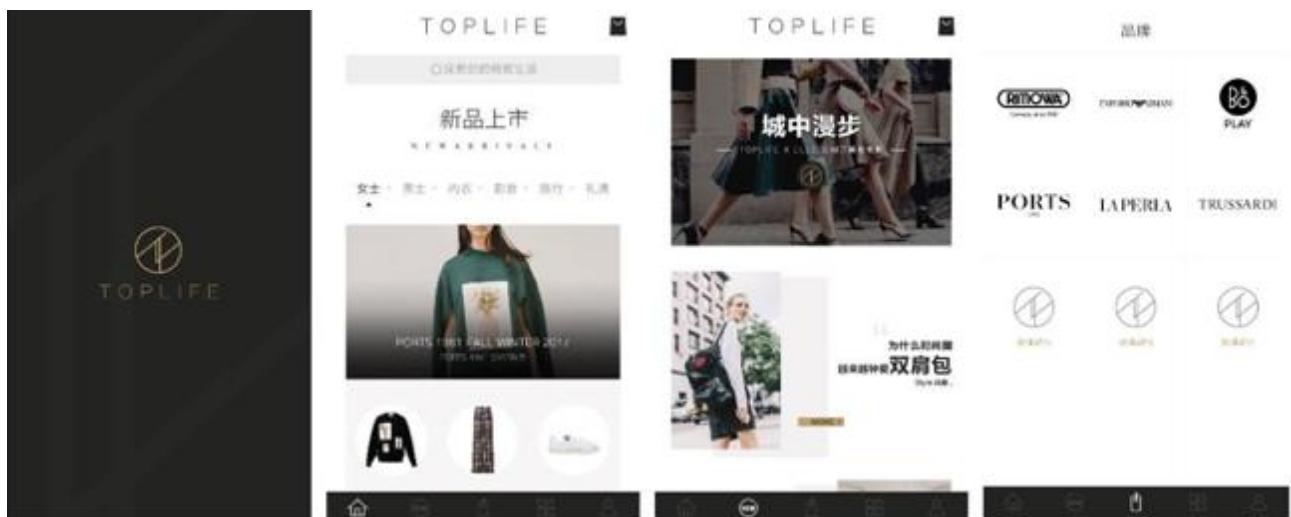


Figure 24 - Toplife customer Journey

In 2018 JD.com sold its luxury portal TopLife to Farfetch for a reported US\$50 million. The new deal, created by the relationship of the two parties in July 2017, will give Farfetch a “Level 1” entry point on the app of JD. In exchange, JD will gain access to Farfetch’s network of luxury brands and boutique (Pan, 2019).

The companies now address the luxury segment worldwide under the Farfetch brand. In China, it competes with Alibaba’s Luxury Pavilion on Tmall.

Secoo

Among the investments made by JD.com in the luxury segment there is Secoo. Founded in 2008, Secoo is one of the largest Chinese multi-brand luxury B2C platforms.

The company approaches e-commerce with an omnichannel strategy, running the website and the mobile app together with offline boutiques in Mainland China, Hong Kong, and Tokyo. When customers make online purchases, the item is shipped directly from abroad, and

customers can either have it delivered to their home or they can pick it up at Secoo's stores in Beijing, Shanghai, and Chengdu, where in some cases, the purchase authenticity can be verified.

Secoo offers several pricing and buying options, including auction, second-hand selling and group purchase functions.

Unlike the other platforms, Secoo is omnichannel and offers “Experience Centers”, that is essentially physical stores that allow customers to directly interact with products. There are currently 8 offline stores throughout the world.



Figure 25 - Secoo Landin Page Screenshot

In an interview with Jing Daily the CEO of Secoo Li Rixue stated: “Live e-commerce broadcasting is our major focus [...] We also opened a live broadcast for luxury brands. Therefore, it has become a popular choice for building a brand image. Users are very satisfied with the live broadcast e-commerce platform because they can see the product live on the model.”

Luxury Pavilion

In 2017 the Alibaba group launched Luxury Pavilion, a brand-new section within Tmall for premium and luxury brands.

Alibaba created Luxury Pavilion as an invite-only platform in order to create the allure of exclusivity that luxury needs. The platform selected only a limited number of customers out of Tmall's 500 million total users.

The Luxury Pavilion attempts to test out the “new retail” business model, an innovative concept that has been engineered by Alibaba in recent years and utilizes new technology to deliver a more tailor-made and interactive shopping experience to customers from online to offline (O2O) (Pan, 2017).

In 2019 Richemont and Alibaba Group announced the opening of the NET-A-PORTER flagship store in the Luxury Pavilion: the launch marked the beginning of a joint venture, called FENG MAO, between YOOX NET-A-PORTER GROUP, and Alibaba Group.

The NET-A-PORTER flagship store launch campaign took place in the second week of October, during the Golden Week, a strategic date according to the Chinese calendar.

Luxury Pavilion offers more than 100 brands, including luxury fashion houses like Valentino, Burberry, Versace, Stella McCartney, Moschino and LVMH-owned Givenchy. It provides an exclusive environment that lets luxury brands preserve their luxury images. This luxury marketplace will help them find the “equilibrium” between innovation and tradition.

3.3.3 Social Media

In China, the social media penetration rate is 73%, the average Chinese user is truly social and has on average 9.3 accounts where they spend several hours every day. Social Media represents a crucial touchpoint for brands that want to engage with young Chinese customers.

The report "Tencent x BCG 2019 China True-Luxury Playbook" is a joint study conducted by Tencent Marketing Solutions and Boston Consulting Group that investigated where customers gather most of the information and showed that:

- 52% of customer discover new luxury products on WeChat
- 28% of customer on Weibo
- 19% on the "social shopping" app Little Red Book

3.3.3.1 Weibo

Weibo is a Chinese social media platform created by Sina Corporation in 2009. Weibo started as a “Twitter-like” microblog and has become one of the biggest social media platforms in China, with over 523 million active users (Q2 2020). Weibo is often compared to Twitter, but it is also comparable to Instagram due to its popularity among celebrities and social media influencers.

At the moment the most strategic features that the app offers are the “live-streaming” platform, “Weibo Stories” and the sharing of contents that link to their E-commerce stores. Brands can leverage collaboration with KOLs by mentioning them and make them repost the branded contents. This strategy is effective to reach target customers.

In September, the digital fashion shows of fashion luxury brands like Louis Vuitton Gucci and Burberry were all live streamed on Weibo.



Figure 26 - Official Weibo Account of Cartier and Louis Vuitton

3.3.3.2 WeChat

WeChat might be identified as the Chinese WhatsApp or Facebook, but it is actually much more. WeChat has experienced a very fast development. Messaging is very developed and there is also a social function similar to Facebook and Instagram combined together.

It also offers the WeChat Pay cashless payment feature, which is the standard payment method in China next to Alipay; people can use it to book plane and train tickets or to pay bills, as well. WeChat is at the basis of many big luxury brands that sell in China, such as Gucci, Tod's, Lancôme. Having an important reach, WeChat has become the perfect tool to carry out brand awareness campaigns. There is also another useful tool that has been developed for companies, that is WeChat Work.

Mini programs are one of the latest additions to the WeChat ecosystem. They are kind of “an app in the app”, with the difference that they do not need to be downloaded and installed: they can be saved inside WeChat in order to have them always at hand. Mini programs are elaborate landing pages that resemble a real website, where people can also shop using WeChat Pay for payments as if they were on an e-commerce site, and do other activities, such as games and reservations.

Mini programs were designed as a useful tool for businesses to increase their brand awareness and/or sales volumes. They can be presented as a simplified version of a real e-commerce platform, where users can make purchases by paying directly through WeChat Pay. Alternatively, they can be conceived as interactive maps, as channels for direct broadcasts, or as mini games for they all share the same goal: to engage users and to retain them for longer.

Among all, mini games are the ones that had the greater success, so much so that a separate section of the app was reserved for them. The most popular mini games count more than 100 million users. They are therefore an innovative driver to increase the interaction and loyalty of Chinese customers. The increasing use of mini programs as a platform for live streaming is not surprising at all, especially if one thinks of the advance of Bytedance with its Douyin app.

According to “The WeChat Mini Program Playbook for E-commerce,” the latest report by e-commerce company Azoya Consulting, the majority of mini Program users are women and Chinese millennials; about half of the users are under 30 years of age, which is also a match with the luxury brands’ targeted customers.

The mini program has been used in different ways according to different marketing strategies; Gucci for example, used it as a direct E-commerce (figure 7) allowing the customer to buy products without leaving WeChat.

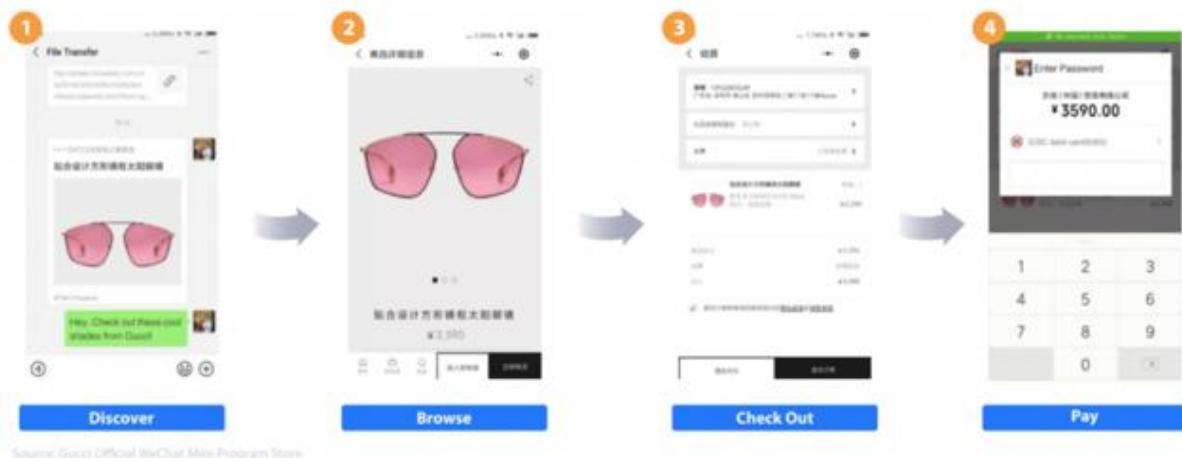


Figure 27- Gucci official Mini-Program Source: Azoya

Dior instead created different gift e-cards for special occasions that the buyer can customize and make special.



Figure 28- Dior Official Mini Program Source: Azoya

3.3.3.3 DouYin

DouYin, known worldwide as TikTok, was released by the tech company ByteDance in 2016. The “2019 DouYin Data Report” that was officially released by the company shows that in January 2020 the number of daily active DouYin users exceeded 400 million. Users are mostly female (55%), between 22 and 35 years old on average and mainly located in Tier 1 and Tier 2 cities.

DouYin videos are within one minute in length and users can quickly select and switch content by swiping on the phone screen. Hence, the popularity of the video often depends on the first 3 seconds of its viewing. DouYin experts call this “the 3-second rule”. DouYin’s short content attribute also means that in order to catch the users’ attention, videos must be grounded and easy to understand.

DouYin is the perfect social media for brands that want to reach Generation Z. Dior is a pioneer among luxury fashion brands, as it registered in August 2018. Prada, Burberry, Fendi, Gucci, immediately followed. In creating DouYin content, many brands simply transfer their usual campaigns to the platform without any modifications, which results in limited public engagement. The App however limits videos with obvious marketing properties, so some brands account traffic was also restricted.

Content that does not conform to the 3-second rule struggles to be successful on DouYin, so accounts post behind-the-scenes and interesting details from the designer’s private life to win the attention of their followers.



Figure 29 - Louis Vuitton DouYin Video - Retrieved from: Luxury Society

DouYin is certainly the right platform for Luxury Brands that want to reach Chinese Millennials and mostly Generation Z customers. Being on DouYin does not mean cutting classic advertising videos into shorter clips, the content and the language of communication must be tailored to the social media and to the target customer. The use of KOL and influencers is extremely helpful in order to capture the young audience.

3.3.3.4 Little Red Book

XiaoHongShu, which literally translates as “Little Redbook,” is a social e-commerce shopping app based in Shanghai. Redbook targets 18-to-35-year-old Chinese wealthy women. RED was initially created to help them discover, learn about, and purchase overseas branded products that are normally difficult to find in China.

It was launched in January 2014 as an app for people to review merchandise bought overseas. Little Red Book was originally designed as a User-Generated Content social sharing platform, targeting young, urban female’s desire to discover and share shopping lists and traveling experiences in and out of China. The E-Commerce store was later integrated into the app.

The main peculiarity of this app is its hybrid nature: users can post product photos with reviews and tips, interact with other users, save these posts to boards (similar to Pinterest), then buy and review the product.

Users with large, trusting audiences become influencers on the site and can actually earn a commission from helping Redbook sell products.

Browsing the home page, the user is captured by the view of content, inquiries about the product and then purchases it directly without having to move from one app to another. The difference between Little Red Book and traditional marketplaces such as TMall or JD.com lies precisely in this lack of intentionality in product research.

Little Red Book not only shows content from followed accounts, but also themes and hashtags related to the viewed and searched content. Thanks to this, posts users with only a few hundred followers can ‘go viral’ and be viewed by thousands of potential customers. That is why Little Red Book is the perfect social media for Key Opinion Customers.

In December 2019, Xiaohongshu added a new Live Streaming feature, following the E-commerce live streaming trend that was already taking off in China. This was certainly another way to help a brand to engage with customers through the use of KOL especially.

Little Red Book is an extremely good platform for Make-Up and Beauty Line of luxury brands and it is increasingly spreading also in the leather goods segment. In fact, many brands have now their official account, as you can see in the following screenshots.

