

LUISS



Department of Business and Management

Chair of Advanced Marketing Management

“THE EFFECT OF COUNTRY OF ORIGIN ON
CONSUMER’S PURCHASE BEHAVIOUR:
A STUDY OF THE CHINESE FASHION INDUSTRY”

SUPERVISOR

Prof. Marco Francesco Mazzù

CO-SUPERVISOR

Prof. Alberto Festa

CANDIDATE

Ludovica Siciliano

ACADEMIC YEAR 2018/2019

*Ai miei amati nonni Gesumino e Mario,
i quali sono sicura che, per questo mio traguardo,
insieme gioiranno dal cielo.*

Ringraziamenti

Desidero ringraziare tutti coloro che mi sono stati vicini nella stesura della tesi con suggerimenti, critiche e osservazioni. A loro va la mia gratitudine.

Un grazie particolare va al Professor Marco Francesco Mazzù, mio relatore, per il suo grande supporto ed i suoi preziosi consigli. Da lui ho imparato che il lavoro sodo porta a grandi risultati e soddisfazioni.

Ringrazio il Professor Alberto Festa, in qualità di correlatore.

Ringrazio mio papà Giuseppe e mia mamma Rossana, per l'amore e l'educazione datimi e per i sacrifici affrontati. A loro devo la persona che sono oggi. Ringrazio mio fratello Gianluca Gesumino, mio compagno di vita e mio più grande orgoglio.

Ringrazio infine i nonni, gli zii e i cugini per l'incoraggiamento ed il sostegno e per essere, insieme a mia mamma, mio papà e mio fratello, la ricchezza più grande che ho.

INDEX

INTRODUCTION.....	8
 CHAPTER ONE	
The Country of Origin.....	11
1.1 The Country of Origin.....	11
1.1.1 The brand and the COO	11
1.1.1.1 Brand Identity	12
1.1.1.2 Brand Image, Product Image and Country Image	14
1.1.2 The Prism Effect	15
1.2 The Country of origin Effect	17
1.2.1 Literature review and COE evolution: the single-cue approach, the multi-cue approach, and the COE in the globalized era	18
1.2.1.1 The single-cue approach.....	19
1.2.1.2 The multi-cue approach.....	22
1.2.1.3 The Country of Origin Effect in the globalized era.....	26
1.2.2 Country of Design and Country of Manufacture as behavioural drivers in the luxury world	30
1.3 Country of Origin regulation.....	32
1.3.1 Italian and EU COO labelling regulation.....	32
1.3.2 Made in China Regulation	35
 CHAPTER TWO	
The Chinese economy	36
2.1 The Chinese economy	36
2.1.1 The historical and political context.....	37
2.1.2 Economic and demographic data	41
 CHAPTER THREE	
The Chinese luxury industry.....	47

3.1 The luxury industry	47
3.1.1 A definition of luxury.....	47
3.1.1.1 The four luxury’s drivers of change	54
3.1.2 The rise of the Chinese luxury industry	56
3.1.2.1 The rise of the Chinese middle class	59
3.2 The Chinese luxury consumer	63
3.2.1 The approach of the Chinese consumer to luxury.....	63
3.2.2 Today’s Chinese luxury consumer.....	66
3.2.2.1 Chinese luxury consumers generations	69
3.2.2.2 Online and offline channels	73
3.2.2.3 Luxury brand’s “special strategies”.....	79
3.3 The Chinese fashion industry	82
3.3.1 The Chinese fashion history.....	83
3.3.2 Chinese fashion, a new trend	86
3.3.3 The three generations of Chinese fashion designers	88
CHAPTER FOUR	
Empiric Research	93
4.1 The aim of the research	93
4.1.1 The selected brands	94
4.1.2 The research method	95
4.2 The analysis and the results	99
4.2.1 Descriptive analysis of the sample.....	99
4.2.2 Analysis of the results	105
CONCLUSIONS	140
APPENDIX I	143
Index of Designers’ Collections	143
APPENDIX II	153
Survey 1: Country of Origin Effect (Shanghai Tang)	154
Survey 2: Country of Origin Effect (Prada)	161

APPENDIX III	168
Index of figures and tables.....	169
BIBLIOGRAPHY	174
SITOGRAPHY	178
SUMMARY	180

INTRODUCTION

Over the last 40 years, China has successfully transformed itself from a poor and underdeveloped country into an economic powerhouse, imposing its economy on an international scale, managing to outperform advanced nations like Japan, Germany, France, and Italy. At this point in time, China's economy is second only to the United States, which has held the title of the first economy for nearly 150 years. Nevertheless, recent studies conducted by the World Bank predict shifts in economic trends that will further the growth of China's economy, implying the surpass of the US in the global ranking, making it the world's ultimate economy by 2030.

Despite this, China still can't escape the cliché that considers it as “the world's workshop” and that attributes to the country the bad reputation related to the low quality of its products. On the contrary, nowadays China is emerging among the most avantgarde countries and it is gaining relevance also in prestigious sectors like the luxury industry. In the last few years, the notorious *Made in China* mark is giving way to *Made by China*, because an always increasing part of goods is not only assembled in China as before, but it is also designed, developed and marketed in it. Nevertheless, Chinese fashion brands still have difficulties in expanding in the foreign market, since the image of their country of origin negatively affects the international consumer's purchase behaviour.

In particular, this thesis is intended to study, through a concrete analysis of the Country of Origin Effect, how Chinese high fashion brands are perceived by the foreign market, with a comparison with the Italian case. To achieve this goal, after having carried out a research on the topics in question, it was conducted an empirical study on a sample of 300 individuals coming from all over the world, to observe how their perception about the same product varies depending on whether the product is declared to be Chinese or Italian.

The present work is structured in four chapters.

The First Chapter is dedicated to the analysis of the Country of Origin Effect, that represents the influence that the country of origin has on consumers' perception of a product and, consequently, on their purchasing behavior. The COE for decades has been subject to several international marketing reviews. It was then examined the literature related to this topic, focusing on its evolution from the single-cue to the multi-cue approaches. Today we arrived at a new concept of country of origin, which attributes to globalization the main reason for the production processes fragmentation, implying the subdivision of the COE into five components. The COE does not only concern researchers, but it is significant also for companies that operate outside their national borders. Indeed, consumers use stereotypes to judge the quality of a product and the positive image of a particular country can act as a bias in the consumer's mind.

The Second Chapter studies the various political and historical phases that brought China to be the second greatest economic power in the world. Then, the attention is focused on the various stages of the economic development of the country, which began with the accession to power of Deng Xiaoping in 1978 and with his reforms and opening-up policies which resulted in a consistent expansion of productivity and a consequent improvement of the living conditions of the population. In conclusion, it is exposed the Chinese current economic situation.

The Third Chapter analyses the rise of the Chinese luxury industry as a consequence of the economic development which, thanks to the increase in spending power of the population, resulted in a great interest towards luxury goods. The chapter begins with the definition of luxury and a focus on the literature review related to this topic. Then, it was deepened the phenomenon of the emergence of the Chinese middle class, which is considered as the leader class in terms of luxury purchases. Consequently, it was studied the relationship between Chinese consumers and the luxury market, from a socio-cultural point of view. Indeed, in recent years, Chinese consumers have been transformed and, moving away from the traditional values of saving and parsimony, they adopted a more materialistic and consumerist lifestyle, becoming the protagonists

of the luxury industry and the principal driver in boosting the growth of the luxury expense. The main reason why they do it is because luxury is considered as a mean to demonstrate their personal achievements and elevate their position in society.

It was then studied the history of the Chinese fashion, which is a completely new phenomenon developed hand in hand with Chinese politics, born only in the 20th Century. They were analysed the phases of its development, from the counterfeiting age to the present day, where Chinese fashion brands want to redeem and are always more oriented towards excellence.

In conclusion, the Fourth Chapter is dedicated to the empiric analysis, which is not only intended to deepen the Country of Origin Effect in the luxury market, but it is aimed at finding the intersections of different variables, some related to luxury and some to the COO, to study their effects on consumer's behavior. Then, the ultimate purpose of the research is to see if there are consistent differences among the two cases taken in consideration related to two different countries of origin, that are China and Italy. In this regard, they were chosen two luxury fashion brands, the Chinese brand *Shanghai Tang* and the Italian brand *Prada*. The intent is to analyze if and how much the "Made in" mark results in a difference of perception in consumer's mind among China and Italy, even when the product considered is the same one.

CHAPTER ONE

The Country of Origin Effect

1.1 The Country of Origin

The *Country of Origin* (COO) is the territory, the area, the region associated with the design, the creation or the manufacture of a product or a service. In geographical terms, the word “country” does not only indicate the nation, but, more in general, the territorial area where the product is actually made. Furthermore, the term “Country of origin” does not refer only to the place where it is designed, created or manufactured, but in some cases, it is related even just to the country where the product is assembled or where the inputs of it come from, referring then to the singular parts that constitute it. In the next pages, this subject will be discussed in a much wider way, through the deepening of the regulation that governs such matter. Before that, it is proper to introduce some theoretical concepts that allow to be more aware of what it is exposed afterwards.

1.1.1 The brand and the COO

It is possible to consider also the country of origin of the brand, which is called *Country of Ownership*, that is the place where the brand comes from. The *American Marketing Association* defines the brand as “a name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from those of other sellers”¹. The importance of the brand is known by companies because it can ensure them a strong competitive advantage for two main reasons. Firstly, it constitutes a powerful entry barrier for competitors, and then because it is a source of high profits, due to the loyalty

¹ The American Marketing Association, “Marketing Definitions: A glossary of Marketing Terms”, Chicago, 1960

of the client². Given this, the Country of Origin plays a fundamental role in the purchase process of the consumer, because he associates certain values to the product linked to the nationality of the brand.

Before analysing how and why the Country of Origin is considered one of the main factors that induce the customer to a particular choice among all the alternatives available, it is useful to provide a few definitions to better understand this concept.

1.1.1.1 Brand Identity

In the marketing field there are two fundamental aspects that characterise a brand, that are *Brand Identity* and *Brand Image*.

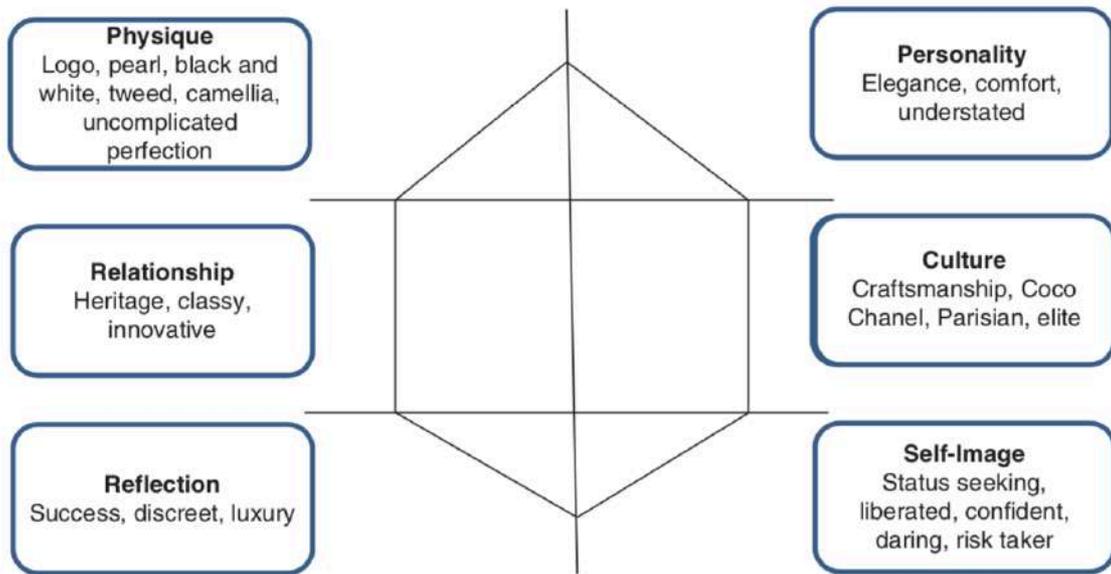
If *Brand Identity* regards the intent of the brand to build a good position in the market, because having a recognisable and strong identity is an essential trait of powerful and long-lasting brands, *Brand Image* is how the audience perceives the brand and its products.

Kapferer's Brand Identity Prism was introduced in 1996 to easily represent Brand Identity through six elements:

- *Physique*: the tangible attributes and the physical aspects;
- *Personality*: the brand is described with the typical human traits;
- *Culture*: products are expression of a specific culture, like a country, a territory or a know-how;
- *Relationship*: indicates the relationship between the brand and the customers
- *Self-image*: the image that the customer has of himself by using a product;
- *Reflection*: how customers that use the brand want to be seen by others.

² Lambin J., Market-driven Management, McGraw-Hill, 2008

Figure 1: Chanel's Brand Identity Prism



Source: A. Som, C. Blanckaert, *The Road To Luxury*, Wiley, 2015

Chanel is a luxury fashion brand, born in Paris in 1910. In *Figure 1* are represented the elements of the Kapferer's Brand Identity Prism for Chanel. The physique is related to the logo and the main symbols of the brand, that are the pearl, the camellia, and the black and white colours. The personality is synonym of elegance and comfort. The culture is linked to the country of origin and, more in particular, to Paris. It follows Coco Chanel's footprints and it is inspired by elite ideals. The relationship with the customer is fortified by a strong heritage that distinguishes Chanel but, at the same time, it is characterized by a continuous innovation. Moreover, their communication with their customers is very classy. About the self-image, Chanel's clients see themselves as members of the high society, with a high status. They believe they are liberated, confident, daring and risk-taker. The reflection regards customers characterized by success, discreet and luxury.

1.1.1.2 Brand Image, Product Image and Country Image

As mentioned before, *Brand Identity* and *Brand Image* are two different concepts.

The definition of image given by psychology is related to the multisensorial memory of information in the working memory. More specifically, the image is the set of opinions, ideas and impressions that an individual has referring to an object³. Such perceptions can be reflected or not in the qualifying attributes of a product, since they are linked to various factors that might be different from one person to another. Thus, *Brand image*, is the set of mental, cognitive and emotional representations that an individual has about a specific brand. Moreover, it is related to subjective perceptions, on the basis of knowledge, feelings and memories that evocates past experiences.

Brand Image has three different dimensions:

- The *perceived image*: is the way the target sees and perceives the brand;
- The *real image*: is the reality of the brand, including its strengths and weaknesses;
- The *desired image*: is how the brand desires to be perceived by the target.

The *Product image* can be defined as the specific idea that a consumer has about a product. In the same way, the *Brand image* and the *Country image* are the mental representations of a brand or a country respectively present in customers' memory.

The *Brand Image* and the *Country Image* can affect positively or negatively the product image, according to the perception of the consumer.

Several definitions were given to the image of a country. Desborde (1990) said that "country of origin image refers to the overall impression of a country present in a consumer's mind as conveyed by its culture, political system and level of economic and technological development". Martin and Eroglu (1993) defined it as "the total of all descriptive, inferential and informational beliefs one has about a particular country". Kotler et al. (1993) stated that it refers to "the sum of beliefs and impressions people

³ Kotler P., Keller K. L., Marketing Management, Pearson, 1997

hold about places. Images represent a simplification of a large number of associations and pieces of information connected with a place. They are a product of the mind trying to process and pick out essential information from huge amounts of data about a place. Allred et al. (1999) affirmed that the country image is “the perception or impression that organizations and consumers have about a country. This impression or perception of a country is based on the country’s economic condition, political structure, culture, conflict with other countries, labour conditions, and stand on environmental issues”.⁴

1.1.2 The Prism Effect

Dupuis and Prime identified four elements that characterize the way brands are perceived from the market, that are: customers, point of sale, the environment and the intern and extern relationship management. According to the authors, these factors are influenced by the culture and the traditions of the country of origin, therefore it is important to understand what effect they produce when set in different cultural contexts. Indeed, a certain product may be perceived differently depending on whether it is sold in the domestic or in a foreign country. Therefore, it is useful to analyse the Prism Effect⁵, which is the perception that the customers of a specific country have about the four factors mentioned above. In this sense, the perception can lead both to an advantaged or disadvantaged competitive position for the brand.

Thus, the prism effect can be considered as a reference point to analyse the elements that determine the success or the unsuccess of the internationalization process.

More specifically, the prism effect might determine a:

- Transparent effect: the product is perceived and is positioned in a similar way to what occurs in the internal market. In this case, the product is considered universal.

⁴ Journal of Business Research, 2009

⁵ Dupuis M., Prime N., 1996

- Amplifying effect: the product in the foreign country is perceived more favourably than the country of origin. Then it reaches higher class clients than the ones served in the origin market.
- Deforming effect: the product satisfies needs different from the ones of the country of origin, because the concept⁶ is interpreted in a diverse way from foreign customers.
- Reducing effect: the product in the foreign country is perceived as a lower level than in the country of origin.

On the basis of such effects, brands can choose if and how to adapt their products to the particular characteristics of the specific countries they want to dedicate their supply, or if leave it unchanged in the different markets.

The phenomenon just described is a consequence of the “Country of Origin Effect” (COE), which is the impact that the country of origin of a specific product has on the customer’s purchase behaviour. This theory has been object of several studies and it states that, in certain cases, the country of origin and the perception that the customer has of it are considered as substitutes of the information in the evaluation process of the characteristics of a particular product. Thus, the COE represents a mean throw which customers evaluate positively or negatively a product as well as a service, basing their judgement on its geographical origin.

⁶ The concept of a product is the guarantee about what needs it is meant to satisfy, for a particular group of customers.

1.2 The Country of origin Effect

With the term “*Country of Origin effect*” (COE) it is usual to indicate the influence that the country of origin has on consumers’ perception about a product and on their purchase behaviour.

The purchase behaviour is the decisional process that usually consists of five steps, which are the recognition of the need, the research of alternatives, the evaluation of the alternatives, the purchase choice and the post-purchase evaluation ⁷.

As a result of globalization, in a context where the market is becoming more and more interconnected and barrier-free, the second and the third steps are the most complicated ones. Indeed, customers are faced with the choice between several products very similar to each other, which basically satisfy the same need. On the other hand, they are constantly subject to information and stimuli coming from various sources that affect their preferences and the purchase decision as well. Some of these external factors can be the brand, the packaging, the price, the communication, the country of origin, and so on.

In this regard, John Watson formulated the Behaviourist approach in the early 20th Century⁸, in which he stated that the individual’s behaviour is a consequence of different interactions with the environment. The approach is based on observable stimulus-response behaviours. It means that the customer receives stimuli from the outside that generate a process of elaboration of the information collected around, which leads him to a decision. The specific characteristics that the individual associates to a particular brand influence the perception that they have about the products of the brand itself. For instance, a celebrity as testimonial or the country of origin might persuade the customer to buy a certain product or not.

⁷ Kotler P., Marketing Management, Pearson, 2012

⁸ Behaviourism is a psychological approach based on the belief that the explicit behaviour is the only analysable aspect of the human psyche.

Thereby, this is a demonstration of the fact that individuals are not rational in their choices, but they depend on external factors that help them to make a choice among all the possible alternatives that they have. Having said that, customers come to a decision not only on the basis of intrinsic characteristics, which are not always easy to notice, but mainly on the basis of extrinsic properties, like appealing packaging, effective brand name or associations with the country of origin. It is right to point out that the correlations with the country of origin can be positive or negative in virtue of the culture, religion, politics and other macroeconomic factors. For decades, international marketing is studying the impact that the country of origin has on customers' purchase choices. Especially since when companies look for new profit opportunities outside their national boundaries, as a consequence of a globalized market, this topic became the subject of much debate.

1.2.1 Literature review and COE evolution: the single-cue approach, the multi-cue approach, and the COE in the globalized era

All the studies conducted on the *Country of Origin Effect* can be classified in three historical periods:

- From 1965 to 1982 the phenomenon is characterized by a great innovation even if the methodological approach is simple and the Country of Origin Effect is analysed without considering other factors. For this reason, it is called *single-cue* approach, and due to its methodological limitation, it was replaced from the '80s onwards, after being criticized by Bilkey and Nes (1982).
- From 1982 to 1992 the approach is deepened and the methodology is refined. The Country of Origin Effect is not considered anymore as the only variable that influences the customer's purchase behaviour, but many other factors are taken into account and associated with it. For instance, the brand, the price and the quality of the product were discovered to have a strong impact on customer's choices. For this reason, it is called *multi-cue* approach.

- From 1993 to the present day the Country of Origin Effect becomes the subject of new studies and researches that divide it into different components and reformulate its original meaning. The main driver of this change is globalization, which creates new “hybrid” products that come from different places around the globe. Thus, it is necessary to split the COO into five components: Country of Design, Country of Manufacture, Country of Assembly, Country of Parts and Country of Brand.