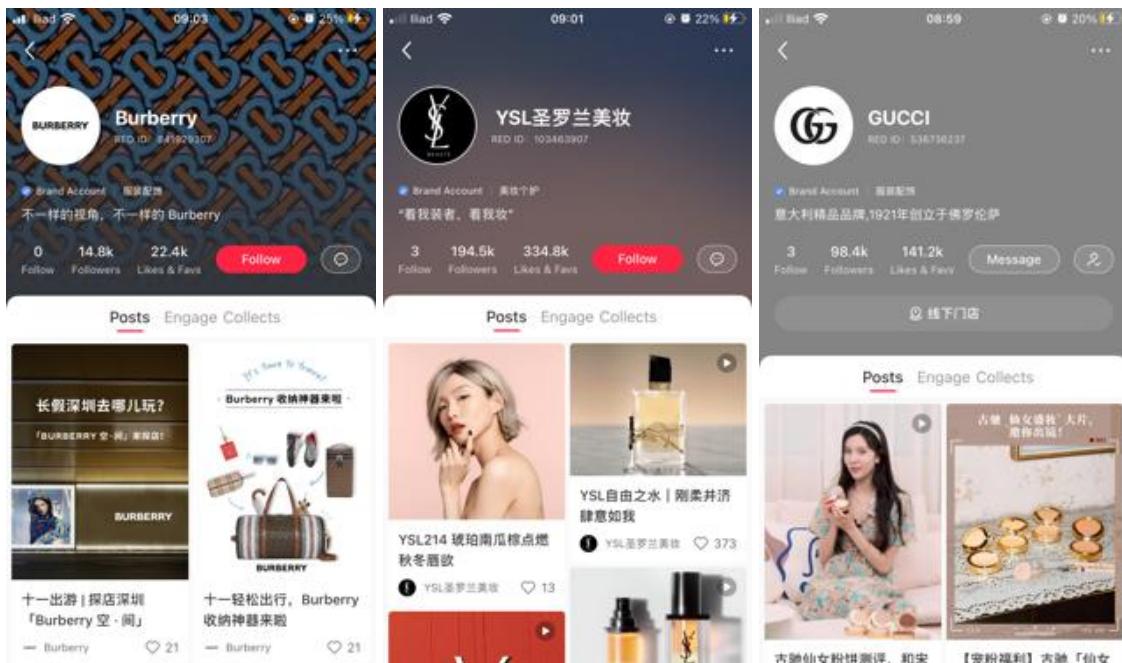


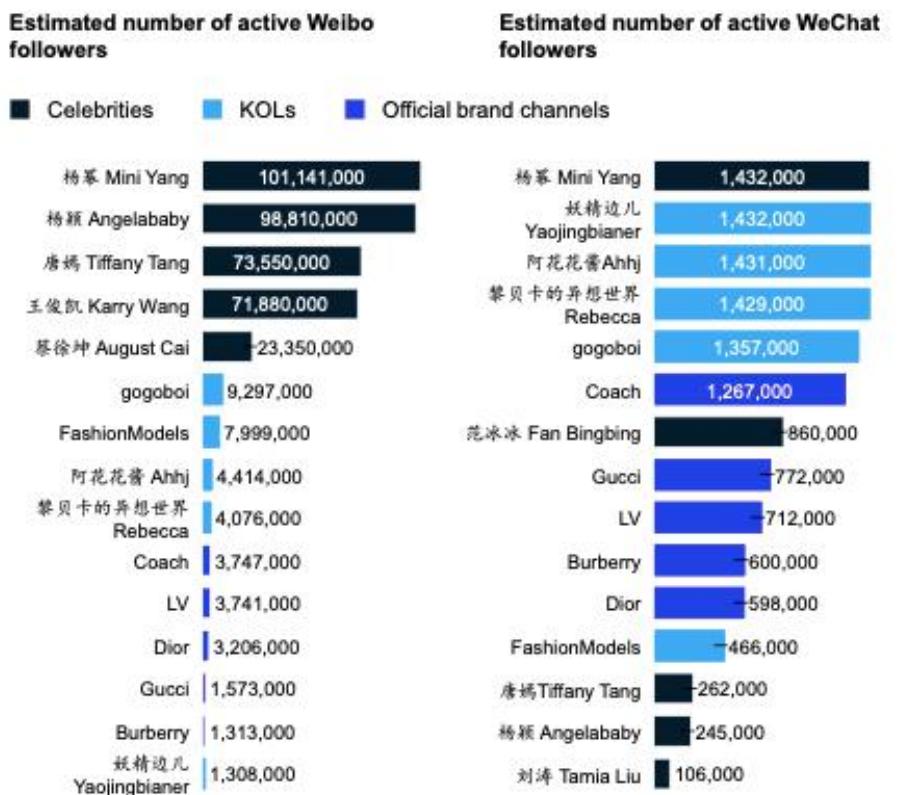
Figure 30- Burberry – YSL Beauty – Gucci Official Accounts on RED

3.3.4 Influencer Marketing and Key Opinion Leaders

Young Chinese luxury shoppers are heavily influenced by KOLs. Influencer marketing is essential for luxury brands to increase brand awareness and KOLs serve to contextualize luxury products in daily life, making them accessible to the new luxury customers that are the bulk of the Chinese market.

Chinese customers use forums, blogs and major Chinese social networks such as WeChat to build their qualified network of followers, while Weibo, Xiaohongshu (RED) and Douyin (TikTok) are used to search for information, exchange opinions and share videos related to the luxury purchases anticipating their own luxury travel.

Top celebrities and key opinion leaders (KOLs) have wider reach than brand-owned channels.



Celebrity and KOL influence particularly pronounced in
“social-oriented”
and interactive channels

Figure 31 - McKinsey The China Luxury Report 2019

As figure 31 shows, the Weibo and WeChat accounts with the highest reach belong to Celebrities and Influencers. Since the official luxury brand accounts struggle to engage with customers, they use brand ambassadors and KOLs to good advantage in order to create hype and give a touch of authenticity to the storytelling. People follow influencers and celebrities because they trust and admire them - the “aspiration” that luxury wants to create is actually intrinsic in influencer marketing.

Successful brands usually employ a portfolio approach to KOL engagement: working with celebrities and influencers with varying degrees of star power.

Louis Vuitton, for example, works closely with a core group of brand ambassadors with global reach such as Chinese Canadian star Kris Wu, but it also hires others on an ad hoc basis according to the needs of individual events or product launches. The brand also leverages partnerships with KOLs: it once teamed up with Mr. Bags letting him manage a Beijing pop-up store for a day.



Figure 32 - Louis Vuitton Horizon Soft Luggage Campaign. Source: louisvuitton.com

KOLs also play a relevant role in R&D and product marketing development. Influencers know the tastes and the preferences of their niche very well and they can be extremely helpful in the development of new products.

An example is Mr. Bags working with Givenchy on a special edition handbag: the combination of exclusivity, KOL's personal

touch, expert and localized input on design elements, and their tight bond with their followers resulted in almost immediately selling out products.

Key Opinion Customers (KOCs) recently gained more importance in marketing strategies. KOCs are everyday customers, whose value is based on their relatability and trustworthy nature. The entire focus of KOCs is on product reviews, yet they often only have a few hundred followers on their accounts. This pleasant, friend-like appeal can have a powerful impact on millennials and Generation Z and their purchasing decisions.

Key Opinion Customers are no alternative option to Key Opinion Leader, instead they are complementary and provide a helpful tool to develop and implement digital marketing strategies, especially in such a complicated market as the Chinese.

4 Part 4 – The Prada Case Study

4.1 Prada Overview

The Prada brand is part of Prada Spa, which also includes the younger line Miu Miu, the iconic shoes brands Church's and Car Shoe and the Pasticceria Marchesi in Milan. Prada is a family-owned company, managed by Miuccia Prada and Patrizio Bertelli since 1978.

In 2011 the Prada Group was listed at the Hong Kong Stock Exchange (HKSE code: 1913) with 20% of the total shares formerly owned by the Bertelli-Prada family (94,4%).

The Group manufactures high-end goods in 22 company-owned sites, located in Italy (19), in the United Kingdom, France and Romania as well as a network of long-standing and highly experienced contractors.

By the end of December 2019, the Group operated in 70 countries thanks to a distribution network consisting of 641 brand-owned e-commerce stores, a selection of luxury department stores and the most important e-tailers.

After a negative trend of declining profits and sales the Prada Group turned up to a positive tendency by undertaking an investment strategy in digital integration for the brands Prada and Miu Miu., which is making the company grow again.



Figure 33 - Patrizio Bertelli and Miuccia Prada Source: pradagroup.com

4.1.1 A Brief History

Prada was founded in 1913 by Mario Prada, Miuccia Prada's grandfather, who opened the first "Fratelli Prada" shop in Galleria Vittorio Emanuele II in Milan. At first the shop sold high quality bags, trunks and travel accessories for wealthy people living in Milan.

In 1919 Prada became the official supplier to the Italian Royal House, which meant its own logo was displayed on the coat of arms of the House of Savoy. Since then, Prada has always been a benchmark for the Italian aristocracy and the Italian bourgeoisie.



Figure 34 - Prada Official Logo

In 1975 Mario's granddaughter, Miuccia, joined the company and dedicated herself to the creation of accessories. A few years later she teamed up with entrepreneur Patrizio Bertelli, her future husband, and brought to life an innovative business model for the fashion industry of the time. The company was essentially based on the direct control of all the production processes with the application of strict quality controls.

Under the direction of the Bertelli-Prada family, the company started to see economic growth and decided to expand the products lines, producing shoes and leather goods first, and then a clothing collection. In 1985 the company opened its second store in Via Della Spiga (Milan) that showcased the new brand image. In 1988 Prada presented its first Women Fall/Winter collection in Milan - Prada Man would arrive a few years later in 1991.

Since the early 90s the brand has been crossing Italian borders, becoming therefore a pioneer in international exporting in Japan, USA and China.

In the same years the younger line Miu Miu was created; the designer herself defined the brand as more glamorous and daring. In 1999 the company made its first acquisition, buying the iconic British brand Church's, followed by Car Shoe, another important brand in the footwear segment.

In 2014, Prada made its latest acquisition, buying the iconic Marchesi pastry shop in Galleria Vittorio Emanuele in Milan.

In 1997 Patrizio Bertelli organized the Prada Challenge sailing team to compete in the 2000 America's Cup and in the same year Prada launched its leisurewear range "Linea Rossa" (red line). In 2018, Prada officially became the Title and Presenting Sponsor of the 36th edition of America's Cup and the Main Sponsor for the Luna Rossa team, which acted as Challenger of Record for the prestigious competition.

In 2011, after several IPO attempts on the Milan stock exchange, the Prada Group listed on the Hong Kong stock exchange by placing 20% of its shares on the market.

Over the years, Prada has always sought contamination from the visual arts world, collaborating with many artists and architects and sponsoring several exhibitions around the world. Prada's investments were shaped into the "Fondazione Prada" (created in 1993), inaugurated in 2015.



Figure 35- Fondazione Prada source: fondazioneprada.org

In 2010 the first Prada e-store went online in Europe and USA, followed by Miu Miu in 2011, first in the European and US market and then in the BRIC's country. The company was committed to a geographical expansion until 2016 in order to increase physical direct operated stores in the most important cities around the world.

Starting from 2017 the whole group changed its path, engaging in a new venture that involved digital as main investment, a rationalization of the distribution channel and a renewed product offer.

Two years later the group achieved important milestones in the field of sustainability: the adoption of a Fur Free policy for all the Group's brands for instance, starting with the Women's Spring / Summer 2020 collections.

Due to its interest in Sustainability and Inclusivity, the Group and some of the fashion industry world leaders joined the Fashion Pact, a project that aims at defining concrete goals for the protection of the planet, such as stopping global warming and protecting the ocean. At the beginning of 2020 the company established a Diversity & Inclusion Advisory Council in order to promote important issues like diversity and inclusion within the company.

4.1.2 Miuccia Prada

Maria Bianchi Prada, also known as Miuccia Prada is the granddaughter of Mario Prada, the founder of Fratelli Prada. Miuccia Prada has been the Creative Director of Prada and Miu Miu since their very beginning.

Despite growing up in a wealthy middle-class family, Miuccia Prada always showed her interest in learning about new worlds, even if very distant from hers. Her attention to reality and others led her to become involved in the women's rights movement and a member of the Communist Party. Miuccia Prada graduated from the University of Milan and continued her studies with a Ph.D. in Political Science, while studying mime at the Piccolo Teatro in Milan.

She sees fashion as both a free and a very intimate world and she based her entire career on the need to feel represented by what she wears. She has always been attracted to uniforms and vintage clothes and these are two elements that are the center of Miuccia Prada's work as creative director.

She inherited the company in 1975 and she managed to bring it back to success thanks to her collaboration with Patrizio Bertelli's company I Pellettieri d'Italia. Their bond eventually ended in marriage.



Figure 36 - Miuccia Prada Portrait. Source: pradagroup.com

The vision of the Prada brand in the mind of a young feminist was landed in a less formal product, which at first struggled to find approval among the Milanese bourgeoisie.

After a first hardly successful show in 1985, the success of Miuccia Prada as a designer definitely arrived in the 90's with her first Nylon collection. At a time when fashion had a character of rejection compared to the past, Miuccia Prada understood what the instances of change were and told them in a female vision that sought to renew the bourgeois tradition. The nylon was the main fabric in a series of models, it was an aristocratic version of the interweaving of synthetic polyamides, invented by Wallace Hume Carothers in the DuPont laboratories in the late 1930s (Prada Group, 2019).

In an interview the designer stated: "*I introduced the real world into fashion, the world of ugliness which was already present in cinema and literature. Fashion was not open to the ugly and this was much criticized but was eventually embraced. Even now the ugly is difficult to accept in the sense that there is still the cliché of the sexy woman. My job is to go against the cliché because in my opinion it's trivial.*" (Miuccia Prada: Il mio mondo libero, D.it, 2015).

Miuccia Prada's career is filled with success. In 2000 she was awarded the Honorary Doctorate of the Royal College of Art in London and the Honorary Award of the New Museum of Contemporary Art in New York. In 2005 Time Magazine listed her as one of the 100 most influential people in the world for influencing the fashion luxury industry with her eccentric

sensibility and personality. She also received the Outstanding Achievement Award 2018 from the British Fashion.

Miuccia's character was essential for the development of the Prada brand: the values and precise identity that she and her husband developed in her collections and her company created a successful brand.

4.1.3 Brand Identity

Prada is internationally known as a brand of accessories and clothing of the highest value and quality. It is one of the oldest Italian Luxury brands, with a great successful history behind it and important roots to be valued.

According to the best Global Brands 2020, Prada is among the 10 most important luxury brands in the industry, ranking along with other brands such as Gucci, Burberry and Louis Vuitton. The Prada brand is valued at \$4,5 Billions.

“Thorough observation and curiosity for the world around us have always been at the heart of the creativity and modernity of Prada” Miuccia Prada & Patrizio Bertelli

Prada's brand identity is rooted in the personality of the creative director Miuccia Prada, whose work challenges the pre-established patterns of aesthetics breaking down and reconstituting the bourgeois code. Her innovative approach is inspired by an unconventional observation of society. Prada has always wanted to be an expression of society; society changes and Prada evolves accordingly.

Authenticity, innovation and the analysis of the society are the main elements that make Prada a long-lasting brand. To the public eye, Prada has become a symbol of elegance and the very essence of fashion, to the point it catches the attention of the literary, cinema and art worlds.

Prada's customers have always been identified as intellectuals that mix fashion awareness and passion for art and cultural initiatives.

The brand's distinctive originality is based on its innovative approach to style, craftsmanship, quality, and constant research in all sectors, as it applies its creative approach not only to design development, but also to the most novel production techniques, to communications and to its distribution network (Prada Spa, 2019).

Prada Brand Identity Prism

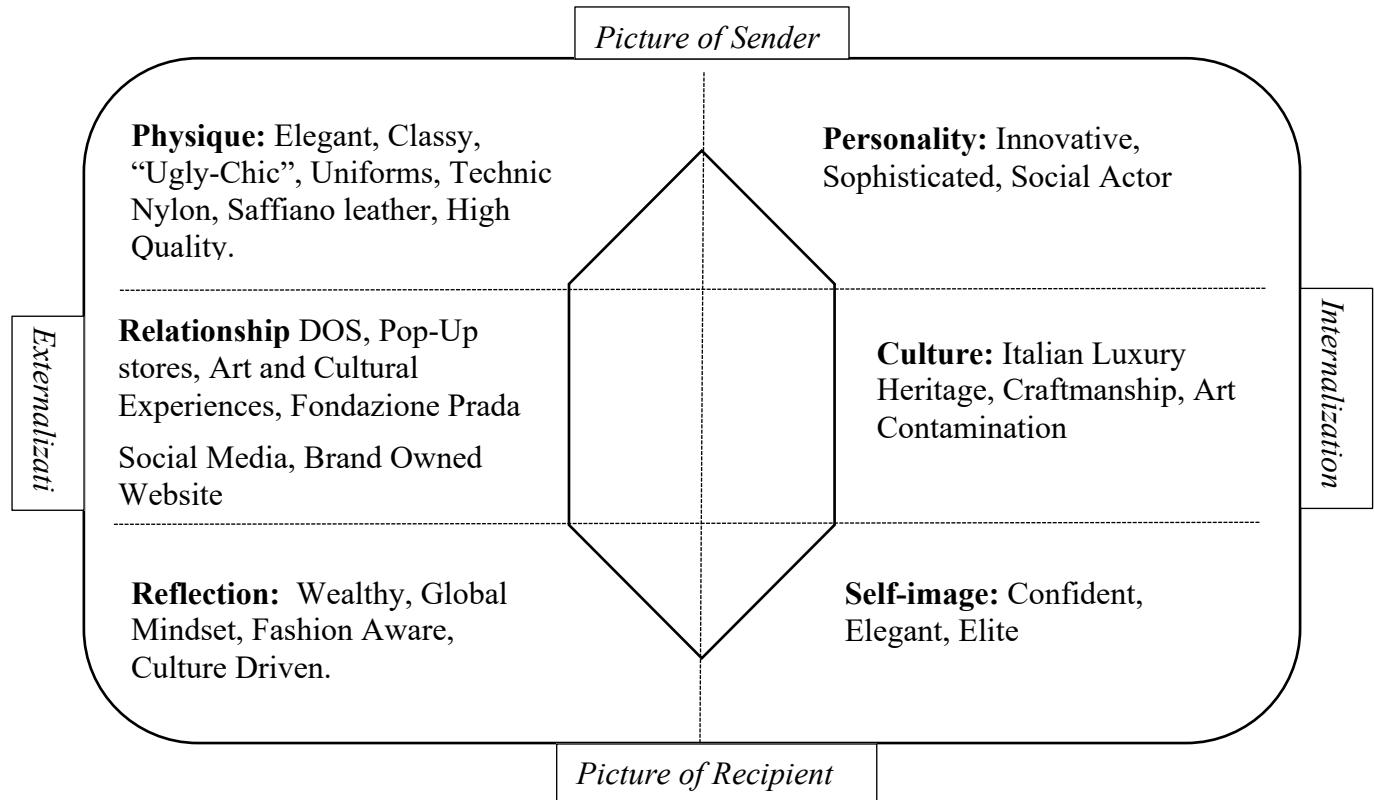


Figure 37- Prada Brand Identity Prism

Analyzing the brand through the Kapferer Brand Identity Prism, it is possible to have a more precise vision of the strong identity of Prada. The scheme places six elements in relation to each other by taking into consideration their position between business (Sender) and the client (Recipient), and vice versa. The areas defined between these points range from internal (Personality, Culture, Self-image) to external (Physique, Relationship, Reflection).

Prada is physically recognized for its elegant, classy and never predictable aesthetic. Miuccia Prada always introduces elements that create disruption in the classic vision of style and which she herself defines "ugly" compared to traditional canons. Prada's most iconic products belong to the nylon series that reminds of Military Uniforms and the iconic Galleria Bag made of Saffiano leather, a fabric that was patented by Mario Prada when he opened his first boutique in Milan.



Figure 38 – Prada Nylon Backpack - Galleria Bag. Source prada.com

In the Prism personality is another major feature for the brand: Prada has always stood out for its innovative approach in the Fashion Luxury industry. The brand promotes itself also as an actor in addressing many social and environmental causes proving a great sensitivity towards the world and society.

In 2019 Prada announced the Re-Nylon project, which aims at the production of a new material: ECONYL, a rigid nylon thread. As it has been previously mentioned, nylon is one of the main distinctive traits that forged the history of the brand. This new collection was presented by a documentary series called “What we carry” in partnership with National Geographic.



Figure 39 - Prada RENYLON Backpack

In October 2020 Prada held an auction with Sotheby's and donated all the proceeds to the UNESCO campaign "Keeping Girls in the Picture", which has been leading collaborative efforts to promote learning continuity during closures and ensure a safe return to school for women everywhere.



Figure 40 - Source: sotheby.com

According to Kapferer, culture is the set of values that feed into or set a foundation for a brand. In this case Prada's culture lies on the Italian tradition of luxury and craftsmanship and on its interest in art.

Self-image conveys the way customers see themselves in a brand and people who buy Prada feel the brand empowers their confidence through elegance and therefore they feel as part of an elite.

Reflection refers to how a brand portrays its target audience. Prada's customer target consists of wealthy individuals that have a global mindset and appreciate the brand's product not only for the quality and the design but for the intrinsic values it carries. Prada's ideal customers enjoy the entire "Pradasphere" through purchases and the cultural experiences that the brand organizes.

The final element of Kapferer's Brand Identity Prism tries to explain the nature of the relationship between the brand and its customers. Prada builds digital and physical relationships with its customers respectively through social media and the e-commerce platform and its network of directly operated stores. The brand also organizes events and pop-up stores to surprise the clients and stimulate their interest in the brand.

Prada's brand identity was built all throughout last century thanks to Miuccia's vision of the Italian tradition of high quality in the products manufacturing and her idea of the brand's mission as to convey all the visual arts within itself.

4.1.4 Financial Highlight

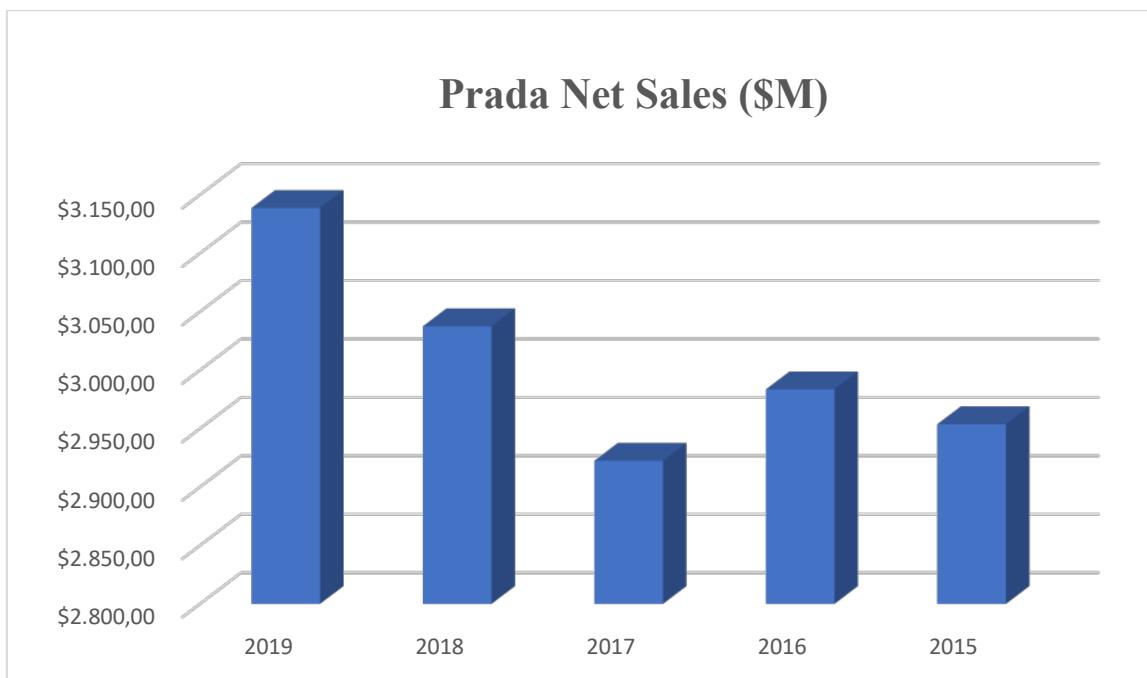


Figure 41 - Prada net sales from 2013 to 2019 - Retrieved from Prada SPA Annual Reports

After a period of declining profits started in 2014, the brand found a positive growth trend starting from 2018. In 2019 the company grew about 3%, the brand Prada accounted for the 83% of the entire Group's revenue.

The company CEO has recently stated that Prada is pursuing a new and more committed digital market strategy and that it is allocating most of the investment to the development of collaborations and new retail channels.

The Prada Group has described 2016 as a challenging year of transition for the company as their offer was enriched with products that stood out for their innovative style and quality and the cost structure was rationalized across all business lines. The retail strategy shifted from geographical expansion to network rationalization and digital integration.

Prada embarked on a long-term growth strategy and its aim was to integrate the retail and online channels and dedicate significant resources to developing an omni-channel offer through the roll-out of global digital platform, collaboration with e-tailers, and in-store digital integration.

At the presentation of the Annual Report 2016 Patrizio Bertelli said: "I am confident that our creative vision, combined with investments in online and offline engagement with our customers, put us firmly on the path to sustainable growth. The strong cash flow generation and the confidence in the future growth of the business enable us to propose a dividend of 12 cents per share at the next Shareholders' Meeting, an increase of 9% on last year."

In 2018 the Prada Group's sales performance turned around, showing revenue growth that had been absent for some years. The results, which reflected a plan management respecting the effectiveness of the omnichannel strategy and of the investments made in previous years.

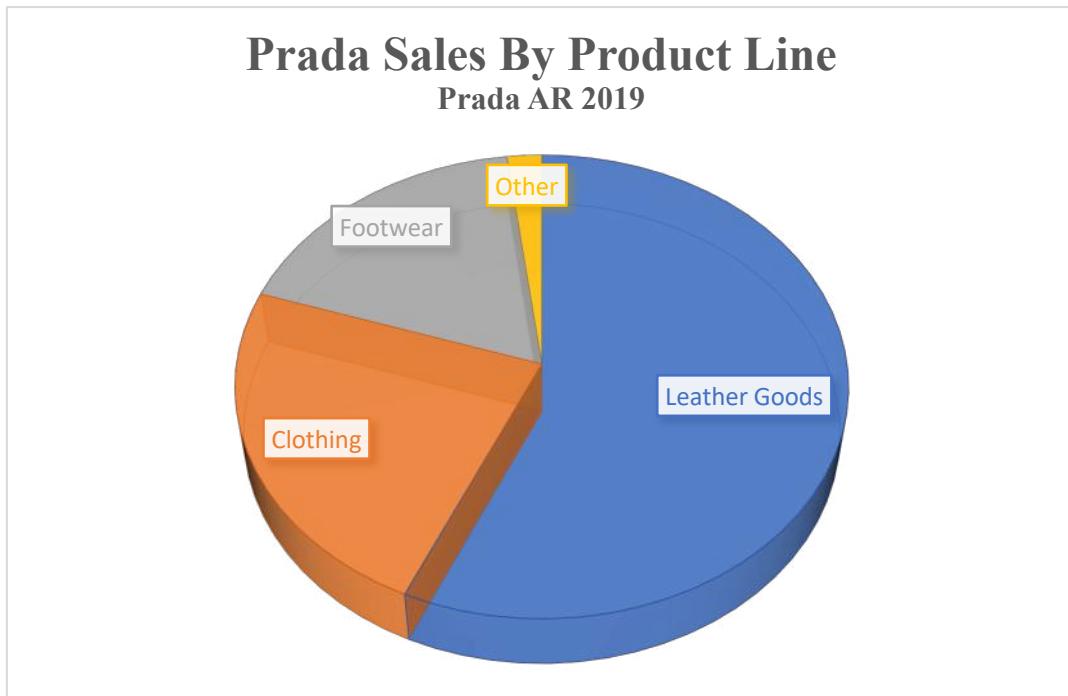


Figure 42 – Prada sales by Product Line. Source: Prada Annual Report 2019

Prada's product lines include the Leather Goods, which represent the main source of revenues for the company (57%), the Clothing line (23%) and finally the Footwear (18%). Prada does not have a Beauty line; the company only extended its line to Parfums collaborating with Coty and L'Oréal.

If one looks at Prada's revenues from a geographical point of view, the company seems to be very focused on reaching the Asiatic market and it represents a very important share in the total net sales of the group.

As the graph shows, the most important markets for Prada are Europe (39%), and Asia Pacific (36%). The retail channel in Europe increased by 6.2% at constant exchange rates thanks to both local clientele and travelers in 2019.

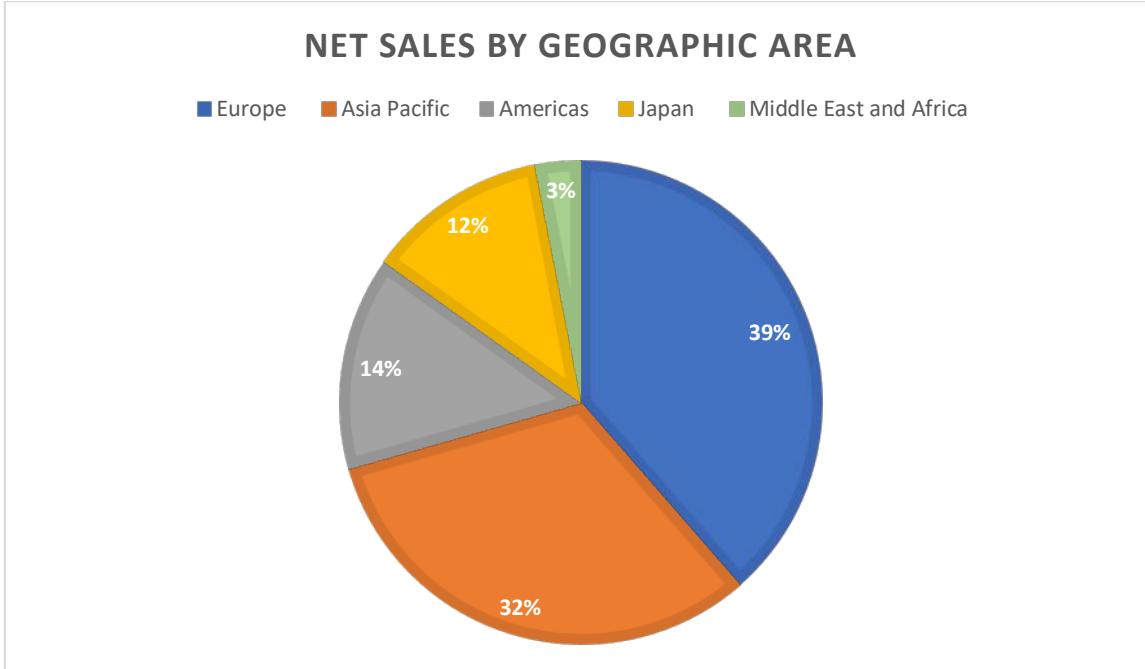


Figure 43- Data retrieved from Prada SPA Annual Report 2019

2019 was a year of strong progress for the Prada group. The combination of investment and operational initiatives that were implemented over the past few years translated into brand heat and sales. The commitment to guarantee outstanding quality standards as well as strengthening brand desirability was the right choice to support profitable and sustainable long-term growth.