In the pages that follow are examined in more depth the three approaches just mentioned.

1.2.1.1 The single-cue approach

Until the ‘50s, it was assumed that the variables that used to influence the customer’s perception about a product and his purchase choices were focused solely on extrinsic characteristics. Among them, there were quality, price, brand, Country of Origin, etc.

The first reference related to the importance of the nationality of origin of a product regarding the purchase behaviour dates back to 1962, when Ditcher publishes an article on the *Harvard Business Review* in which he points out that the Country of Origin has a positive influence in equal measure, if not greater, than the other marketing tools.

The first study related to the Country of Origin Effect was conducted by Schooler in 1965. He demonstrated that the name of the country of origin had a strong influence on the perception of a product and on the customer’s purchase choice. Specifically, Schooler asked a group of students from Guatemala to evaluate the quality of some products, identical to each other, but with different, and fictitious, provenience label. It turned out that they gave positive feedbacks only to the products coming from their own country and from Mexico, while they evaluated negatively those coming from El Salvador and Costa Rica. The researcher deduced that the reason for this difference of opinion was due to the hostility between Guatemala and the neighbouring countries.

Schooler's study has paved the way for several future researches. The following investigations have been focused on the demonstration of the fact that consumers have a prejudice about imported products and that there is a positive correlation between the level of economic development of a country and the evaluation of it⁹.

In 1966 Reiersen asked a sample of 155 American students their opinion about some goods coming from USA, Japan, Germany, France, Italy, United Kingdom, Denmark, Sweden, Belgium and Canada. As a result, national products were the favoured ones. The explanation that Reiersen gave was related to the presence of stereotypes in customers' belief when they find themselves having to evaluate foreign productions. Anyway, in 1967 he conducted a second study in which he stated that most of the times such stereotypes can be modified with a proper marketing campaign.

One of the main contributors at that time was Akira Nagashima (1970), who, through the semantic differential scale¹⁰, compared the various attitudes of the Japanese and American consumers towards national and imported goods. The result of the research was that there was a large propensity for goods coming from developed countries and with a high specialisation in a specific category¹¹. Nagashima considers the "Made in" as "the picture, the reputation, the stereotype that businessmen and consumers attach to products of a specific country"¹². Moreover, he states that the "Made in" origin mark is

⁹ Schooler and Sunoo (1969); Gaedeke (1973)

¹⁰ Known as Osgood's Semantic Differential, it is a method aimed at the measurement of the attitudes. It consists in the formulation of semantic scales based on bipolar adjectives, to which are attributed specific values useful for the measurement of the individual positioning and that in most of the cases express also negative values. The result of these analysis makes possible to measure the consumers' attitudes towards a particular brand. In particular, about the performance, referring to the functional characteristics of a product, and about those symbolic values that are associated to the brand image.

¹¹ Nagashima A., "A comparison of Japanese and US attitudes toward foreign products", *Journal of Marketing*, 1970

¹² *Journal of Marketing*, 1970

naturally influenced by the availability and familiarity of the product of a country and the stereotype of such country.

Thus, the level of development of a country can considerably affect the consumer's perception, especially when products are not familiar, because coming from foreign countries. In this case, the country image has a *halo effect*¹³ on costumers¹⁴. Therefore, a positive country image allows brands to enter new markets different from the one of origin. To have success in the international market it is important to consider what kind of product it is the case to launch, because consumers tend to be prejudiced towards certain countries in relation to particular categories of goods. This means that consumers will perceive as more reliable an Italian clothing brand rather than a Spanish one. In the same way, in the customers' mind it will make more sense for a German brand to produce cars rather than shoes.

As mentioned before, the application of this approach comes to an end in 1982 with the studies of Bilkey and Nes. They came to the conclusion that, even though the stereotypes towards a country can change, the preference for the products made in the home country remains constant.

The researchers of this period found out that *single-cue* analysis has many weaknesses points. Firstly, it tends to overestimate the COO effects, being it the only information that the respondents have to base their evaluation on. By including in the model a more consisted number of variables, it is possible to obtain a more realistic result of the Country of Origin Effect¹⁵. For instance, product's related variables like brand, price or quality, as well as demographic characteristics or the ethnocentrism level, can have a

¹³ The *halo effect* is a cognitive bias for which the perception of an attribute is influenced by the perception of one or more other attributes of the object in question. In this case, the country image influences the attributes of the product.

¹⁴ Ahmed Z. U., Johnson J. P., Chew Pei Ling, Tan Wai Fang, Ang Kah Hui, International Marketing Review, 2002

¹⁵ Bilkey and Nes, 1982; Peterson and Jolibert, 1995; Verlegh and Steenkamp, 1999

strong influence on the consumers' purchase behaviour¹⁶. Other limits of this approach are linked to the fact that most of the samples considered come from the American reality, so they inevitably lack a cross-cultural analysis. Moreover, they were almost always composed of students or of specific categories of people, rather than mixed groups.

The recognition of such limits generated a new area of studies that considers a multitude of attributes to include in the research methods, which is the *multi-cue* approach.

1.2.1.2 The multi-cue approach

Adopting a *multi-cue* approach means analysing the effect that the Country of Origin has on the evaluation of the product, considering also other influential variables. The more the variables are, the more the effect that the Country of Origin has on the good is moderate¹⁷.

Consumers evaluate a product according to a myriad of information, categorized in *intrinsic cues* and *extrinsic cues*. Among the intrinsic ones there are quality, design, shape, performance and taste; among the extrinsic ones there are brand name, price, promotion and guarantee. As mentioned before, the Country of Origin is part of the extrinsic cues. Usually, these ones have a decisional role in the customer's purchase choice.

The first confirmation of this theory can be found in Johansson et al.'s study who, in 1985, considered thirteen different attributes of the product (a car) and they stated that the country of origin didn't have a particular influence in the overall evaluation.

¹⁶ Balboni, 2011; Brijs, 2011; Sharma, 2011

¹⁷ Johansson et al, 1985

In 1988, Etterson et al. did a similar research. Through a conjoint analysis¹⁸ he put in relation the answers obtained from a survey in which consumers were asked to say their preferences about six distinct qualitative variables referring to some clothes before and after the launch of a promotional campaign on “Made in USA”. Even in this case, the Country of Origin resulted less influential compared to the price and the other qualitative variables.

A significant contribution that quantifies the distinction between *single-cue* and *multi-cue* approaches is the meta-analysis¹⁹ conducted by Peterson and Jolibert in 1995. Through the study of 52 different publications about the Country of Origin Effect, they demonstrated that in the *single-cue* studies the COE affects for 30% the consumer’s perceived quality about a product, while in the *multi-cue* studies it affects for the 16%. But even more interesting is the result obtained considering the impact that the COE has on the consumer’s purchase intention, which is reduced from 19% in the *single-cue* approach to 3% in the *multi-cue* approach, when also other attributes are taken into account.

If on one hand the Country of Origin Effect is reduced by this new approach, on the other hand there is a new attempt to analyse the phenomenon more in depth, trying to break it down into its components and to put it in relation with the variables linked to the product, to the consumer and to the economic environment.

In 1989, Obermiller and Spangenberg reckon that the relation between the Country of Origin and the consumers’ behaviour leads back to three main components:

- The *cognitive component*, according to which the Country of Origin image acts as a quality indicator for the product and its attributes (e.g. reliability, resistance, design, etc.). When the consumer does not have detailed qualitative information about a

¹⁸ A conjoint analysis is a survey-based research technique in the marketing field, which allows to determine the value that the market gives to each attribute of a product.

¹⁹ A meta-analysis is a statistical study that elaborates and combines the results obtained from other studies.

good, it takes place a heuristic process²⁰ through which he gives a subjective evaluation, covering such lack with what he knows about the COO, as a whole or in the sector concerned. More specifically, Han (1989) stated that the information regarding the product's Country of Origin can cause two effects: the *halo construct* and the *summary construct*. As already mentioned, the halo construct occurs when the consumer does not have any direct experience with the goods coming from a particular country, but he has only a generic image about it, like economic, politic or cultural information, on which he bases his purchase evaluations on. The summary construct, instead, is the result of past experiences with the products of that country that allows the consumer to give a personal evaluation.

- The *affective component*, when the Country of Origin of a product evokes an affective or symbolic value for the customer, for instance when the country image is associated to a particular identity or social status.
- The *normative component*, where the purchase is related to the will of the consumer to support the economy of a specific country, depending if he shares the same ideologies, policy, etc.

In 1999, Verlegh and Steenkamp highlight the importance of the affective and normative components, affirming that the COO is not a cognitive variable, merely related to the quality of the product, but it has to be analysed together with other factors such as emotions, identity, social status and consumers' memories.

In 2010, Valdani and Bertoli formulate a classification that collect the variables according to different aspects and they are:

²⁰ A heuristic process is a solving problem approach that relies on the intuition or on the temporary status of the circumstances, which does not guarantee the optimal solution, but that is sufficient to reach an immediate purpose. It is the opposite of the algorithmic process.

- The *consumer*, regarding the demographic and cultural characteristics of the purchaser, such as age, gender, income, educational level, ethnocentrism level, etc. The ethnocentrism level refers to the patriotic and ethnocentric behaviours²¹. Elliot and Cameron (1998) believe that foreign products, to be successful, have to be cheaper or of better quality. Surely, if a brand is not able to succeed abroad, it's preferable to omit the Country of Origin.

A multitude of studies agree that there is a relation between the income and the educational levels and the preference towards foreign productions, while considering the age such relation is inverted. This can be justified with the higher propensity of young, wealthy and educated people to interact with cultures different from their own²². Other studies demonstrated that the COE becomes less important with the increase of the involvement and the interest level since it's given more relevance to other attributes of the product²³. Such a theory does not find unanimous consensus. Usunier (2002) states that the COE gains importance when the customer, sufficiently involved in the purchase, decides to spend time in the evaluation of the product and of its alternatives. Concerning the risk perceived during the purchase, instead, it is believed that consumers perceive a lower risk when they buy products coming from their own country²⁴. Finally, the COE has different roles according to the stage of the Consumer Decision Journey. The most important phase is the evaluation of the product, which tends to decrease in the subsequent stages.