Due to Covid-19, in the first half of 2020 Prada's net sales were down to 39,7% as opposed to the H1 of 2019. The Prada Group highlighted that in January 2020 Prada's growth was continuing the positive trend registered in 2019. The health crisis interrupted the Group's strong revenue momentum registered up until the end of January 2020.

Whether Europe, USA and Japan's sales were down for almost 50% the Asia Pacific mitigated these negative data with -18% respect to the previous year.

Moreover, the report has highlighted the rapid and sustained return to customer spending in China since the health situation normalized.

The graphs below show China's growth after the end of the emergency resulted in a double-digit growth.

Retail sales by Geography

Sharp rebound in Asia Pacific



Figure 44 – Prada Spa Presentation Financial Report 2020

Prada group's investments were postponed or even cancelled from their plan in order to have a conservative behavior. However, the emergency did not stop Prada's digital plan and, as their Capex data show, the expenditures were destined to limited key strategic projects in Retail and Corporate and IT.

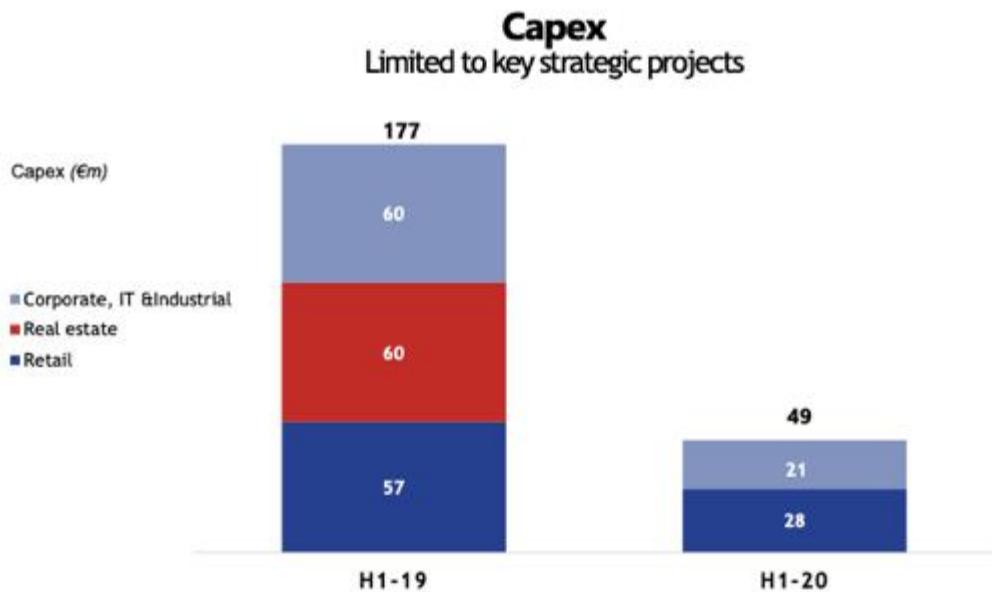


Figure 45 - Source: Pradagroup.com H1 2020 Presentation

Thanks to the investments made in recent years in functionality, geographical coverage and user experience, e-commerce sales doubled in comparison with the first half of 2019, although the relevant baseline was not that significant in absolute amounts. The online sales

growth was apparent, and even stronger, also after the physical stores' re-openings (Prada Spa, 2020).

Prada's well-balanced presence in the retail network across key markets and its strong client relationships were vital assets to the Group during the crisis. The recently improved engagement with local customers provided the brand with a customer base that drove the sales in a positive trend over the summer.

Taking a look at last year's trend on the stock market, it is possible to notice that the beginning of 2020 was marked by uncertainty, mainly due to investor concern about the consequences of the virus already spreading in China, one of their largest markets. Prada stock price reached its lowest in mid-March when the company was forced to close almost 70% of their DOS worldwide. When the situation improved both in Asia and in Italy, the stock resumed its growth until mid-August. After the summer, the price remained in the range 7.70-8.70 and then reached over 9 in the second week of November.



Figure 46 - Prada Stock Price Performance (November 2019 - November 2020) Source: Bloomberg.com

4.1.5 Marketing Strategy

Over the last five years Patrizio Bertelli has stated that the company is focusing on changing its strategy from a globalization one to a redefinition of the overall branding strategy that includes product offering, digital integration and effective communication.

The transition phase for Prada consisted in the completion of a long-term plan for the geographical expansion of Prada's retail network and the beginning of efforts to streamline operations and achieve an innovative form of integration with the digital universe.

Since 2017, the Prada Group has undertaken a series of initiatives designed to boost its commercial performance with strategic prospects of increasing volumes and profitability in the medium term. With this goal in mind, Prada rebalanced the merchandise mix at stores to feature newer products developed thanks to the design team. The new mix concerns all product categories, leather goods ready to wear and footwear, and it is supported by numerous efforts to further enhance the shopping experience and strengthen relationships with the customers.

Product-wise the design team focused its creative talent on the development of items such as sneakers, backpacks and special editions that are particularly popular among Millennials and Generation Z. The collections have therefore benefited from a product assortment better targeted to the tastes of such market segments, while maintaining the brand identities and essential brand codes. Nylon was renewed as a major component of the collections and was at the center of an important communications campaign.

Prada managed to attract prestigious partners for collaborations, which also included expanding the communication channel. From a product standpoint, two capsule collections with high symbolic value are worth mentioning: "Prada Invites", held in April and May, and "Prada for Adidas Limited Edition", held in November.



Figure 47 - Prada for Adidas Collection

Looking at Prada's retail strategy, the brand is committed to a constant revamping of the store concept and layout. Moreover, the digital evolution and the pursuit of new customer experiences aimed at further expanding the capacity to attract customers. The performance of the retail channel is supported by marketing initiatives intended to strengthen the identity of the brands in the specific markets, emphasizing the unique features that distinguish the style and craftsmanship of the products.

In October 2019, Prada got full control of the retail network thanks to the acquisition of Fratelli Prada SPA, the company responsible for operating the Prada Mono-brand stores in Milan under a franchise.

Prada's retail network is regularly revised and improved in order to offer a better customer experience. Over the years, the Group has spread its distribution network to 641 directly operated stores in the major international shopping destinations, consistent with the image, heritage and exclusivity of each brand. The DOS are integrated with the e-commerce strategy and allow the Group to monitor in real time the sales performance of the various markets for each brand and product category. At the same time, the Group's developments in the digital world led to new important partnerships, including with top online retailers ("e-tailers").

In 2019 the retail channel generated 82.8% of the Prada Group consolidated sales, while the wholesale channel accounted for the remaining 17.2%. In 2020 this trend was accelerated by Coronavirus Lockdown: the company reported a 90% of DOS versus a 10% of retailers.



Figure 48- Prada Hong Kong Store

The pricing strategy goal in 2019 was to eliminate markdown sales in directly operated stores, so a stricter policy was adopted in the wholesale channel, both in terms of geography and volumes. These decisions, in addition to a product offer that had cross-generational appeal, while remaining consistent with the brand identity, allowed the company to improve the product value and optimize the control of pricing policies throughout the distribution channels. In 2019 the growth of full-price retail sales and the positive market response represented important achievements of the whole action plan.

This business decision was taken within the scope of a broader strategy to enhance the exclusivity of the Group's brands and led to a progressive increase in the regular sales, which by the end of the year had gone up by +6.2% (2019) at constant exchange rates compared to the previous twelve-month period.

Prada's effort in communication has also improved in the recent years, which was possible thanks to new aesthetics codes that have been established in an omnichannel point of view. Advertising Campaigns, Fashion Show and Stores Layout are perfectly orchestrated together. The real evolution is certainly the integration of the digital channels in the communication that is now the center of it. Touchpoints with customers are curated and in line with the modern and innovative aesthetic that the brand has chosen.

Images, Models and products seem to have found the right language of communication to engage and attract young international buyers. The brand develops many initiatives to strengthen its identity, such as the series Prada #REMIX aimed at discovering Prada's DNA, or the several openings of Pop-up stores.

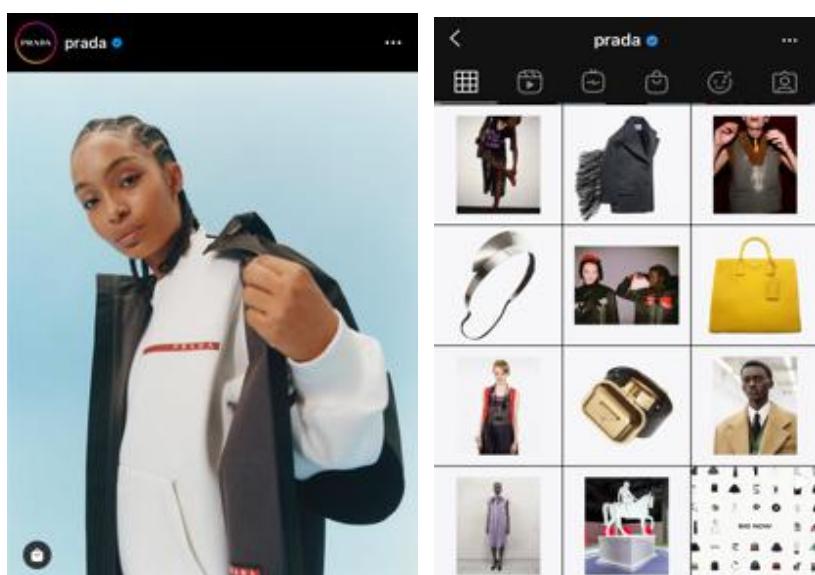


Figure 49- Screenshots from Prada's Instagram official Account

4.1.6 CSR During Covid-19

Since the outbreak of the Coronavirus emergency Prada Group helped dealing with the health crisis. In February they supported the Shanghai Soong Ching Ling Foundation's educational program aiming at supporting management of public health emergencies in China.

In March they dedicated the Prada plant in Montone (PG) to the production of 80,000 overalls and 110,000 surgical masks to meet the urgent needs of Tuscany's health care system. The Top management donated 6 complete intensive care and resuscitation units to Milan's Buzzi, Sacco and San Raffaele hospitals.

In April the group offered financial support to PROTEGGIMI, a project run by the San Raffaele Hospital in Milan that will investigate on COVID-19 contagion. Marchesi Pastry donated traditional Easter cakes to personnel working in Milanese hospitals and to a non-profit organization providing free food on a daily basis

Prada has also been one of the few companies to implement periodical serological tests to all Italian employees.

The brand communicated these initiatives through a series of photos and videos on the official Facebook, Instagram and Twitter accounts. The posts received discrete attention and a lot of positive comments on the company's behavior.

4.2 Digital Marketing Strategies

Historically, Prada has been slow to adapt to the online luxury market: up until 2011 the brand did not have a website that allowed customers to approach the brand through digital channels. In 2017 however the company understood that digital integration was becoming fundamental to be competitive in the fast-paced luxury industry.

In order to succeed in this new strategy Prada also made organizational changes: first they hired Chiara Tosato as Digital Director and then in 2018 charged Lorenzo Bertelli as Marketing Manager.

“Our digital strategy is based on 3 pillars: first, driving online sales through our e-commerce second, developing a seamless omnichannel shopping experience; and third, increasing our

investments in digital communications.” (Chiara Tosato, General Manager and Digital Director, Prada 08/09/2017).

The digital transformation at Prada started from retail, that the company described as “the focal point for customer interactions”. In 2017 the brand rolled out 75 pop-up stores to target new customer segments through unconventional selling propositions, enriched by engaging social media campaigns to drive discussion among key influencers and customers.

On the 2017 Financial Years Result Presentations Prada reported the following benefits:

- It extended its client base: more than 50% of purchases made by new customers
- Its strong brand statements translated into superior brand awareness
- It communicated product novelties in an innovative way
- It drove traffic/sales to neighboring stores benefitting from the buzz generated by the pop-ups



Figure 50 – Prada Silver Line Pop-Up Store in Macau. Source: Pradagroup.com

The omnichannel approach at Prada started from their sale forces: at the end of 2016 they were equipped with “personal” digital devices to interact with customers in a more effective and trustworthy way. The goal was to engage with local customers to offer tailored experiences across all touchpoints and empower employees to deliver personalized service. In 2017 this resulted in More than 200,000 customized personal messages sent by the sales assistants every month to inform our customers of the latest arrivals (Prada Spa, 2017).

In 2018 Prada's digital strategy registered a Strong double-digit growth in e-commerce through its on-line platforms. CRM was implemented with Artificial Intelligence technology to offer a seamless omni-channel service. Moreover, the in-store app "Clientsphere" was upgraded to offer more digitalized experiences.

The "Pradasphere" feature was added to the Prada website, which gives customers the possibility to discover the activities, campaigns and events that the brand is undertaking. This is crucial to Prada's strategy since the management is very sensitive in brand identity and brand awareness and the main goal of this website page is to strengthen and communicate once again the "Pradaness".

Prada targets new audiences through "Phygital" brand experiences. In 2018 the brand launched "Prada Mode", a traveling social club focused on contemporary culture that provides a unique art experience along with music, dining, and conversations. This experience allows the brand to strengthen customer relationships and CRM building an extension of major global cultural events enhancing brand visibility. This initiative is reiterated once a year on occasion of special art events sponsored by the Prada Group.

In 2019 Prada re-launched its iconic Linea Rossa collection. According to the brand this represents "A line through" to involve younger customers in unexpected experiences and it is particularly aimed at attracting Generation Z. The brand developed new communication strategies around brand identity supported by online and in-store initiatives creating growing heat around products.

This journey started with the collaboration with artist and musician Willow Smith: Prada staged an unannounced live performance at the Central line of London's tube in order to present the Fall/Winter 2019 Linea Rossa collection.

Engaging brand experiences that promote themes and integral values to Group DNA increased web and social mentions:

- H2 vs. H1 2019: Prada positive mentions up 9%, negative mentions down 52%.
- Instagram: Until Sept-19 Prada ranked #7; in Q4-19 #3 and in only Nov-Dec #2 (Prada Spa, 2019)

To feed the new appetite of younger generations, Prada launched on December 5, 2019 Prada launched for the first time in Europe "Prada Time Capsule". The special logo created by the OMA architecture studio, founded by Rem Koolhaas, together with a serial number and sophisticated dedicated packaging, make each drop unique.

Prada Time Capsule section consists in selling a limited-edition product every month that will be available only for twenty-four hours on its online platform. The new website feature and Prada Time Capsule are available only in European markets for now, but by 2020 the group plans to launch the new e-commerce platform in the rest of the regions where it operates.

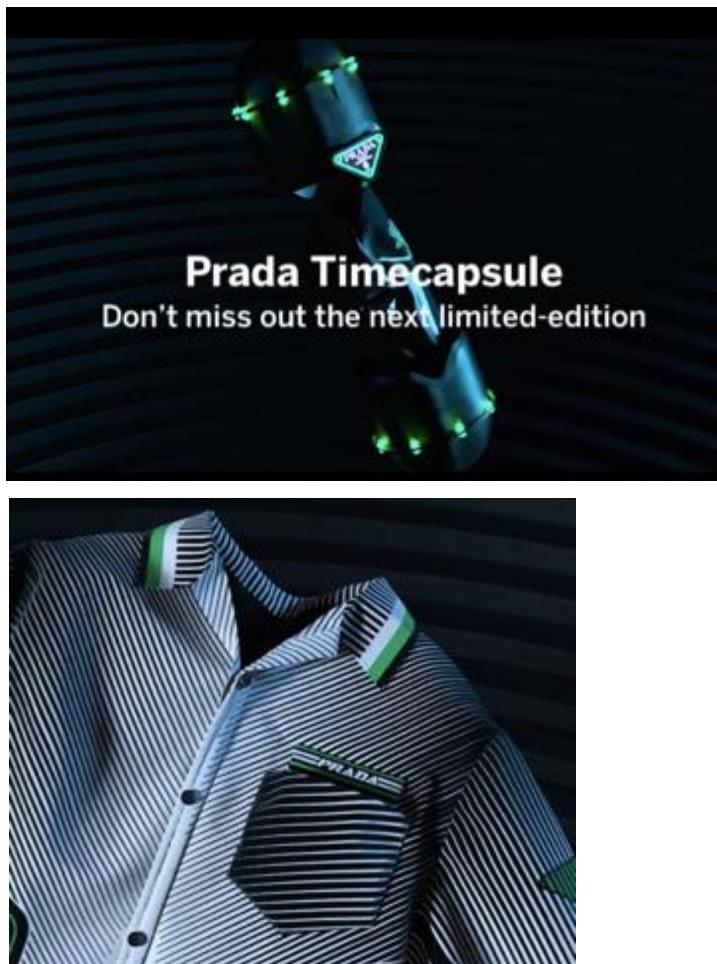


Figure 51- Prada Time Capsule September Drop Source: Prada.com

In 2019 Prada set major milestones in terms of sustainability, as its social role in the industry is strengthening and finding effective way to communicate it. Prada launched the Series RE-Nylon in collaboration with National Geographic. The Series, called “What We Carry”, tells the goals, and reality of Prada Re-Nylon, showing the production and distribution processes of this unique project.

As part of its digital efforts, the brand is also committed in a long-term partnership to fill the lack of competence that the digital transformation requires. In 2018 Prada launched a “Big Data” project with Microsoft to improve their analysis and business intelligence capabilities. This project aimed at consolidating customer relations through further personalization of customer’s experience.

Another strategic collaboration is the one with Adobe, whose purpose is to use the tech giant's analytic and marketing tools and to analyze how customers interact with social networks, websites and digital stores, in order to build a stronger omnichannel strategy. The Objective is to adopt advanced US software solutions for a more effective integration of offline and online channels and to improve the relationship with customers in a one-to-one key, offering personalized services.

Prada also signed a partnership with the customer experience management Sprinklr platform in order to drive digital transformation to all its businesses, to lay the foundations for future growth and to create an effective digital communication strategy on social media. The Italian luxury group is thus implementing Sprinklr modern advertising and Sprinklr modern engagement. Sprinklr also supports Prada's efforts to identify, reach and engage an audience that could become the new luxury customers, namely the Millennials and Generation Z.

4.2.1 E-Commerce

4.2.1.1 Brand Owned Website

In the last two years Prada experienced very strong growth across all markets with ecommerce capability. The company invested on a revamp of the website across all major markets: the new platform delivers user friendly browsing and enhanced functionalities combined with the Brand's visual identity offering a unique shopping experience and an original creative exploration of the Prada universe

In 2017 the online sales of Prada represented less than 5% of the total volume, that Prada's digital team set for the next two years was to reach 15%. In 2020 the group stated that this goal has been achieved and even surpassed.

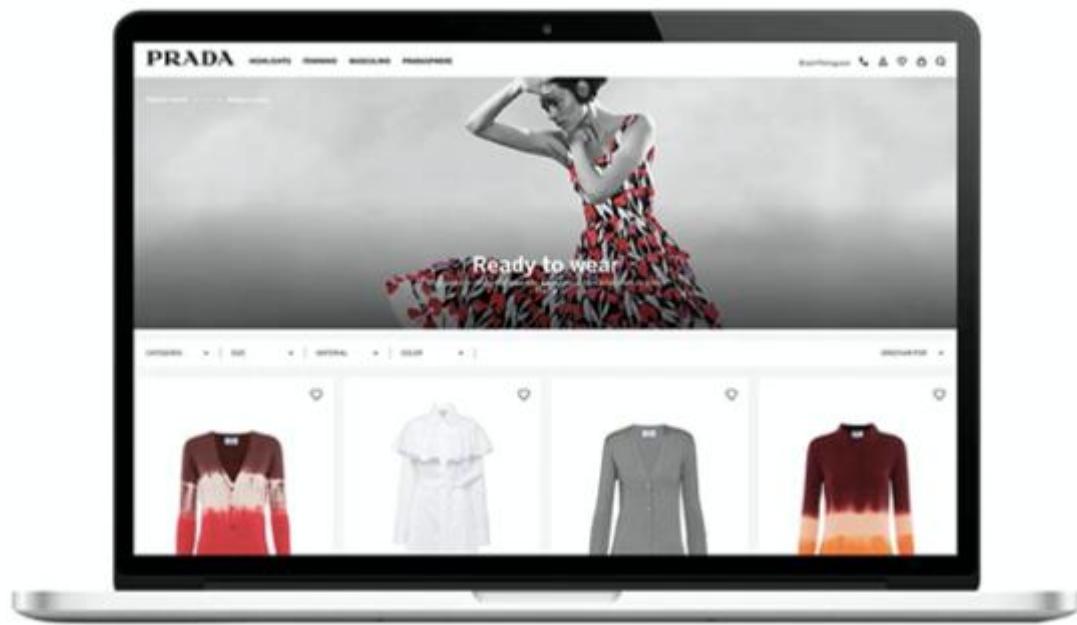


Figure 52 - Source: pradagroup.com



Figure 53 - Similarwebsites.com

Prada.com records 26.5% of its traffic in the United States, 7% in China and the UK, 6% in Korea and 5% in Italy; the rest of the traffic is very geographically dispersed.

The online visitors of the store are mainly women (59.9%), the most involved age group is 25-34, however the 18-24 age group represents a significant percentage. Although not all visits will be aimed at purchasing, this age distribution makes us understand how Prada is capturing the attention of younger people.



Figure 54– Source: Similarwebsites.com

Comparing the traffic of the Prada.com site with other competitor brand sites such as: gucci.com dior.com and louisvuitton.com, we can see that in absolute terms the volume of Prada is lower than the others. In fact, in the period August-October 2020, Prada.com received 100,993 visits a quarter of the total visits of Gucci.com and a third of those of Louisvuitton.com. Luxury customers seem to be more interested in these brands that have a very fast approach both in terms of product releases and new campaigns and digital experiences that therefore encourage customers to inquire about brands.

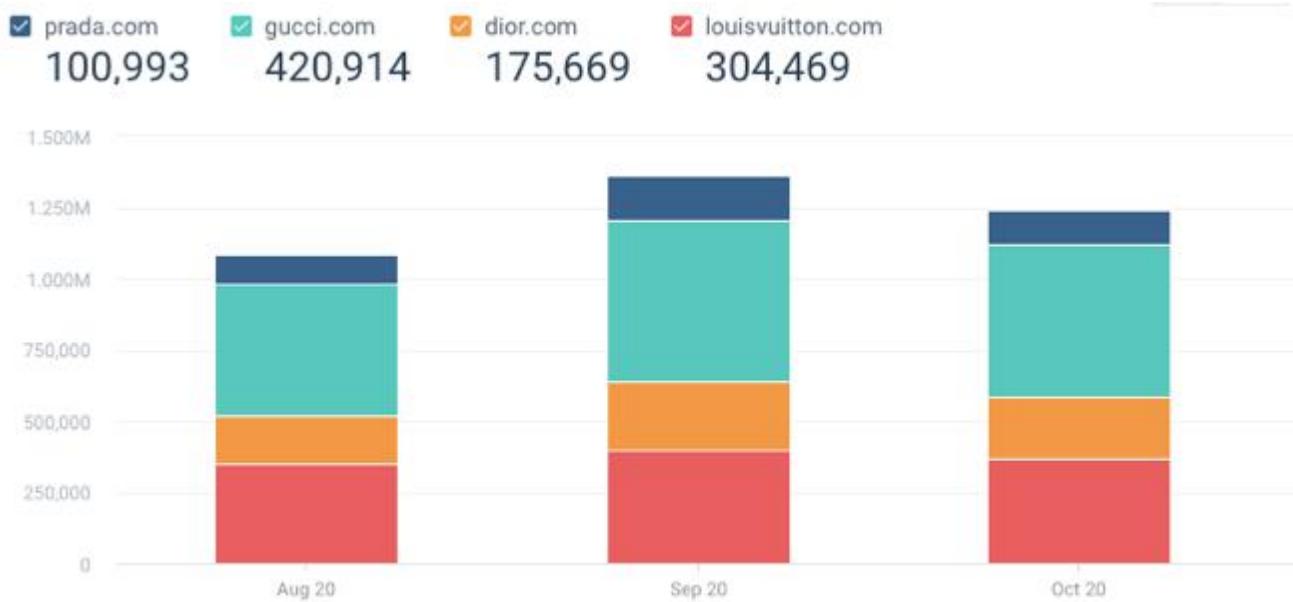


Figure 55 - Source: Similarwebsites.com

4.2.1.2 E-tailers

Prada undertakes the online sales a bit later than most luxury big brands. Initially, the brand favored in-store shopping and it did not sell its ready-to-wear collection online. In recent years the experience has led the brand to make the necessary changes to adapt to the online reality. It partnered with Net-a-porter and Mytheresa.com and sold its 2016 Prada's pre-fall and fall runway pieces in the online stores. Prada also launched a Man capsule collection with Mr. Porter in 2018, the man luxury e-commerce featured Net-a-Porter.

Confirmation of the new strategic priority of the landing on online platforms is the launch of a second collection created exclusively for Mytheresa.com for which the brand drew on its archives by revisiting some emblematic garments.



Figure 56- Screenshot of Prada Designer Page on MyTheresa

In 2019 Prada attempted a younger approach to e-commerce, launching the first renewed Luna Rossa collection on the Highsnobiety Platform. Highsnobiety is an English streetwear blog, media brand and production agency. It covers trends and news in fashion, art, music, and culture. This collaboration shows the commitment of the Prada brand to engage the younger generation through a cultural approach that also passes through streetwear.

In 2019 Lorenzo Bertelli, Marketing Manager of Prada announced a new partnership with e-tailer Farfetch. Prada sells in this platform a selection of all the product categories, Ready To Wear, Accessories and Footwear.



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YOU CAN NOW SHOP PRADA LINEA ROSSA'S SS19 COLLECTION ON HIGHSNOBIETY

Figure 57 - Screenshot of Highsnobiety official Website

4.2.2 Social Media

In the western digital environment Prada's main social media are 4, Facebook, Twitter, Instagram and TikTok the new short video social media. Prada presents almost the same contents, images and video in almost every platform, even in Instagram Reels and Tiktok that actually need a different and more articulated kind of posts.

Facebook: the official account has 6millions of fans, which is a modest number compared to the 17millions or the 19Millions of Gucci. Prada uses the shopping feature offered by the social media as a window to highlight seasonal products as in this moment for the Holiday Gifts. More than on other social media, Facebook is used to express opinion and under the “Review” section there are several negative comments about Prada’s customer service in Europe and USA. This

emphasizes how difficult it is to manage social media, since they have negative sides and can affect the brand reputation.

Twitter: Prada official account counts 1,2million of followers. Twitter offers no special features for companies, the posts published by the brand are the same that can be found in the other social media platforms.

Instagram: the account counts 24,5millions of followers, Prada's posts have an average of 47thousands likes and 145 comments, the video registers a 120thousands videos. Instagram is the most effective social media at the moment, it allows a lot of possibility to strengthen the identity of the brand and to enhance the shopping experience. Instagram allows to broadcast live events, post long videos or short videos in the “Reels” part. Prada created its own Instagram filters during the launch of the Prada Acronyms Collections, the brand also took advantage of the shopping function and link to its brand owned platform and is also starting to produce Reels the new short video features.



Figure 38 - Prada Acronyms Filter - What's your Prada Mood?

Furthermore, during the Corona Virus Prada also offered a sort of cultural entertainment through the series “Prada Possible Conversation”. The brand involved professionals of different subjects and organized Instagram live to share contents with its public.

TikTok: Prada is at its first attempt to interact with the Generation Z audience that uses the social. The official account was launched in September 2020 with some short cuts from the

2021 runway show. The kind of content was not really popular and appreciated in the platform since the public is used to high quality and very interactive contents. The official account has 160,3 thousand of follower. This platform has great potential and Prada will have to put greater efforts in providing high-quality contents in this one.

4.3 Prada in China

Since the 90's Prada's growth strategy heavily relied on geographic expansion, the company has opened numerous stores (both owned and franchised) in the most exotic and exclusive locations in the world. At the moment Prada Directly Operated Stores in China are 100, including Macau and Hong Kong Special Administrative Regions. The company's stores are mostly located in the south east part of the country, the stores are present in the biggest cities such as, Beijing, Shanghai, Guangzhou, Shenzhen, Wuhan, Xi'an, Chengdu, Hangzhou and many others smaller cities. Prada chooses the most exclusive locations for its stores as the SKP Mall in Beijing or the Plaza 66 shopping center in Shanghai.

Prada immediately recognized the importance and potential of the Asian market, so much that it tried to forge real partnerships. In some moments there was talk of Prada bringing the production of goods to high volumes in China, creating a scandal in the fashion industry that saw the Asian country as an enemy from a production point of view. According to Bertelli's management, instead China needed a stronger commitment that included deep local investments. Prada's quality product has been questioned by many customers that found the label "Made in China" inside their bag. Made in Italy is a very important factor for luxury products and customers value this signature as a guarantee of high quality.