- The *product* and its *country of origin*, which are discussed in many studies. The country image can influence the purchase intention of a foreign consumer independently from the quality of a product²⁵. Talking about the country image, some researches revealed the existence of a "hierarchy among countries" in consumers' minds, according to which they base their evaluations on. Such a

²¹ Han, 1988; Shimp and Sharma, 1987; Balabanis and Diamantopoulos, 2004

²² Shimp and Sharma, 1987; Smith, 1993; Bailey and Pineres, 1997; Ahmed and d'Astorus, 2004

²³ Ahmed and d'Astous, 1993

²⁴ Lumpkin et al., 1985

²⁵ Wand and Lamb, 1983

hierarchy is based on the countries' development level²⁶. During the 90s, for example, Americans' consumers used to prefer their own products, followed by the ones coming from Germany and Japan. Then there were North Europe, South Europe, the Pacific coast countries, East Europe, South America and finally Africa²⁷. But such hierarchy can change considerably over time²⁸. Furthermore, the effect is more accentuated when it is referred to products associated to a country with a particular production tradition, for instance fashion in Italy, fragrances in France or chocolate in Switzerland²⁹. Cattin et al. (1982) showed that American consumers prefer German machines, since Germany has a good reputation when it comes to industrial goods. Many other authors demonstrated that consumers don't perceive in the same way all the products coming from a particular country, but it could be appreciated for some kind of goods and not for others. Roth and Romeo believe that the country's image is determined by four dimensions, that are innovation, design, prestige and workmanship.

- The *brand*, which effect is considered by some authors³⁰ even more important than the Country of Origin Effect. Researchers found out that the brand can evocate in consumers' minds strong associations with the product, and, for this reason, it has been introduced the new concept of *brand origin*³¹.

1.2.1.3 The Country of Origin Effect in the globalized era

In the globalized context that distinguishes the current reality, companies have shown a tendency to split the production process, placing some phases of the value chain in

²⁶ Manrai et al., 1998; Ahmed and d'Astorus, 2004

²⁷ Papadopoulos and Heslop, 1993

²⁸ Bilkey and Nes, 1982

²⁹ Baumgartner and Jolibert, 1977; Roth and Romeo, 1992

³⁰ Ahmed et al., 1994

³¹ Thakor and Kohli, 1996

different geographic areas outside the original national borders where the brands come from. Their purpose is to reduce costs by maximizing the advantages deriving from the multi-localization. As a consequence, the origin of a product might be always more ambiguous and difficult to define³², since companies offer to customers a set of hybrid products. The recent literature examines such issue according to two different prospects.

The first one, identifiable as the “*association strategy*”, considers the associations made by customers about the product or service, the brand and the country of origin. The physical place where the product was designed, manufactured or assembled loses its relevance, because what really matters is the perception of the country of origin that is in the customers’ mind (*Country of Association*)³³. In accordance with this approach, it’s not important focusing on the exact place of provenance of the brand because it’s very likely that consumers are not fully aware of it, so that they base their choices on their personal beliefs, deriving from their own direct or indirect experiences with the product or the brand. As a result, often customers’ perceptions do not coincide with reality, due to many reasons such as lack of information about the product, ignorance, disinterest, etc. Therefore, brands can take advantage from this lack of awareness, creating specific promotional policies with the aim of strengthening the association between high quality products and the images of brand and country of origin³⁴. For this purpose, brands can use many means, including the “Made in” label. Moreover, companies can include in their name suggestions about their geographic provenance. They can also adopt images or symbols that remind to a particular country, for example the colours or the shapes of the flags. Furthermore, they can pick their brand’s name of a language that recalls the country of origin. Some effects of the country of origin exist spontaneously in customer’s mind without any effort from brands, thanks to the

³² Phau I., Prendergast G., “Will a country of origin be relegated to obscurity in the global reality?”, Globalization of Business Conference, Gazimagusa, 1998

³³ Dmitrovic T., Vida I., “Consumer behavior induced by product nationality; the evolution of the field and its theoretical antecedents”, Transformation in Business and Economics, 2010

³⁴ Clarke I., Owens M., Ford J. B., “Integrating country of origin into global marketing strategy”, International Marketing Review, 2001

association of a particular goods category with a country, for instance pasta for Italy, sushi for Japan or paella for Spain.

In the second prospect, the so-called “*deconstruction strategy*”, it happens the right opposite of what seen so far. Indeed, it decomposes the origin of a product in its singular components, which are:

- COD (*Country of Design*): is the country where the product is designed and projected;
- COM (*Country of Manufacture*): is the country where the production takes place;
- COA (*Country of Assembly*): is the country of the final assembly;
- COP (*Country of Parts*): is the country where the parts of the product come from;
- COB (*Country of Brand*): is the country of origin of the brand.

Thus, the *deconstruction strategy* highlights the importance of the effects of the country of origin, such as the places of design, fabrication, assembly, origin of the parts and branding, in the evaluation of the product during the purchase process, and it shows several interesting results.

The increasing supply of bi-national products might cause a discordance in customers' mind trying to conciliate the conflicting perceptions regarding the different country of origin of the various production phases³⁵.

For instance, it was found that the correspondence between COM and COB makes the purchaser more favourable towards the product, even when it has a strong COB image and a strong COM image, but the two countries don't correspond (for example a Japanese branded item produced in Italy). In this case, the COM information doesn't imply any influence in the evaluation of the brand. Instead, when there is no correspondence between COM and COB it might lead to a relatively negative attitude towards the brand. More specifically, in the case where a product has a strong COB image but a weak COM image (for example a Japanese branded item produced in

³⁵ Phau and Prendergast, 2000

Mexico), COM causes a negative impact on the perception of the weaker brand but not on the perception of the stronger brand. By way of illustration, the weaker brand could be Sanyo and the stronger one could be Sony. Therefore, the incongruity can be resolved by way of the stronger brand (Sony) without particular difficulties, so that the latter doesn't come out with a damaged reputation. On the contrary, when a product has both a weak COM image and a weak COB image, this indicates a modest incongruity condition which is complicated to resolve. In fact, customers wouldn't be able to comprehend the reason why a brand from a weak country would decide to be manufactured in another weak country. Similarly, the same happens when a product has a weak COB image but is manufactured in a country with a strong COM image. In such situation, customers wouldn't be able to comprehend the sense of a brand with a weak COB image producing in a country with a strong COM image³⁶.

However, there is no unanimous opinion about which one of the five components is the most relevant in customers' mind. For instance, Johansson et al. (1985) attaches the greatest importance to the COB. Moreover, Chao³⁷ states that when the COP and the COA coincide, the effects are greater. In addition, Papadopoulos and Heslop (1993) deepen concepts such as the Product Country Image (PCI), which emphasizes the importance of a country's reputation about a specific goods category. Tse and Lee (1993), instead, believe that when the COM and the COO don't coincide and the COM is a country with a low brand equity, the effects are negative; on the contrary, if the COM is an excellent country the effects of the COO are positive. Verlegh et al. (1999) demonstrated instead that the intensity of the COE is not that different between products were the COD≠COA and products were COD=COA, since consumers don't know this information during the purchase, but they entrust themselves to the brand image.

³⁶ Carvalho S. W., Samu S., Sivaramakrishnan S., "The Effect of Country-Related Brand Associations and Product Attributes on Attitude toward Unfamiliar Foreign Brands: A Schema Congruity Perspective", *Journal of International Consumer Marketing*, 2011

³⁷ Chao P., "The moderating effects of Country of Assembly, Country of Parts and Country of Design on Hybrid Product Evaluations", *Journal of Advertising*, 2001

1.2.2 Country of Design and Country of Manufacture as behavioural drivers in the luxury world

Among the five COE's components, it is now necessary to focus on the first two, that are the Country of Design and the Country of Manufacture, given that they play a fundamental role in the luxury field. In fact, COD and COM have a considerable influence on the quality perceived by the customer³⁸.

Design is the sum of characteristics that impact the way a product looks, feels and functions to a consumer³⁹. It provides functional and aesthetic advantages and attracts both the rational and emotional aspects⁴⁰. Marketers know very well that design is the differentiation variable to customers' eyes, that makes a brand recognizable among all the others. This is why it acquires great importance in luxury, even because the design is the answer to the *Need for Uniqueness* that every individual searches for. Thus, it is a fundamental element, that makes exclusive and unique the customer experience.

Many studies have demonstrated that the effect COD has a greater influence on product perception rather than other factors, for example the COM. As a matter of fact, in the luxury industry the country where a product is manufactured has a lower impact, since consumers usually perceive the brand according to its name and to its Country of Brand Origin (COB). Indeed, Italian or French luxury brands are commonly associated with the concepts of sophistication and elegance.

To demonstrate this theory, Aiello et al. (2008) has examined young consumers' perceptions about the COO. He asked them to evaluate the importance of COD and COM as components of a product's COO, through a cross-cultural analysis. As it is

³⁸ Hamzaoui L., Merunka D., "The impact of Country of Design and Country of Manufacture on consumer perceptions of bi-national product's quality: an empirical model based on the concept of fit", *Journal of Consumer Marketing*, 2006

³⁹ Kotler P., Keller K. L., *Marketing Management*, Pearson, 15e, 2016

⁴⁰ Chitturi R., Raghunathan R., Mahajan V., "Delight by Design: The Role of Hedonic versus Utilitarian Benefits", *Journal of Marketing* 72, 2008

possible to see in Table 1, most of majority respondents' opinion about a product's COO is related to both the country in which it was designed and the country where it was manufactured. Anyway, considering the cross-cultural analysis, the results change according to the country examined. For instance, 71,87% of young German people believe that the COO is due to the COM/A, while 63,61% of young Japanese and 60,59% of young Italian assume that the most important component is the COD. The rest of the countries are confident that the COO is the result of a proportioned combination between COD and COM⁴¹.

Table 1: The COO concept according to young people

Research Group	COD	COM/A	Total COO
Italy	60.59	39.41	100.00
France	51.75	48.25	100.00
Germany	28.13	71.87	100.00
Russia	52.83	47.17	100.00
India	53.57	46.43	100.00
Japan	63.61	36.39	100.00
USA – Mass	58.81	41.19	100.00
USA – Florida	48.95	51.05	100.00
China – HK	46.00	54.00	100.00
Total	51.58	48.42	100.00

Source: G. Aiello et al., “An international perspective on luxury brand and Country of Origin Effect”, JBM 16.5-6, Paper 165,10, 2008

⁴¹ Aiello G. et al., “An international perspective on luxury brand and Country of Origin Effect”, JBM 16.5-6, Paper 165,10, 2008

Many customers don't really care where a luxury brand is manufactured or where its production materials come from. If the brand is associated to a country considered superior in a particular sector, as a consequence, its products are perceived superior as well. Thus, brands adopt specific branding and marketing strategies, in order to take advantage of this aspect. Emblematic example is related to Chinese piano manufacturers who want to expand their activity in international markets⁴².

Depending on how the COO is perceived, the producers have different branding options:

- If COO is positive, utilize own brands
- If COO is neutral, utilize own brands or Western sounding names
- If COO is slightly negative, utilize acquired brands
- If COO is negative, sell under the vendor's brand

1.3 Country of Origin regulation

The tendency of brands to optimize the activities of the value chain by moving the production process in foreign countries is a process that most of the companies are unwilling to expose. That's why this is a matter that received a lot of attention, especially in the last decades since when the phenomenon began to spread vastly and companies decided to shift their production processes towards emerging countries. Consequently nations, in an attempt to prevent the occultation of information concerning the production process, introduced specific laws in order to prevent the spreading of false data regarding a product's country of origin.

1.3.1 Italian and EU COO labelling regulation

⁴² Fan Y., "Country of Origin, branding strategy and internationalization: the case of Chinese piano companies", Journal of Chinese Economic and Business Studies, 2008

This theme has been subject of much debate and in Italy it is regulated by the Union Customs Code⁴³ (Regulation EU No 952/2013 of the European Parliament and of the Council of 9 October 2013)⁴⁴. Italian brands have two antithetical needs about the discipline which lays down the “Made in” origin mark. Those companies that tend to delocalize their production in foreign countries push for a permissive and tolerant regulation. On the contrary, who produces entirely in Italy, often at a higher cost, asks for strict and rigorous rules.

The discipline of the “Made in” origin mark is based on a European Union normative, which finds a compromise between the two needs just mentioned, and an Italian normative, which is dependent on the EU one and which gives an extra premium to those brands that produce entirely in Italy⁴⁵.

The “Made in” origin mark can be affixed on those products that, for customs purposes, it is necessary to indicate the Italian origin.

The article 60 of the Union Customs Code states that:

- Goods which are totally obtained in one single country or territory are considered originating in such country or territory;
- Goods the production of which involves two or more countries or territories are considered originating in the country or territory where they underwent the last economically justified and substantial working or transformation, that resulted in the realization of a new product or that represented a fundamental phase in the production process.

The standard provides indications that might be misunderstood, so that the interpretation given by the European Court of Justice is as follows:

⁴³ Official Journal of the European Union, L 269/1

⁴⁴ Regulation EU No 952/2013; Delegated Regulation EU No 2446/2015; Implementing Regulation EU No 2447/2015; Delegated Regulation EU No 341/2016

⁴⁵ Decree-Law No 135/09 converted in Law No 166/09

- The last substantial working or transformation takes place when the resulting product has specific properties and a composition that it didn't have before the working or transformation;
- Conservation activities or a mere change of the exterior aspect of the product, such as changes in wrapping, packages or attachments of labels or distinguishing marks, are not enough for the product to be attributed to the place where they were effectuated.

In Italy, for industrial and craft products it is allowed to affix the "Made in" origin mark if:

- All the parts are manufactured abroad, but then successively assembled in Italy to obtain the final product;
- All the parts are manufactured in Italy and then successively assembled abroad, but what was manufactured in Italy doesn't have to undergo a substantial working or transformation.

The Law No 55/2010⁴⁶ of the *Gazzetta Ufficiale* refers to the origin determination criteria for textile, leather and footwear products in Italy. According to the standard, the "Made in Italy" origin mark is supposed to be affixed only to those finished goods whose at least two of their production phases take place within the national borders, and, at the same time, it is verified the traceability for the remaining phases.

However, such Law is currently inapplicable, since the European Union didn't approve the Italian implementing decrees. In fact, the two phases that need to take place in Italy to ensure the "Made in" origin mark don't ensure a "substantial working or transformation" requested by the Union Customs Code.

⁴⁶ La Gazzetta Ufficiale della Repubblica Italiana

1.3.2 Made in China Regulation

The Decree of the State Council of the People's Republic of China N. 416 regulates the PRC's origin of imported and exported goods, effectively implementing all trade measures and promoting the development of foreign trade.⁴⁷

The Chinese law, similarly to the EU, provides that a country is considered as the origin of a particular good if this good has been totally obtained in such country. In the case of more than one country is involved in the production process of that good, its country of origin is the one where the last substantial transformation took place.

In determining if the good is totally realized in a country, the following actions don't need to be considered:

- actions that guarantee the preservation of the good related to transport or storage purposes;
- actions that facilitate the shipment of the good;
- actions related to the packaging of the good for sale purposes⁴⁸.

⁴⁷ Promulgated and became effective on 1st January 2005

⁴⁸ <http://english.customs.gov.cn>

CHAPTER TWO

The Chinese economy

2.1 The Chinese economy

China is a country that is becoming more and more influent in today's world and the main reason of its progress is surely linked to an industrial nature. Since when it started to be more open towards the rest of the globe, China became the "world's workshop", with the secondary sector accounting for around 50% of GDP. This expression may remind to a negative interpretation, considering China as a laboratory of mass production of goods characterized by a low added value. But over time and especially nowadays, the Asian country demonstrated the right opposite. From a subcontractor country of foreign mandates, China is becoming the protagonist of the whole process. The famous *Made in China* is giving way to the *Made by China*. Indeed, an always increasing part of goods sold worldwide is not only assembled in China as before, but it is also designed, developed and marketed in it.

This is the consequence of a new industrialization, that is bringing to the emergence of new brands, one hundred percent Chinese. What has to be noticed is that many of these companies acquired and are acquiring a lot of power, becoming big and well established, until entering the world ranking.

However, to better understand these new Chinese giants that today remodel the world industry, it is essential to consider that they come from a different and very particular background. Deriving from a socialist market economy, Chinese brands are subject to various conditions. Most of them are State-owned, others depend from local authorities and some others are private. Anyway, all of them have in common the fact that they are under the control of the Chinese Communist Party.

Moreover, China's economic expansion, which began with the accession to power of Deng Xiaoping⁴⁹, resulted in a consistent development of productivity and a consequent improvement of the living conditions of the population, especially of the middle class, making possible the creation of the adequate prerequisites so that also the Chinese luxury market benefited from this context. The old political climate, focused on principles like egalitarianism, the contrast to social hierarchies and capitalism, implying, therefore, a very low degree of materialism, has gradually left space to a new and opposite ideology, making the consumption of luxury goods spread. An evidence of Chinese tradition has always been collectivism, but these days individualism is growing and it is characterizing the Chinese consumer more and more.

In analysing the dynamics that impact the Chinese consumer's purchases, it is necessary to take into account the history of this country and to focus on the considerable influence exerted by politics and cultural factors.

2.1.1 The historical and political context

To understand how Chinese economy reached this point here today, positioning itself in second place in the ranking of the premier economic powers in the world right after the United States, it is interesting and necessary to briefly retrace the various stages that, in recent history, characterized the political life of People's Republic of China (PRC).

The People's Republic of China was founded of the 1st of October 1949, after the civil war between Mao Zedong's communists and Jiang Jieshi's nationalists, which ended with the latter's defeat.

With the Maoist epoch, which covers a period of about thirty years from 1949 to 1976, the interruption of relations between Moscow and Beijing, which occurred in 1960, represented the particular event that from then on marked the Chinese foreign policy.

⁴⁹ Deng Xiaoping was China's leader from 1978 to 1992.

Before 1960, international relations were strongly influenced by the political ideology regarding the vision of a world divided in Socialists and Imperialists prevailed, and where there couldn't exist intermediate solutions. Thus, determination was essential in the choice of the allies. Mao referred to this concept through his statement that indicated to be on Imperialism's side or Socialism's side, because being in the middle was impossible since a third way doesn't exist⁵⁰. People's Republic of China was then induced to side with the URSS⁵¹, taking place to the fight against Imperialism. Moreover, through Mao and other Chinese leaders' declarations, it emerges the adoption of an anti-American ideology.

After 1960, because of a vision promoting less tension in the relationships with the USA, it became unavoidable the suspension of diplomatic relations with the Soviet Union. Although China remained substantially isolated, with this choice it paved the way for a relatively free foreign policy.

With the death of Mao, happened in 1976, China's domestic and international policy went through substantial changes. The lead of the country was taken by a leadership headed by Deng Xiaoping⁵², who abandoned the ideologic radicalism, promoting economic development. The political commitment aimed at the economic prosperity represented the characterizing element of this new epoque. As a consequence, in the internal context it determined the implementation of necessary economic reforms, while at an international level it meant the opening towards the world and the safeguarding of peace.

⁵⁰ Samarani, 2008

⁵¹ Zhou, 1989

⁵² Deng Xiaoping (m. 1904-1997) was a Chinese politician, revolutionary and military. He was an executive with many roles in the Chinese Communist Party during Mao's era, becoming China's leader from 1978 to 1992. He was the pioneer of the Chinese economic reform and under his control China became one of the fastest growing economies.

The openness to the exterior is one of the main principles of Deng Xiaoping's policy⁵³ and it is designed to absorb capitals and technical and scientific knowledge from the outside world. In light of this, follow the détente of relations with the USA (1979) and the establishment in China of *Special Economic Zones*⁵⁴, where foreign entrepreneurs can benefit from very favourable tax regimes. The increase of relationships and openings in the field of international policy aimed at the abolition of the status of isolation and backwardness determined the transformation of the People's Republic of China in an economic power and consequently the entry into the *World Trade Organization* (WTO)⁵⁶, on December 2001.

Further important manoeuvres are implemented from 2012 by Xi Jinping, who is the current leader of PRC. He focuses his policy on the *Chinese Dream*, which refers to “*the great rejuvenation of the Chinese nation*”. This results in the will to make China a modern Socialist country, characterized by prosperity, strength, democracy and culturally advanced. The realization of such prospects can't be materialized in a country characterized by a passive attitude in the international context. The rebirth can be achieved adopting a more assertive and proactive foreign policy, starting to take responsibility for some duties at a worldwide level, such as the building of an ecological civilization, the defence and the development of an open global economy, the promotion of the win-win cooperation⁵⁷ and of multilateral relations⁵⁸. The growing support for

⁵³ The “Open Door Policy”, initiated by Deng Xiaoping in 1978

⁵⁴ Zhang, 2010

⁵⁵ The Special Economic Zones are geographic regions established to attract foreign investments through customs and fiscal incentives, where there is a specific economic regulation, different from the one of the nations to which they belong.