However, the brand declared to have outsourced the production only for non-exclusive and high-volume items, but customers started questioning the product's quality anyway. Prada tried to solve this issue by reassuring the customers about the quality controls that the company performs on the goods. Moreover, in the last ten years Prada has been acquiring new production plant in order to strengthen its production process and to be able to control even better the quality of their products.



Figure 59 - Prada Store in Shanghai

In 2011 the brand took another step to strengthen its relationship with China and decided to go public for 20% of its shares on the Hong Kong stock market. Although the IPO was not so successful, this gesture certainly gave a positive signal to Chinese luxury customers.

Most analysts agree that the rationale for Prada's choice of Hong Kong was about raising brand awareness in China. In the run up to its IPO, Prada hosted a fashion show for top fund managers in Hong Kong's Grand Hyatt Hotel before presenting them with a speech about booming demand for Prada and luxury goods in general in China.

Prada's commitment to social issues prompted Miuccia Prada to promote the renovation of an old residence in the city of Shanghai. This public renovation then made the monument visible and strengthened the brand's image positively towards Chinese customers. Rong Zhai is a historic residence in downtown Shanghai, and after a six-year restoration is now being used as a venue for the Prada Group's cultural events in China. The rehabilitation of Rong Zhai is the result of a fruitful partnership with Western architects, historians, and Chinese artisans and represents the Group's interest in the restoration.

Asia Pacific has been the leading market for purchases of the Prada brand since before 2010. However, the brand experienced an important decrease in the country performance in 2015 and 2016 that threatened the stability of the company. In 2015 the company registered a negative growth in Mainland China of -22% the trend continued in 2016 with a slowdown of -12%.

Given the important weight of this market for the company's balance sheet, the management was forced to review its strategy.

In 2017 Prada management understood the urgency to invest in digital and its strategy changed direction; the investments moved from physical store openings to the omnichannel strategy focused on the reach of Chinese Millennials inside and outside their country. The official beginning of this strategy can be identified in the launch of the new E-commerce in China, which we will discuss in detail in the following paragraphs.

Many other brands like Gucci and Louis Vuitton since the beginning of 2010 started a series of investments to experiment and implement digital marketing strategy in China. Both brands can now be considered the leaders in China specifically regarding Millennials and Generation Z age segments. Being online ensured to the brands a strong customer base among the online users' interest in luxury purchases. Moreover, digital enables brands to be closer to the customers and make it easier for creatives and merchandisers to anticipate customer shifts in preferences.

Prada comes later in the race for the digital attention of young Chinese buyers, while most of the competitors instead have gained a strong fan base and enhanced brand awareness in their mind. Prada is a follower in the digital transformation but staying true and coherent with its value of innovation and the power of its design the brand is confident in its possibilities.

4.4 Digital Marketing Strategy in China

Prada's digital marketing strategy in China is aimed at reaching Millennials and Generation Z and increasing the brand awareness in this market segment. Prada is trying to reach the customer during their online shopping journey through Social Media Communication and E-commerce marketplaces.

Until 2017 Prada did not follow any specific strategy regarding Digital Marketing in China. The brand was fully focused on physical touchpoints, while digital touchpoints were not integrated in the marketing strategy of the company.

Weibo was the most used social media by the company while WeChat was not fully exploited, the low level of penetration of Prada in the digital environment resulted in a low level of brand awareness in the younger segments of the luxury market. Moreover, Prada's products were not

available on any luxury e-commerce platform until the official brand owned website went online.

In the next paragraphs the case study analysis will show the actions implemented by Prada from 2017 to 2020 regarding Digital Communication and Online Distribution.

4.4.1 Digital Timeline

Prada began to take the digital path seriously in 2017, even if the first official appearance in the Chinese online environment was in 2014 with the opening of the WeChat account. However, some luxury brands were already leading the digital transformation in the luxury industry.

Comparing Prada's strategic moves with those of three other major European luxury competitors (chosen accordingly to Gartner Luxury China 2020 report presented in Part 3); Dior Gucci and Louis Vuitton we can see that they started the social journey on WeChat and Weibo platforms several years earlier, immediately ensuring a young audience base more interested in finding information online.

The opening of the E-commerce stores owned by the brands occurs almost simultaneously for all brands in 2017. Dior, which was one of the last to open a virtual store in China, was the first in 2016 to take advantage of the WeChat Mini-Program function.

We can see how the online distribution strategies are different, since 2017 Prada has tried to reduce the percentage of physical wholesale channels but relying on e-tailer platforms in China. In fact, from 2019 Prada has virtual corners in the major Chinese luxury platforms.

Louis Vuitton instead has decided to maintain strict control of its wholesale channels to preserve the exclusivity of the brand but has found the perfect communication language to immediately attract younger people. In 2018 LV launched a sneaker collection designed by Virgil Abloh as a preview on its WeChat Mini-Program. In early 2020, they presented the first live streaming event on Little Red Book with influencer Yvonne Ching. Louis Vuitton in fact is trying to expand its shopping experience in china while preserving the exclusivity of the brand.

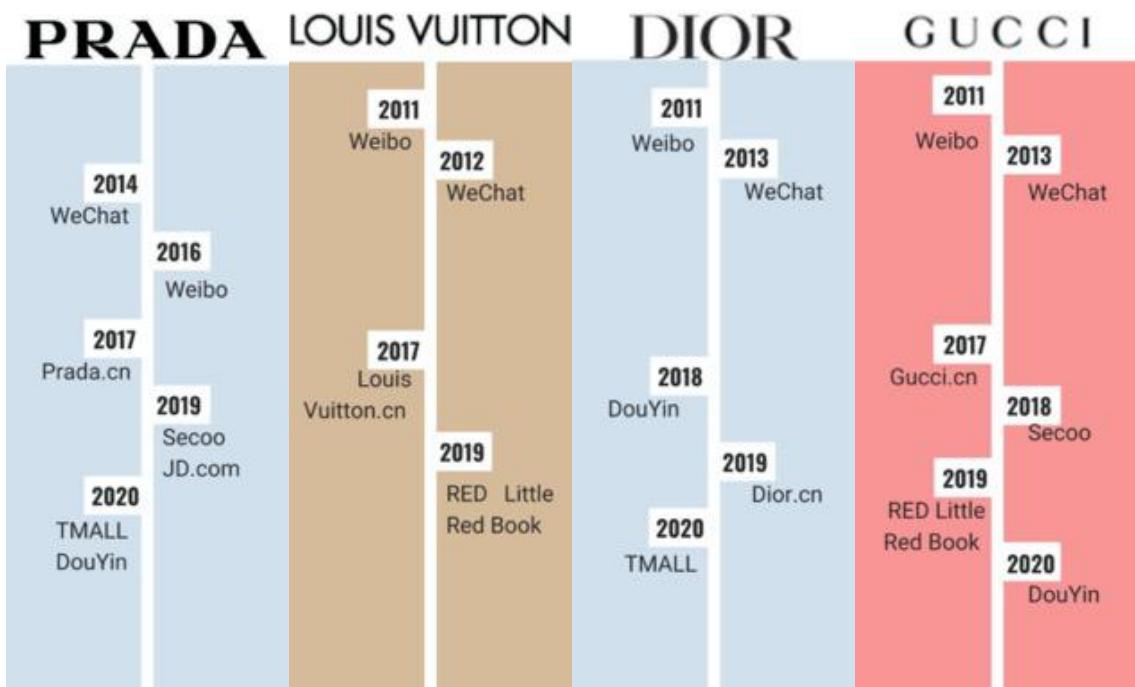


Figure 60 - Digital Presence Timeline

Gucci is the brand that appears in more social media, it is creating a community of Millennials who recognize themselves especially in the values of inclusiveness and diversity always following the creative and eclectic vein that distinguishes the brand. Gucci is currently present in the social networks that are growing the most such as DouYin and Little Red Book, the brand's efforts to bring a lot of "local" content to the Chinese public is highly appreciated by customers. This year Gucci's Valentine' Day Capsule collection really hit the market despite the Covid-19 emergency.

4.4.2 Customer Target

Prada's target is the new generation of luxury customers Millennials and Generation Z.

Prada has certainly come late to meet the potential of this age segment and has underestimated the demanding needs of these. While the other major luxury brands rejuvenated their offerings by creating "it-products" with endless waiting lists, and met customers through digital touchpoints as Social Media, Prada fully committed to the physical touchpoint missed to attract young luxury buyers.

Low digital penetration and weak contact with customers for Prada resulted in a loss of desirability by the Chinese young audience that was a usual fan of the brand. In an article published by Jing Daily in 2019 it is reported: "Prada is not on my radar if I want to buy a new luxury handbag this year," said Kiwi Zheng, a Shanghai-based Chinese luxury customer

working in the finance sector. “The brand has no ‘IT’ bag.” Tian Xu, a Ningbo-based luxury shopper, echoes Zheng’s comment. “I feel Prada is not in vogue. My budget will likely go to brands like Dior, Chanel, or Gucci. Dior’s Saddle bag is the one that I want the most at the moment.”

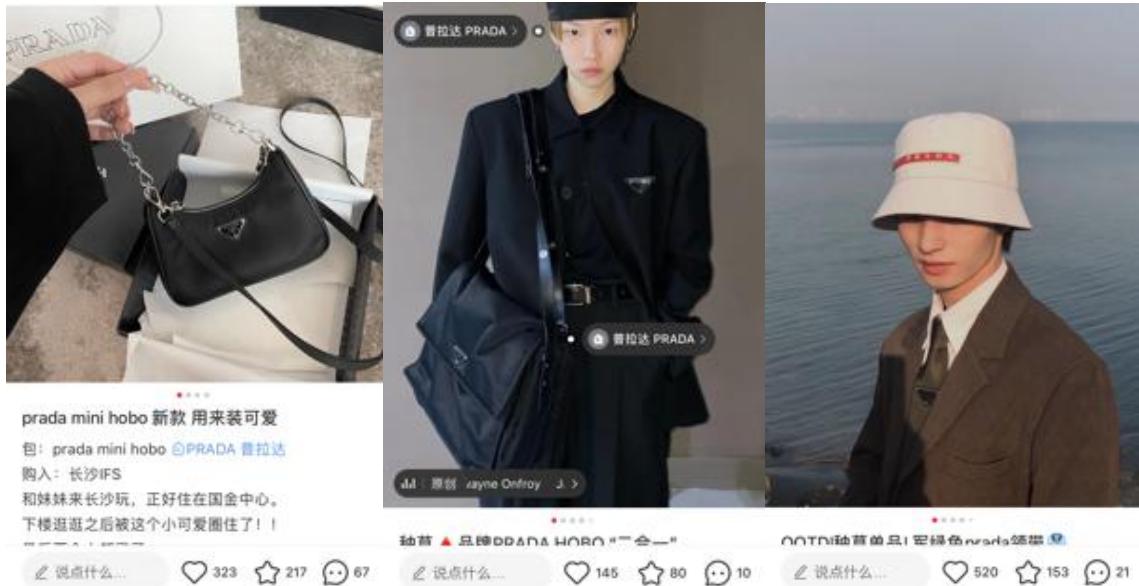


Figure 61 - Prada Mentions on RED

In a time where online opinions and reviews are extremely influential, the need for a community that backs up and enhances the reputation of the brand is fundamental. Prada is actually trying with many lifestyle initiatives in the mainland to involve and reach young Chinese luxury buyers.

Prada proposes a lifestyle for aware fashion luxury customers that include a strong interest for contemporary art, architecture and visual arts in general. Prada’s commitment to understanding society brings the brand to explore and be extremely cautious with foreign culture. Cultural sensitivity is an extremely important issue in China and Prada showed real commitment to respect the Chinese cultures.

The brand is also trying to evoke and show real interests in social issues like sustainability that are highly valued by youngsters. The recent presentation of the series and the collection called RE-NYLON advocated by a famous Chinese actor Wei Daxun that was invited to be part of the panel for a #PradaReNylon in Shanghai.

Product offering is thus also evolving both from an innovative point of view recycled materials and from an artistic point of view. Moreover, the recent news of Raf Simons entering the Prada team to collaborate with Miuccia Prada definitely busted the interest of young Chinese buyers.

4.4.3 E-commerce

Prada's first concrete efforts in digital integration concern online distribution. In recent years, Prada has adopted a practice of minimizing retailers in order to have more control over its products, especially regarding pricing. In fact, Prada has reduced its mark-down sales to a minimum, the brand's sales to date are almost entirely full price.

In the western markets Prada is not present in many e-tailers, in fact the brand has contracts with three websites. Luxury brands in western markets faced a challenge in the digital regarding the tradeoff among exclusivity and the big exposure that digital brings.

In December 2017, Prada launched its brand-new E-commerce platform prada.com/cn. Chiara Tosato Global Digital Director highlighted on multiple occasions that China is an important part of the group's digital strategy.

Prada, after two years of not remarkable results in China's online market, decided to launch flagship stores on Secoo and JD.com in the summer of 2019. It completed this digital expansion in 2020 with the launch of a Tmall store.

Through partnerships with Chinese e-commerce platforms, Prada further improved and enriched its client base and strengthened its brand awareness in China. This new digital trajectory is helping the brand build new channels that can engage more customers.

4.4.3.1 Brand Owned Website

In 2017 the watershed of Prada was represented by the launching of the new e-commerce platform in China, www.prada.com/cn/zh.html.

The new Prada platform in China is based on a "mobile first" approach, it provides full integration with the physical store network and social networks and uses local payment methods such as Alipay and WeChat.

It covers all product categories for men and women, using personalized services, such as the "virtual assistant" in chat and the ability to book an appointment in the store to collect the purchase or consult a personal shopper.

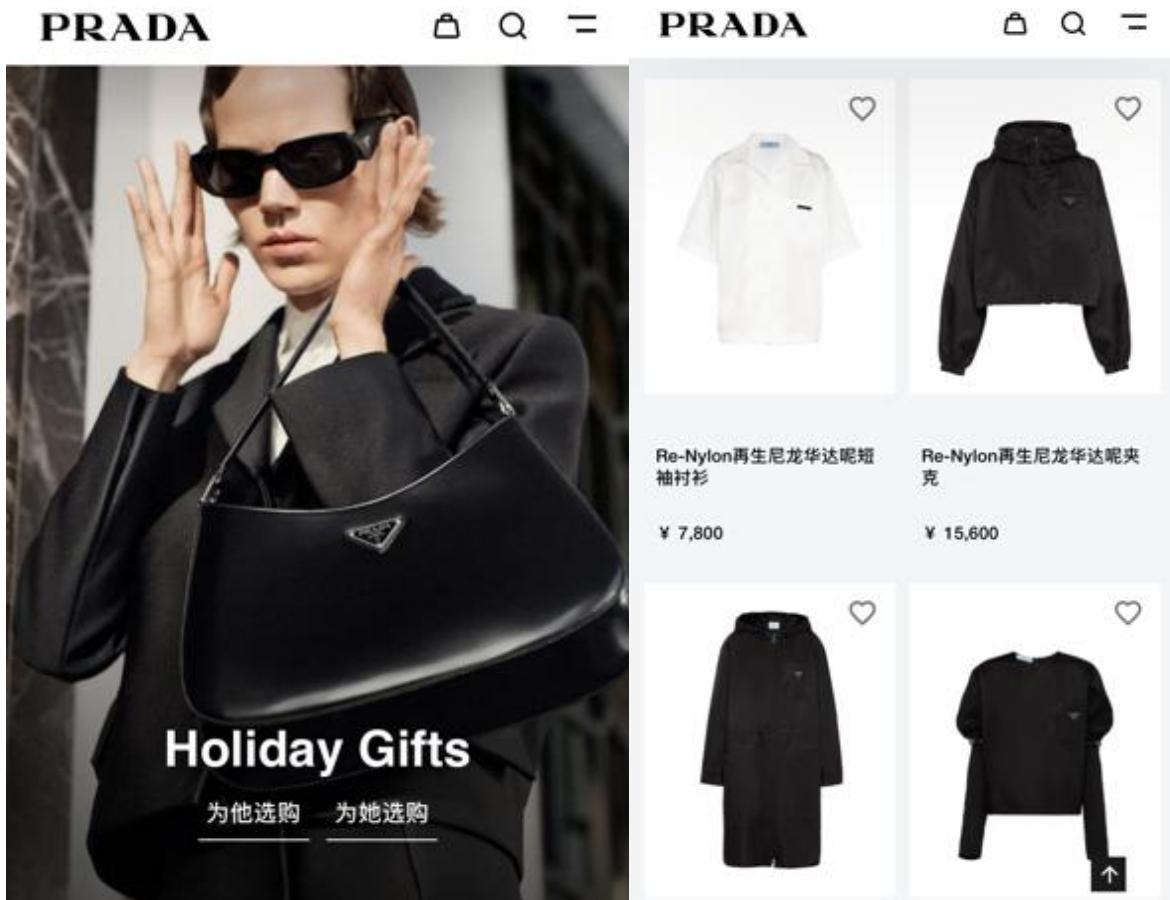


Figure 62- Source: Prada.com/cn

These enhanced functionalities combined with the Brand's visual identity offer customers a unique shopping experience and a true exploration of the Prada universe. The section "Pradasphere" in the website is a true exploration of the brand's DNA, in this page the customers can see the special projects like "Prada Time Capsule" a limited edition item available for just two days in a month or other exclusive services as the "Prada Tailor Made Leather Jacket". Prada has launched a new tailor-made leather jacket service in the Chinese websites, expanding its customized products. Tailor-made consultants are responsible for the entire process from body measurement to finished garments and provide high-level customized services with unparalleled quality standards. These kinds of very exclusive services are really important to strengthen the relationships with high spenders' customers and enhance the awareness of Prada as a luxury brand.

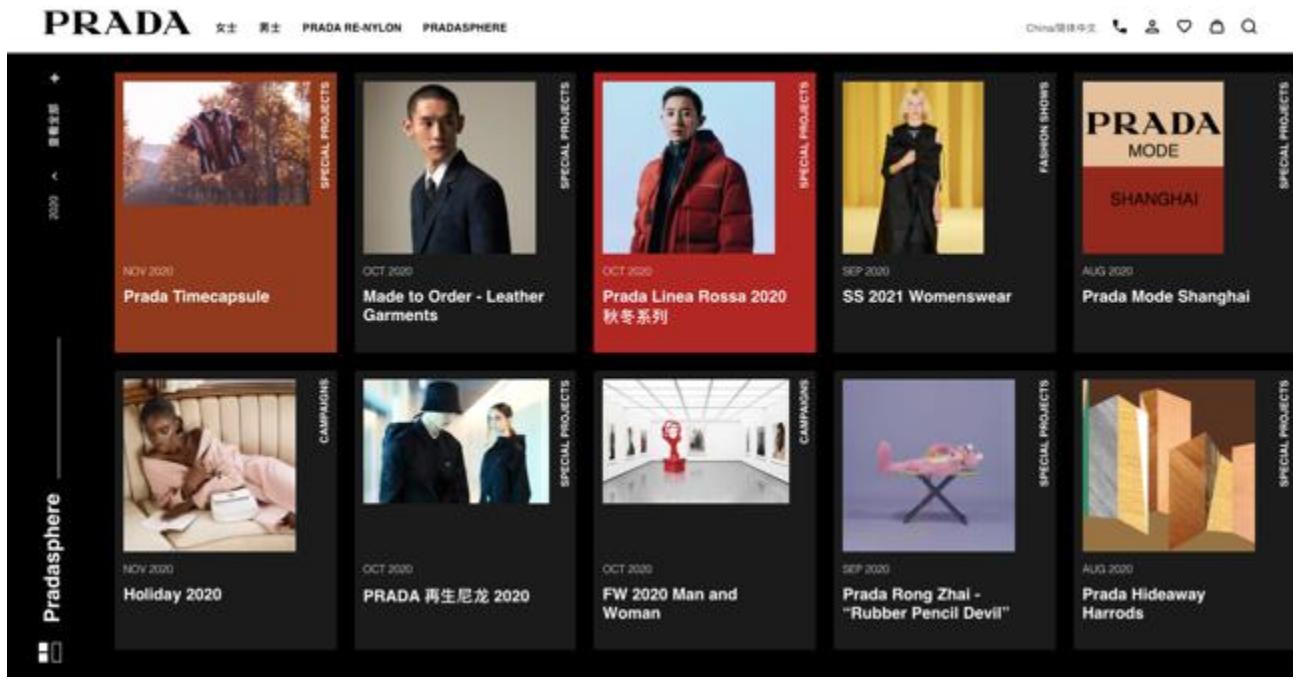


Figure 63 - Pradsphere Source: prada.com/cn

4.4.3.2 Secoo

In May 2019 Prada signed its first contract with a Chinese E-tailer, the luxury platform Secoo.

What's noteworthy about this deal is that it's still relatively rare for luxury megabrand to team up with third-party Chinese e-commerce platforms nowadays. The Prada Group's major competitors, which includes Louis Vuitton, Gucci, and Hermès, are currently in complete control of their official e-commerce services in China.

Secoo's strong reputation against counterfeiting may have alleviated the Prada Group's concerns about collaborating with the platform. The partnership with Secoo is part of a broader distribution strategy aiming at reaching a larger customer base for the Prada brand in the Chinese market through a trusted digital player who is able to guarantee a luxury experience line with the brands' identity.

The partnership is a result of the group's review of distribution channels, which happened on May 16, during the Board of Directors meeting. There the group analyzed the structure of the company's wholesale channels and concluded that independent partners were essential to enhancing their price consistency.



Figure 64- Prada Brand Page on Secoo

4.4.3.3 Tmall

Prada officially launched its shop on Tmall on March 14, 2020. According to Jing Daily customer are excited about Prada's Tmall presence. After a month, the online store has already gathered over 54,000 followers.

Prada's new partnership with Tmall is supposed "to provide wider product choices and diverse online services for customers," said Lorenzo Bertelli, the Prada Group's head of marketing and communications, to Jing Daily.

During Tmall's annual campaign to highlight spring fashion items called "New Fashion," the site's virtual model Aimée endorsed Prada's Spring 2020 collection with a series of pop-up posters that signaled the storied brand's arrival to China's online marketplace.

Tmall flagships allow brands to tap into the platform's large pool of millennial and Gen-Z users all of whom want authentic items delivered to their doorstep. Moreover, for luxury players on Tmall, the site offers strategic support such as digital marketing, e-commerce operations, data analyses, and technological solutions like ISV (Independent Software Vendor).

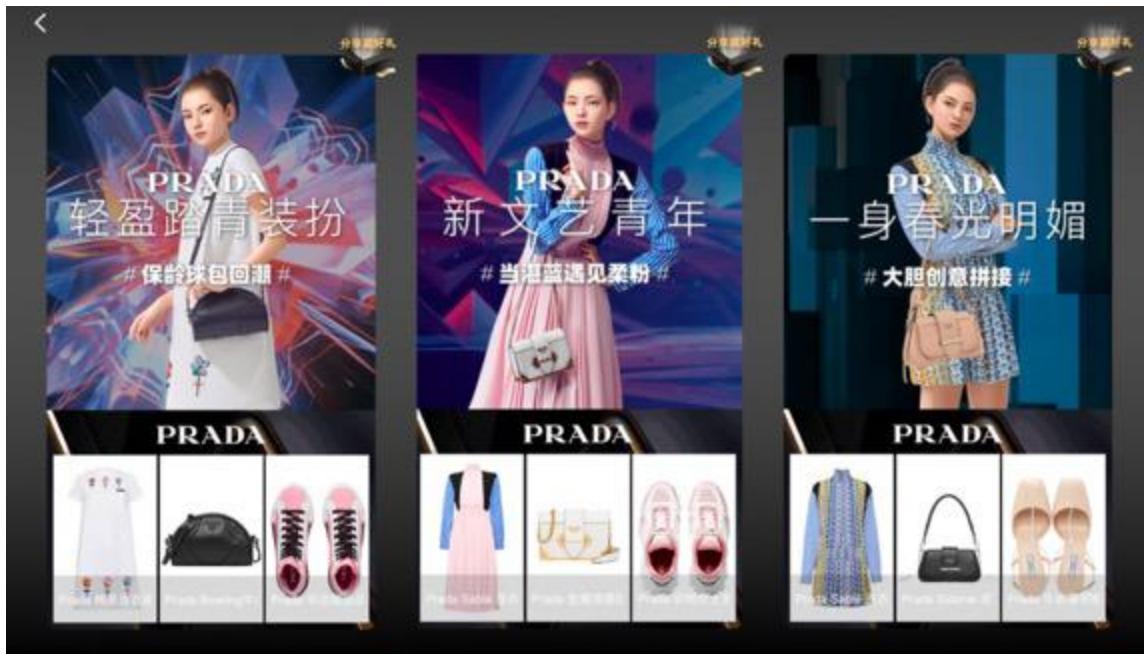


Figure 45 - Prada TMALL launch Screenshot Source: Jingdaily.com

4.4.3.4 JD.com

Prada has opened an authorized flagship store on JD.com on June 17, 2019, the partnership was announced as part of JD's June 18 618 anniversary sales festival.

In July 2020 JD.com and Prada Group strengthen their partnership. JD opened its omnichannel solutions to Prada by integrating JD's inventory with their internal inventories to bring a wider range of products to JD customers.

So far, the inventory of Prada's offline flagship store across the main city in China has been integrated with JD's inventory covering a total of 700 products which include limited editions and runway series.

Thanks to the inventory integration costumers who shop online on Prada flagship stores on JD will also have access to a wider range of products. Additionally, customers who buy these products can also enjoy a 7-day no reason return services, whether they buy online or offline.

Since the cooperation began, sales of Prada have grown rapidly performing well despite the pandemic. Prada has reached many high-end young customers on JD, among which over 75% are senior white-collar customers around 50% were born after 1985 (Zhang, 2020).

4.4.4 Social Media and Communication

Communication is one of the pillars of the Prada brand relaunch plan. Contents published by the brand, collaborations with influencers, and social advertising are all levers of social media marketing that must be managed consistently with other channels.

To increase brand awareness and create a community among millennials and young people of the zeta generation, the creation of content that reflects the values and the aesthetic of the brand is essential.

Social media is increasingly a form of advertising and mostly entertainment, during the coronavirus this trend obviously accelerated.

Since January 2020 Christopher Bugg is the marketing and communication director of Prada Asia, Bugg previously held the role of global digital communication director for Louis Vuitton in Paris.

Prada in his social communication always insists on putting social and cultural relevance ahead of social buzz, which contributes to a more inclusive brand community and diversifies the global cultural sphere. Although Prada has always been recognized as a brand for intellectuals this communication language may result in something too pretentious so the brand must find the balance between high quality contents and creativity in the way to propose it.

During the Corona Virus lockdown Prada started a series of Instagram live called “Prada Possible Conversation”, then posted on other Chinese social media, where professionals from different parts of the world discuss issues like sustainability, community and photography.

Moreover, Prada during and after lockdown showed real sensibility towards the emergency and through donations and production of surgical mask the brand strengthened its role as a social actor.

In 2020 the brand has undertaken many initiatives to show the brand values, for example the Re-nylon collection with innovative sustainable materials or the Prada Remix series that shows the brand’s archive and craftsmanship know-how.

Prada is increasingly proving to be a very socially active brand that believes in the value of the community. Communicating these concepts is essential to ensure that the younger generations recognize themselves in the brand and appreciate the products.

Ever since the announcement that Raf Simons was joining the brand as a co-creative director in April, Chinese customers have had high expectations for the first-ever collaboration between the brand’s two illustrious directors, and the presentation didn’t disappoint.

The livestream of the S / S 2021 digital fashion show on September 24 reached more than 48 million users through the brand's Weibo and Douyin accounts. The Weibo hashtag # PradaSS21 generated 170 million views on the day of the show which marked the debut of the collaboration between Miuccia Prada and Raf Simons. The online show and the subsequent talk between the two creatives represent the brand's most popular digital event, shared through the company's website and related social channels including, for the first time, TikTok (Jing Daily, 2020).

“To reach the Prada audience we built a strategy that used customized activities for each part of the world. Our goal was to be both global and local, interacting with a more ‘intimate’ and targeted approach ”, explained Lorenzo Bertelli, as reported by WWD.

To intrigue the public, in addition to the proposals seen on the catwalk, there was the surprise of hearing the dialogue between Simons and Prada broadcast immediately after the show. In the previous days, the brand had asked its followers to send in questions regarding their first show. The large connected public witnessed the dialogue between two leading figures in the sector, usually unwilling to expose themselves in the first person: for once, the desire to tell this new professional experience has prevailed over confidentiality.



Figure 66- Prada SS21 show Source: Prada.com

This way of constructing dialogues between viewers and designers happens to be very appealing to Chinese audiences. The viewership of this livestream garnered over 42 million total views - 26 million on Weibo and 16 million on DouYin, as of the end of livestream.

To better engage with Chinese viewers, the brand organically integrated the physical gathering with digital activations, particularly live streams via its official site, Weibo, and Douyin. At Rong Zhai, the presence of brand ambassador Cai Xukun and celebrities like Zheng Shuang, Ou Hao, and Li Gengxi drove high social traffic, with the Weibo hashtag “#pradass21” hitting over 170 million views in one day.