⁵⁶ The *World Trade Organization* is based in Geneva and it represents the most important institution for multilateral international trade relations. Its tasks are not only related to the trade of goods, but also to the services and to the commercial aspects of intellectual ownership.

⁵⁷ Win-win situation is based on cooperation and mutual benefits. It means that both parties satisfy their interests, and there is no participant that comes up damaged.

⁵⁸ Xi Jinping, 2016

UN's *Peace-Keeping Missions*⁵⁹, the countless travels abroad of Xi Jinping, the institution of the *Asian Infrastructure Investment Bank*⁶⁰, the launch of the *One Belt One Road Initiative*⁶¹ are useful initiatives to the achievement of the set objectives.

Through the *One Belt One Road Initiative*, for instance, the structural interconnection between China and the other nations concerned is strengthening more and more and the trade is increasing, along with the mobility of capital flows. The creation of big infrastructures, as well as the active commercial exchanges that derive from these reforms give a strong impulse to the economic development of the countries involved.

Therefore, all these reforms determined a significant socio-economic development for China and they helped to reach the position of economic power that it has today, so much that China's evolution had a strong impact also on the world's equilibrium.

⁵⁹ UN's Peace-Keeping Missions provide security and support to millions of people. Their purpose is to help conflict-affected countries in the creation of the conditions for a stable and sustainable pacification. Men placed at the disposal of UN by the member nations, such as soldiers, police officers and civilian personnel, monitor the evolution of the peace process established at the end of the conflict, helping the parties to implement the peace agreements already signed.

⁶⁰ The *Asian Infrastructure Investment Bank* (AIIB) is a multilateral bank founded in 2015 on the initiative of People's Republic of China. Its purpose is to finance infrastructural works in the Asian area, mainly regarding connectivity, energy and water.

⁶¹ *One Belt One Road Initiative* is an infrastructural program that aims to develop connectivity between China and 70 countries, by creating an integrated Eurasian economic space. Through six corridors of transport by land and by sea, it will allow China to diversify trade routes and to intensify relations with the European Union. The countries concerned are located in an area that represents one third of the world's GDP, enclosing 70% of the population and possessing over 75% of global energy reserves.

2.1.2 Economic and demographic data

Nowadays China is one of the greatest economic powers in the world. With a population of around 1.4 billion of inhabitants⁶², representing almost 20% of the total world population, and an area of approximately 9.6 million square kilometres, this country has acquired a more and more influential role in modern times.

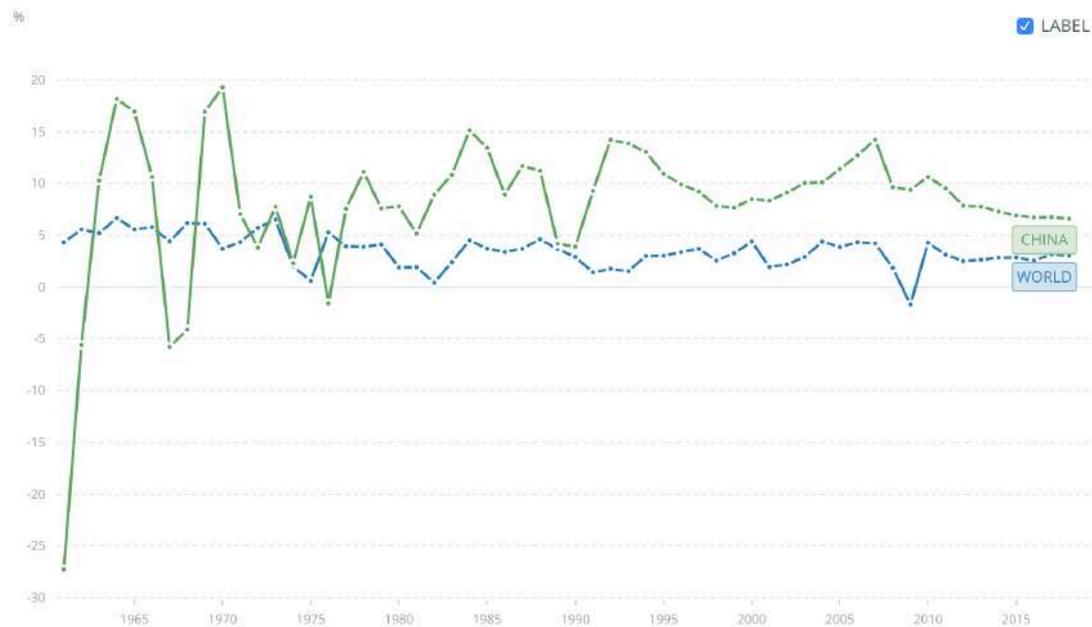
Over the last 40 years, the Asian country has been expanding considerably, given that, in terms of GDP, it reached an average annual growth rate of 10%⁶³, as it is shown in *Figure 2*. For this reason, China's economy is the one that witnessed the most rapid expansion in history.

⁶² United Nations estimate, September 2019

⁶³ World Bank data, 2019.

The *World Bank* is the main international organization aimed at the support of development and poverty reduction. It was established in 1945 with the name of the *International Bank for Reconstruction and Development* (IBRD), along with the *International Monetary Fund* (IMF). While the IMF had the charge of taking care of the stabilization of monetary and financial international relations, the IBRD was involved in the reconstruction of the countries which resulted devastated after the World War. Today, World Bank's priority is the achievement of the *Millennium Development Goals* (MDGs), defined during the United Nations Conference on September 2000. These are: to eliminate poverty; to ensure universal primary education; to promote gender equality and women's autonomy; to reduce child's mortality; to improve maternal health; to fight HIV/AIDS, malaria and other diseases; to ensure environmental sustainability; to develop a global partnership for development.

Figure 2: GDP growth (annual %)

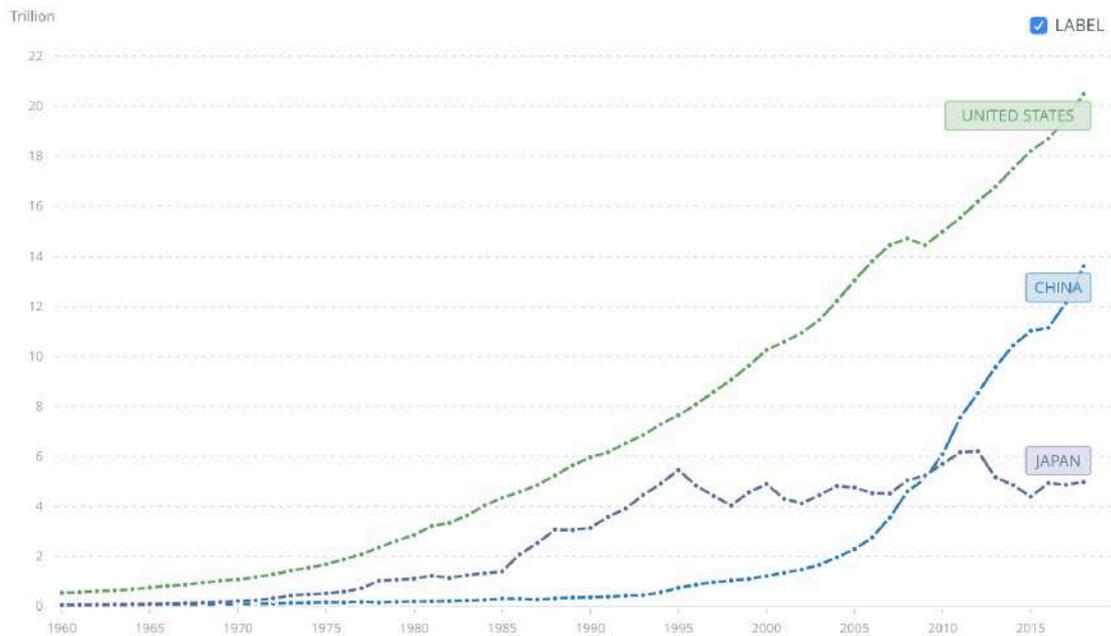


Source: World Bank data, July 2019

If in the year 2000 China was in sixth place in the world rankings, in 2010 it was second, still far behind the United States, but surpassing Japan, as it is possible to see in *Figure 3*. Numerically speaking, if at the beginning of the millennium China represented 3% of the global GDP, 10 years later it constituted 10% and in 2018 it was almost 16%⁶⁴. Moreover, being the second economy in the world and being the biggest producer, exporter and creditor worldwide, China contributed significantly to global growth after the financial crisis of 2008. Today, the Asian country plays a fundamental role in the development of the world's economy.

⁶⁴ World Bank data, 2019

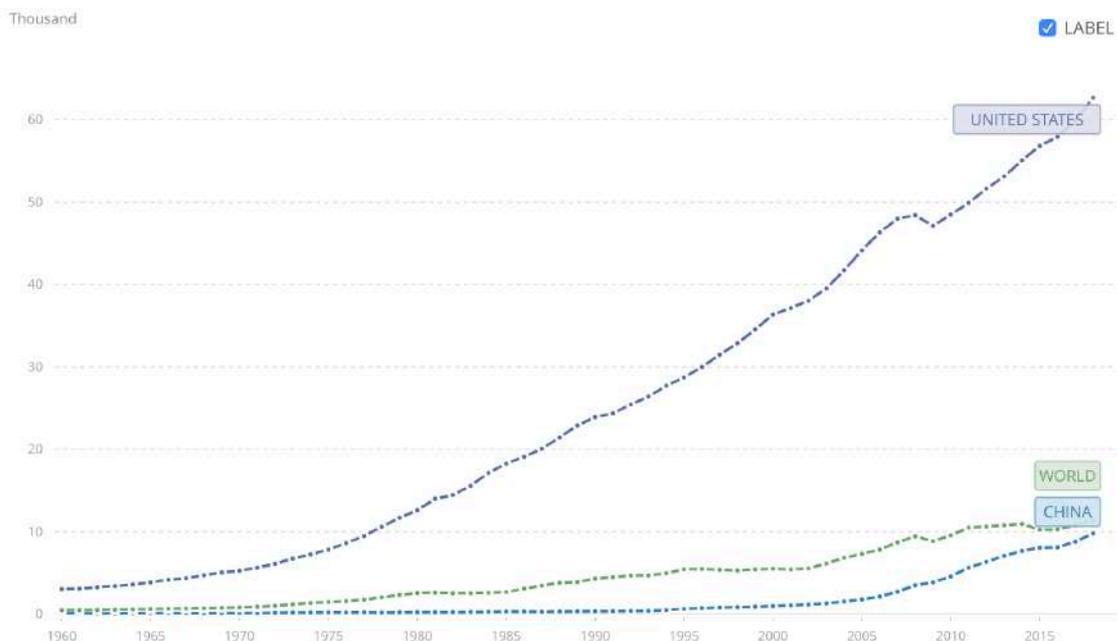
Figure 3: GDP (current US\$)



Source: World Bank data, July 2019

China is the biggest exporter and the world's second largest economy but considering its per capita GDP it is still below the global average.

Figure 4: GDP per capita (current US\$)

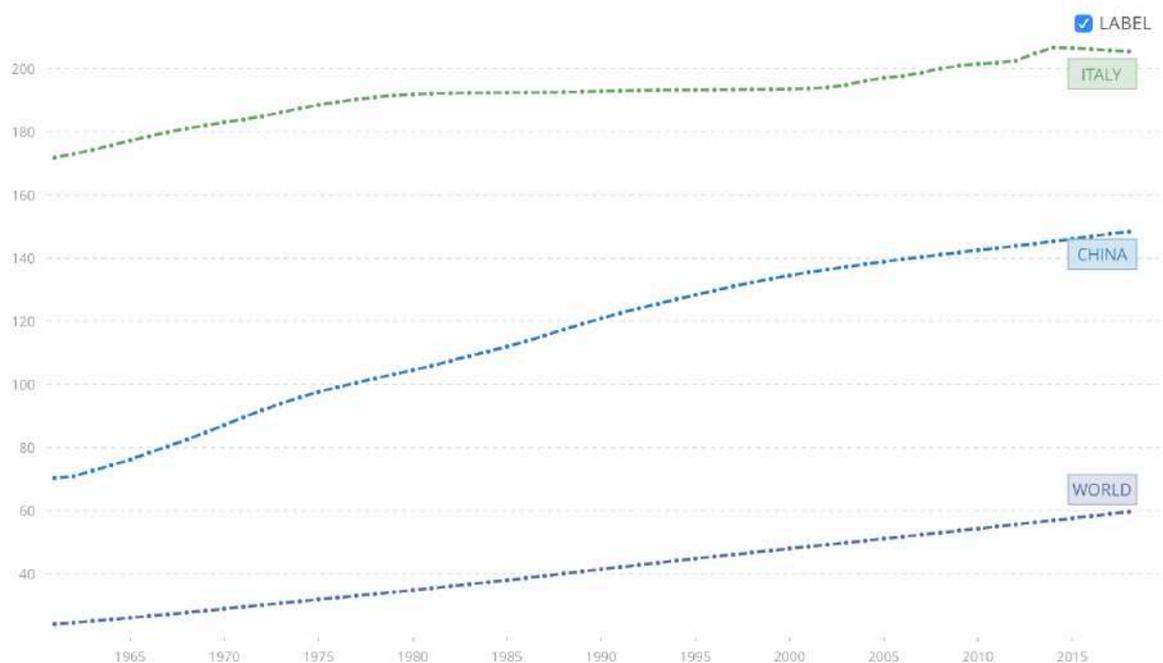


Source: World Bank data, September 2019

China's density population is 148 people per square kilometre⁶⁵. This ranks 81st, even though the country itself is the largest for population and one of the largest in terms of extension.

Nevertheless, the density values change drastically when considering the most populous urban areas. Indeed Shanghai, the biggest city in the nation and the planet, boasts a population density of 3,800 people per square kilometre⁶⁶.

Figure 5: China's population density (people per square kilometre of land area)



Source: World Bank data, September 2019

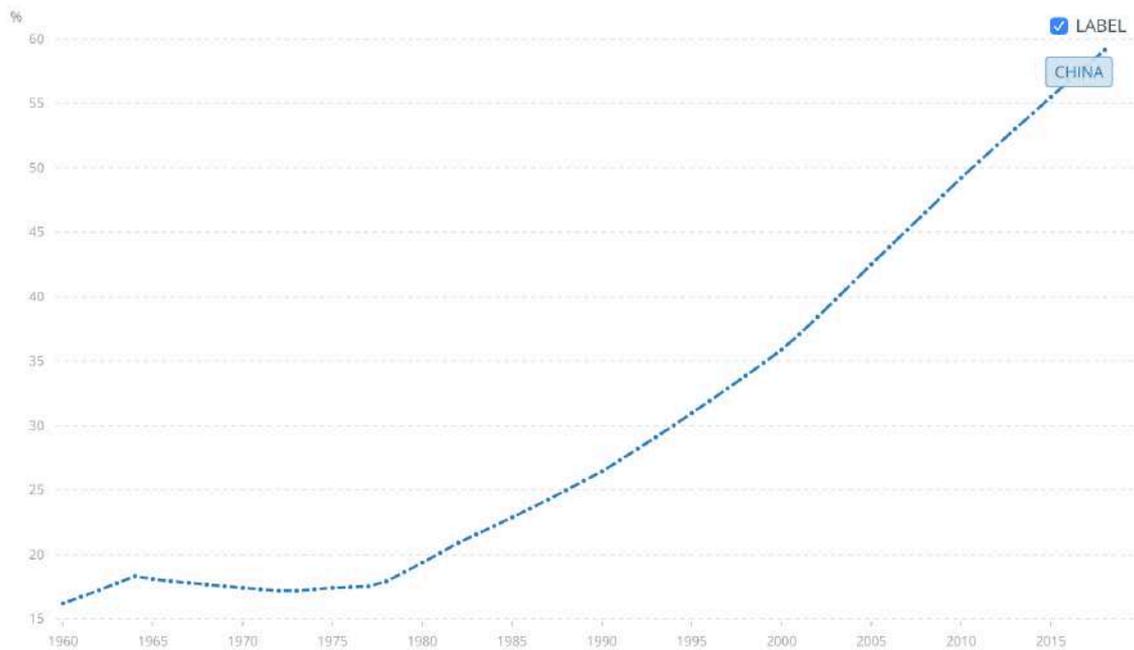
In the past 30 years, China's poverty rate decreased from over 65% to under 10%, since around 500 million people left the poverty condition⁶⁷. As can be observed in *Figure 6*, from the 70s of the last century to the present day, the country is characterized by an increase in urbanization.

⁶⁵ World Bank data, 2019

⁶⁶ World Population Review, 2019

⁶⁷ World Bank data, 2019

Figure 6: China's urban population (% of total)



Source: World Bank data, July 2019

Nevertheless, being China an immense country with many social and financial differences, Chinese market can't be considered as a single territory, but it has to be conceptually split in five markets, which politically and geographically speaking are very different from each other:

- The eastern and coastal area is the most advanced market of the country. With western characteristics, it is China's richest side. Here there are many important cities, among which there are the three main ones, that are Shanghai, Beijing and Guangzhou.
- The southern part, where the market is well developed and there are the principal cities of Hong Kong and Canton.
- The central area, characterised by the recent growth of the middle class, represents the 18% of territory.

- The North-West region is composed by a vast territory, about 70% of the overall soil, but is little inhabited. This area is characterised by a more traditionalist mentality and the economy is less developed with a low GDP.
- The North-East and Manchuria zone was the first industrialized region of China. However, lately it entered a period of stagnation.

After 30 years characterized by a rapid development, China's growth is slowing down. It exists a large consensus about the fact that over the next 20 years the Asian country will be heading for deceleration, since the average growth is supposed to be one third less than it had been until today. Even if it registered the lowest annual growth rate of recent times in 2018, at 6.6%, in the first few months of 2019, the Chinese economy remained stable and the International Monetary Fund estimated a growth of 6.2% for the current year⁶⁸. However, according to the report drawn up by the World Bank called *China 2030*⁶⁹, although the growth is decreasing, China will probably become the first economy in the world before 2030. The intense urbanization and the increase in the middle class' purchasing power are the basis for the constant growth of domestic consumption. This phenomenon not only involved cities like Beijing, Shanghai and Canton, but also other second and third rank cities, consisting of about 20 metropolises. The increase in incomes and urbanization, as well as and the birth of new trends in culture and fashion inspired by the Western model, are determining new consumption patterns in the Chinese market. Depending on the sectors, these models can be inspired by status symbols (e.g. luxury, with a high image value), with a strong focus on the quality/price ratio (rationalization of purchasing choices through e-commerce).

Such conditions generated a vast market for luxury goods. After a sales decrease from 2011 to 2016 due to the economic slowdown, to the exchange rate fluctuations and to the political changes, 2016 was the turning point⁷⁰.

⁶⁸ <http://www.infomercatiesteri.it>

⁶⁹ World Bank, "*China 2030*", Development Research Center of the State Council, the People's Republic of China

⁷⁰ *Bain & Company, "New Normal", 2018*

CHAPTER THREE

The Chinese luxury industry

3.1 The luxury industry

3.1.1 A definition of luxury

The origins of luxury date back to ancient times. The various stages of its fascinating history not only show its evolution through the ages, but they also illustrate how society changed over time. From the distant past to the present day, the idea of luxury has been the centre of a heated dispute between a positive and a negative interpretation. Such disagreement finds confirmation in the meaning of the term itself. As a matter of fact, analysing the etymology of the word “luxury”, it defines two opposite connotations⁷¹. One refers to the concept of “lux”, which means “light” and it is the illustration of honour and prestige, metaphorically representing the aspiration towards a high-class place in society. The second connotation derives from the word “luxus”, which means “excess” and “immoderate” and it’s related to the idea of an excessive and extravagant living, antagonist to those that are the Virtus in the Ancient Rome.

Thus, the concept of luxury has its roots in an ambiguous context, which puts it in the middle between two opposite notions. On one hand, it is the emblem of a psychological dimension that considers luxury as a kind of reward and gratification for the individual, that satisfies the needs that are not essential for the subsistence but that are related to a personal accomplishment. On the other side, luxury is often associated to a negative attitude of ostentation and it is linked to the concept of superfluous, which deviates from the real needs of a human being.

⁷¹ In accordance with the Oxford Latin Dictionary, “luxus” means “soft or extravagant living, indulgence and sumptuousness, luxuriousness and opulence”.

Even though there's not a universal definition of luxury, one of the main literature's foundations about such topic is the *conspicuous consumption* phenomenon introduced by Veblen (1899). In accordance with his studies, the exhibition of the consumption of conspicuous products is a demonstration of wealth, but what gives the status is the judgment of the society, which gives assumptions depending on possessions. A reason for luxury consumption is then related to the will to impress others, in order to build a positive social image⁷².