In 2020 Prada also developed creative digital campaigns to boost customer engagement. On the occasion of the 20th of May “5/20”—the day which, in China, represents and celebrates love. Prada ran a digital campaign featuring Cai Xu Kun, the Chinese singer as the protagonist of the short film which explores this emotion during and after the social distancing due to the spread of Coronavirus and celebrates love, Prada ran a digital campaign featuring Kun, the eclectic Chinese singer as the protagonist of the short film which explores this emotion during and after the social distancing due to the spread of Coronavirus.

Comprising both static images and a video, the digital campaign unveiled on May 4, 2020 on Prada’s social networks and at prada.com provides a vivid representation of how, even at a time of social distancing, emotions like love and hope remain free.

A special selection of products dedicated to the 520 celebration is available at selected Prada stores in China, on prada.com and through a pop-up shop created exclusively for the WeChat Mini Program. This kind of local initiatives specifically addressed to the Chinese audience have a lot of success. As we will see later, a more generic and global approach to communication does not engage Chinese young luxury buyers.

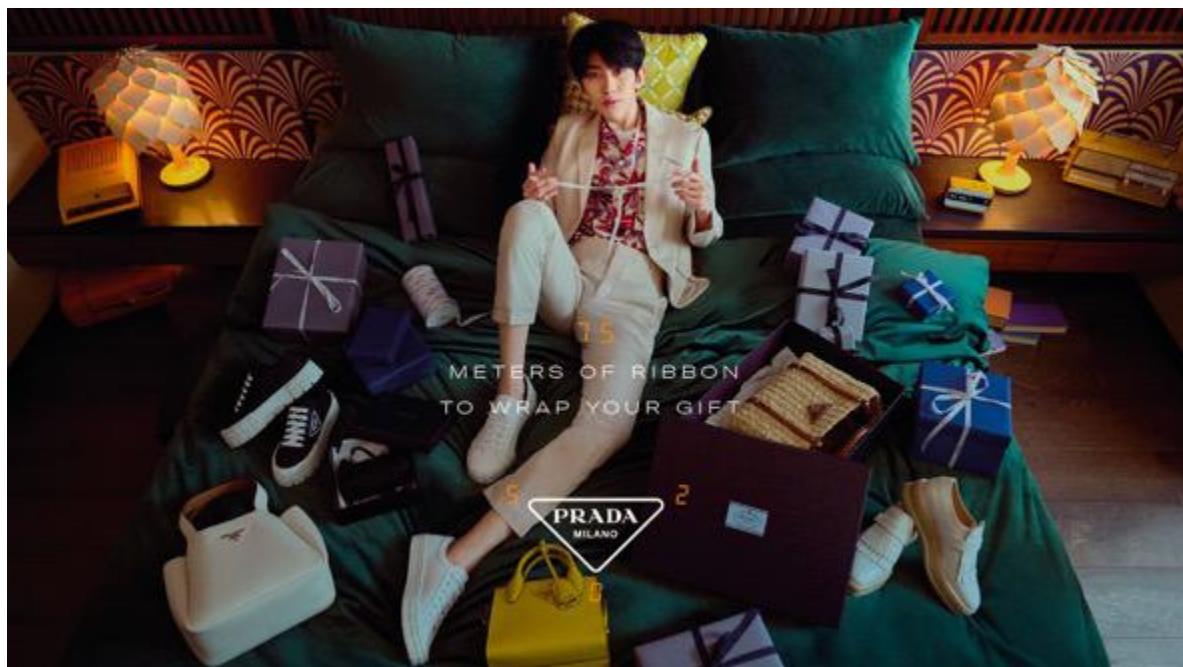


Figure 67 - Prada 520 Campaign. Retrieved from: pradagroup.com

Prada group also started a Storytelling campaign called Prada Remix that is a dynamic content series discovering the Group's DNA in a new unexpected way. The first three episodes focused on excellence, cultural heritage and sustainability. Through this content Prada is sharing the brand's values in a storytelling way able to inspire its public.

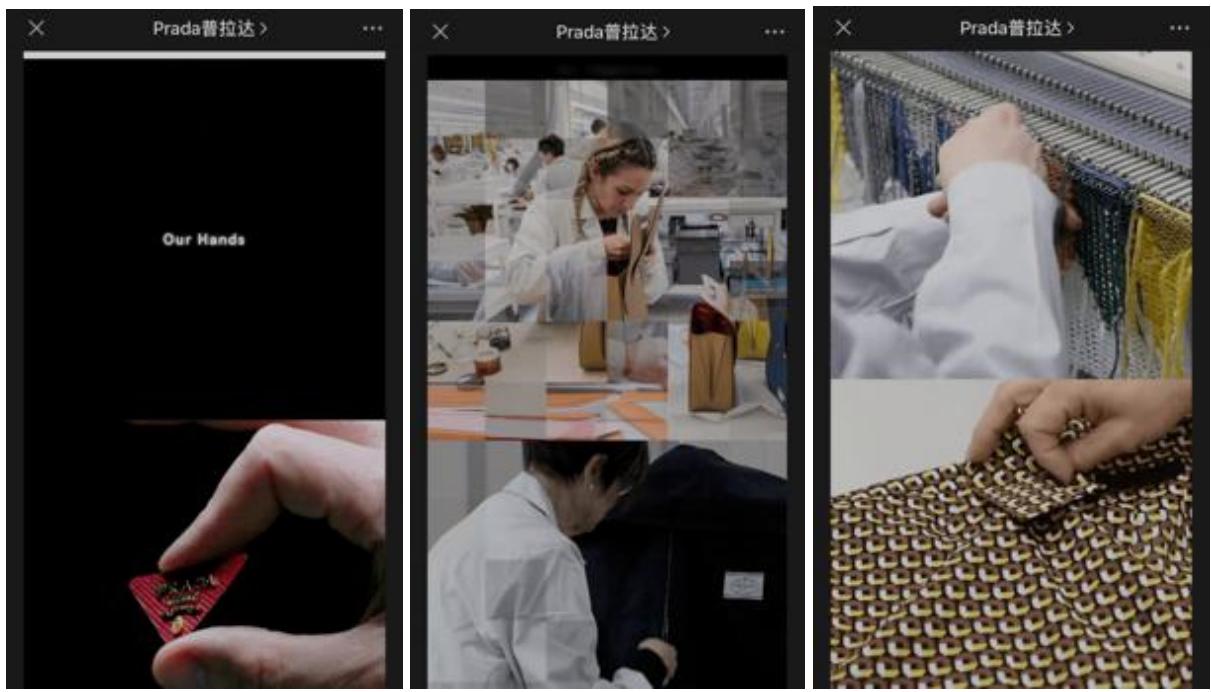


Figure 68 - Prada REMIX WeChat

4.4.4.1 WeChat and WeChat Mini Programs

WeChat was the first ever approach of Prada in the Chinese Digital environment in 2014. The platform is really integrated and offers many functions that the brand can exploit, the WeChat moments as the social function, the mini programs that are perfect to present the launch of new initiatives and sell products, and the messaging features that enables exclusive features for the clienteling.

The Prada brand uses WeChat official account for a one-to-one communication channel to enhance customer relationship management, sales associates of Prada communicate with customers through WeChat. This network is a perfect tool for the brand to launch omnichannel marketing campaigns which can leverage the platform's online-to-offline capabilities to grow its following and learn more about its customers.

Prada is also using the Mini-Program function, in 2019 Prada presented "Storytelling," a solo show by Chinese painter Liu Ye, and curated by Udo Kittelmann, with the support of

Fondazione Prada. Before the event, users could register for the event with a QR code. The page also included information about the visuals and messages visitors would experience.

In 2020 for the 520 festival, Prada launched a special selection of products dedicated to the celebration available a pop-up shop created exclusively for the WeChat Mini-Program and at selected Prada stores in China.

WeChat recently launched WeChat Channels that is a short-content function newly developed by WeChat, where the content could be either video within one minute or images no more than nine. Compared to the top short-video platforms of Douyin (Tiktok) and Kuaishou, it is not powerful in editing video or entertaining the audience. Instead, it focuses on helping brands drive leads and build value.

Prada's WeChat Channels account has released 17 promotional videos about Prada 2020SS. The videos were all commercial advertisements shot, edited and produced by professional teams. WeChat Channels account serves for not only increasing the traffic of luxury brands, but also building its brand image and supporting the overall ecosystem within WeChat.

By clicking the link within the post of the brand's WeChat Channels, customers can enter WeChat Official Account of the brand for product details. On this page, there are other links directing to e-commerce WeChat Mini Programs, guiding the users to make the purchase.

4.4.4.2 Weibo

Prada started posting on Weibo in 2016, at the moment they count 1,389,685 followers. Other big luxury brands such as Gucci (2,932,870 followers) and Louis Vuitton (4,381,279 followers) started experimenting with this platform in 2011 and have a larger fan base.

Weibo is a microblogging app with a highly developed livestreaming function that have great potential.

Prada's communication is not targeted to the local customer, and as we can see from the two screenshots below, Chinese followers are more engaged when they see their celebrity or model in the posts.



Figure 69 – Screenshots from WEIBO Prada's official Account

The two posts present the same collection Luna Rossa but in the first one Prada has chosen the singer Park Chan-Yeol getting 10thousands share and 1thousand of comments where young customers showed real enthusiasm for the choice of Prada. The other post instead with the American model didn't receive any attention.

From June 2020 Prada is also using the video features in Weibo the Video of the new Luna Rossa collection got 390thousands of visualization and many interactions due to the collaboration with Park Chan-yeol that is a young Chinese Pop Star.

Prada is posting almost the same content in every social regardless of the country and the platform. Probably the brand has not yet found the perfect communication language and the right balance of general contents and geo-targeted ones.

4.4.4.3 DouYin

At the beginning of 2020 Prada opened its account on the short-video app DouYin. Prada has leveraged on the power of working with the popular Chinese singer and influencer Cai Xukun. According to Jing Daily, followers commented that they solely discovered Prada's account only through Cai's fame, suggesting that Prada needs a more consistent strategy with its brand DNA

on Douyin.



Douyin is considered as one of the trendsetters for Gen Z culture. They need to invent the time, energy, and resources into what's needed to create content that not only represents their brand DNA, but also that resonates with younger customers.

Prada dominated the social conversations in this way by asking key KOLs to join their latest campaign #pradaacronyms. Netizens were invited to decode each letter of "Prada" as a way to individually express their mood and interpret the brand, and celebrities like Zheng Shuang and Caixukun joined the movement in China. To create an interactive social experience, users can download WeChat and Douyin filters to make their own #pradaacronyms.

Figure 70- Prada Official DouYin Account

The campaign on Douyin stickers received 14,028 submissions and over 8 million video views, involving 20 celebrities, 19 KOLs, 13 media accounts, and 7 writers. Meanwhile, it generated millions of impressions on Weibo and became a case study for successful UGC (user-generated content).



Figure 71- #Pradacronyms. Source: JingDaily.com

4.4.5 KOLs and Influencers

Prada in the past rarely associated itself with a specific celebrity. Unlike other luxury fashion companies who immediately relied Chinese stars and influencers to gather attention around their brand.

The first communication project in which Prada involves a young Chinese star 2019, on the occasion of the presentation of the SS20 men's collection, Miuccia Prada asked the artist Cao Fei to create content with the musical star Cai Xukun.

This was a popular marketing tool that wanted to engage the country's youth, Prada has made this decision at a time when the brand urgently needs to rejuvenate its image so as to restore the growth in China.

On May 31, Prada's official Weibo account named Chinese singer and actor Cai Xukun. The announcement was made ahead of the brand's Men's Spring 2020 fashion show in Shanghai. By the time of this publication, Prada's post to introduce Cai Xukun, which came as several videos shot by Chinese artist Cai Fei, has garnered an average of 51,220 likes and 15,987

comments, surpassing the brand's other posts (Jing Daily 2019). Meanwhile, online reactions to the partnership are mostly positive, with lots of users showing excitement about it and praising Prada's choice.



Figure 72- Source: Pradagroup.com

Even some of the toughest fashion critics in China liked the Prada campaign, with most referring to Kun as the latest Prada spokesperson. Among the posts that generated more than 10K pageviews on WeChat, Chrison 作势 recognized Prada's effort to stay relevant with the current generation by including more diverse male stars in China (and around the world) like Kun (Jing Daily, 2020).

Having learned from these mixed reactions on social media, Prada started embracing a wider range of idols that now includes the actor Wei Daxun and the singer Cheng Xiao. The brand has successfully embedded both stars into its omnichannel marketing strategy that connects social content to physical experiences. In #PradaReNylon, an upcycling initiative Wei Daxun took the audience to a manufacturer in Southern China and explained how the brand's nylon is sourced. To complete the marketing loop, Prada Rong Zhai, a historic residence in Shanghai that the brand restored in 2017, hosted an exhibition and panel discussion for the series. Since it debuted, the relevant tag has been read over 50 million times on Weibo.

Conclusion and Recommendations

The luxury industry is evolving at a very fast pace. Digital Marketing has gained increasingly more importance in recent years due to the generational shift. The Chinese Market, in particular Millennials and Generation Z, is very demanding in terms of digital experiences, especially Millennials and Generation Z.

Although Prada's digital strategy was late compared to other luxury brands in the industry, the investments it made turned out to be a fundamental asset for the unexpected crisis in 2020. At a time when Chinese customers no longer had the opportunity to travel and shop abroad, Prada was ready to reach locally the young luxury buyers.

Prada has shown that it can reinvent itself in the digital age while staying coherent with its DNA. In 2020 Prada has undertaken numerous initiatives in the Chinese market, and it was able to capture the attention of young Chinese customers increasing the brand awareness. In the first half of 2020 the company recorded triple-digit growth for online sales, and China in particular has already exceeded the sales levels of 2019 leading the recovery of Prada due to Coronavirus.

Prada launched strategic online commercial initiatives to drive revenues and channel visibility through Capsule collection, Online Exclusive and Digital Popup. Besides, the special campaign for the local 520, the leverage of KOL and the new co-creative leadership gathered great attention on the brand.

Moreover, in recent years Prada has built an important digital infrastructure thanks to the enhancement of the brand owned website and a network of local partners. The brand started to cooperate with the most important Chinese digital platforms, which enabled Prada to have access to a greater customer traffic and to increase brand awareness.

In the coming years, Prada should focus on the development of localized, platform-customized content strategy, as Chinese Social Media and Digital Communication require a very high level of creativity and customization.

The effective management of the e-tailers network is crucial because Chinese platforms are very integrated ecosystems that could help the brand in the enhancement of its Omnichannel experience. The brand needs also to focus on Clienteling and Customer Experience, accompanying the customer at every stage of their experience and providing them with one-to-one services.

After the pandemic, luxury brands should reexamine the features of Chinese customers, in order to figure out a way to better understand and approach consumers through digital means

and to create a truly omnichannel shopping experience from a service and experience point of view.

Luxury fashion marketing has changed and is changing even more rapidly in China. In order to succeed in the future market, it is an organization duty to be forward-looking, to take the risk of experimenting with innovative trends and to understand the new needs and wants of digital customers.

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