The advent of the bourgeois class, the increase in purchasing power and the industrialization of production processes, have allowed a greater slice of the population, even if still limited, to approach the luxury market. They intend to recreate a social stratification to express their status prestige⁷³.

Therefore, luxury represents a constant in our society, connected with the concept of need. Maslow's Hierarchy of Needs Theory⁷⁴ (1954) helps to understand this relationship and to explain the reasons for the large diffusion and the strong interest in this sector⁷⁵.

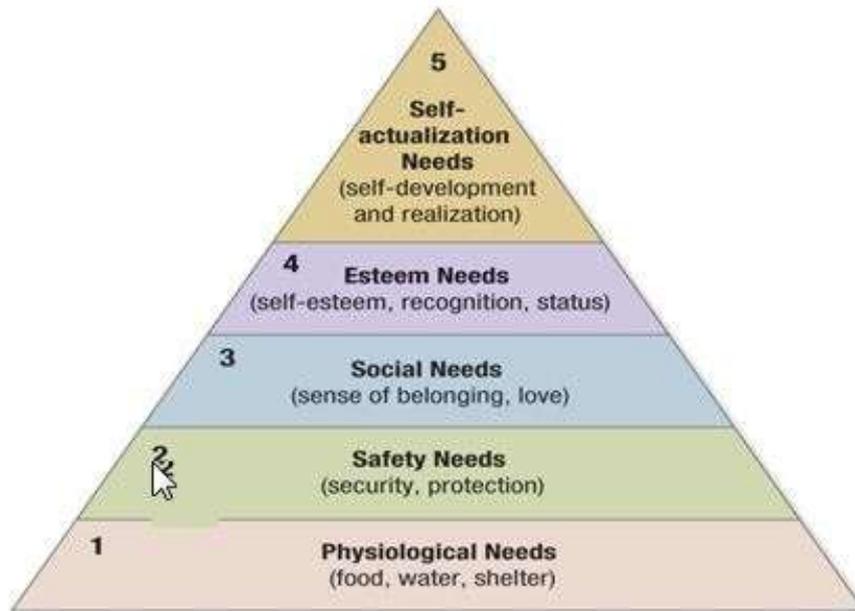
⁷² Veblen T., "The Theory of the Leisure Class", Dover Thrift Editions, New York, 1899

⁷³ Kapferer J. N., Bastien V., "The specificity of luxury management: Turning marketing upside down", Journal of Brand Management, 2008

⁷⁴ Maslow A. H., "Motivation and Personality", Harper and Brothers, New York, 1954

⁷⁵ According to Maslow's pyramid, people express different needs at different times that are arranged according to a hierarchy that goes from the most important ones to the least urgent (physiological needs, safety needs, social needs, esteem needs and self-actualization needs). First of all, each person tries to satisfy the basic needs. Once they are satisfied, the attention shifts to the satisfaction of the needs that follow according to the hierarchy of needs.

Figure 7: Maslow's Hierarchy of Needs



Source: Kotler and Keller, "Marketing Management", Pearson Prentice Hall, New Jersey, 2006

Looking at the sequence of needs, it can be realized that luxury, contrary to what one might think, is not at the top of the pyramid, where reside the last needs that demand to be satisfied. The social content of luxury consumption, such as the sense of belonging, is exactly in the middle of Maslow's hierarchy. A fortiori, luxury is part of the needs of esteem, recognition, and self-realization. From this framework emerges how luxury goods, even in their superfluity, can satisfy needs that are not marginal and irrelevant at all. Thus, luxury appears less frivolous and more closely connected to human nature than what is believed⁷⁶.

⁷⁶ Marinozzi G., Tartaglia A., "Il lusso: magia e marketing. Presente e futuro del superfluo indispensabile", FrancoAngeli, 2006

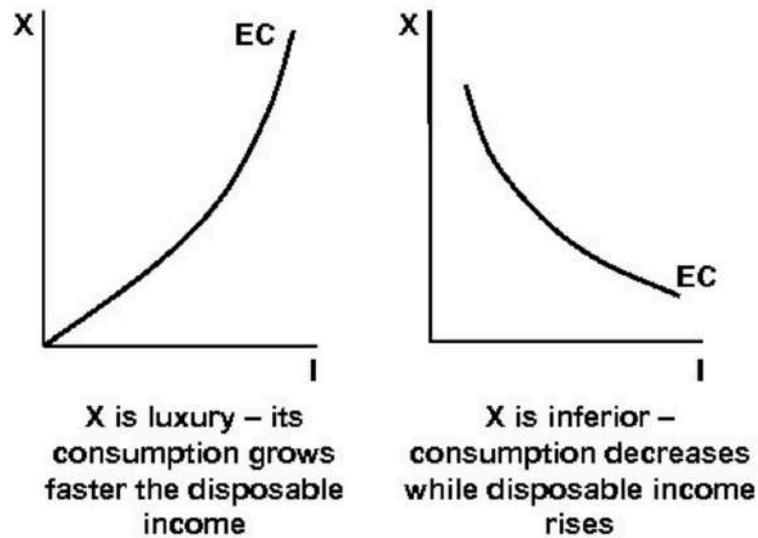
In the second half of the Nineteenth Century a German statistician, Ernst Engel, analysing the expenses dedicated by families to their consumption in relation with their income, observed that the more a family is poor, the greater the part of income is dedicated to the purchase of physiological necessity goods, in particular food. However, the growth in household income doesn't lead to a corresponding increase in spending on meals. Engel observed that, in such circumstances, consumers do not proportionately increase their spending in basic necessities, but their consumption choices move to higher goods or luxury⁷⁷. In fact, spending on primary necessities, such as bread or milk, does not increase in the same proportion of income but, beyond a certain amount, if a family's income double or triple, it will be difficult to double or even triple the consumption of these goods. Therefore, beyond a certain level of income, the demand for these goods stabilizes, because consumers no longer have an interest in increasing their consumption. Changes in income determine diversifications not only in terms of level but also in the composition of the expense⁷⁸.

When income increases, the demand for some goods, which economists define as *inferior goods*, may even decline. This happens because families, having more economic resources, stop consuming these goods preferring goods of superior quality. For example in the past, as the income increased, rice or potatoes were replaced with meat and fish. Moreover, since the availability of greater economic resources pushes consumers to direct their choices towards superior or *luxury goods*, it is likely that, once a certain income level has been exceeded, the increase in demand for these goods will be more than proportional compared to the increase in income. The graphs shown below illustrate the three cases described.

⁷⁷ Engel's law, 1857

⁷⁸ Engel E., "Die Productions - und Consumtionsverhältnisse des Königreichs Sachsen", Statistischen Büreaus des Königlich Sächsischen Ministeriums des Innern, 1857

Figure 8: Engle curve for inferior goods and luxury goods



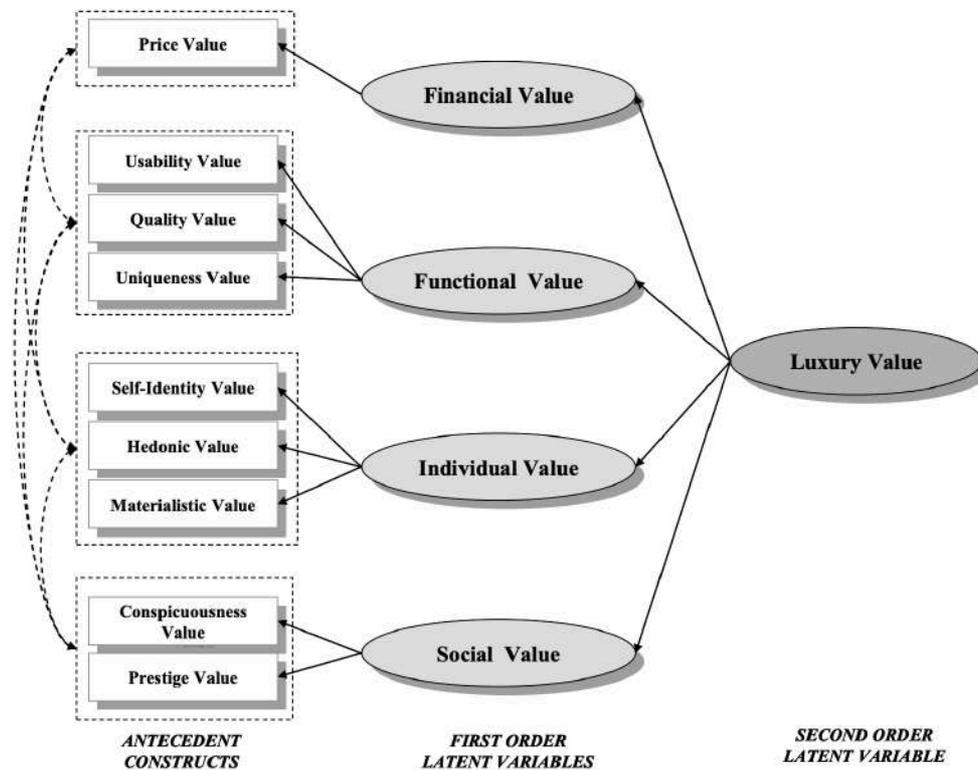
Source: Engel E., 1857

Vigneron and Johnson⁷⁹ (2004) show that consumer's decision making can be explained through five main factors that form a semantic network, split in personal perception, such as personal identity and hedonistic perception, and impersonal perception, that are perception of excess, uniqueness and quality. A useful schematization of the different values that luxury represents can be found in the model proposed by Wiedmann, Hennings and Siebels (2007)⁸⁰. It explains luxury consumption through different dimensions of the value perceived by the consumer, which are social, individual, functional and financial dimensions. For each perceived value dimension are identified different variables and values that characterize it.

⁷⁹ Vigneron, F., & Johnson, L. W., "Measuring perceptions of brand luxury", *Journal of Brand Management*, 2004

⁸⁰ Wiedmann, Hennings, Siebels, "Measuring Consumers' Luxury Value Perception: A Cross-Cultural Framework", *Academy of Marketing Science Review*, 2007

Figure 9: The Conceptual Model



Source: Wiedmann, Hennings, Siebels., “Measuring Consumers’ Luxury Value Perception: A Cross-Cultural Framework”, *Academy of Marketing Science Review*, 2007

- The *financial value* refers to the monetary value of consumption and the value of the product indicates how much the consumer sacrifices to get a certain product.
- The *functional value* concerns the main benefits of the product and the essential utilities, such as quality, uniqueness, reliability and durability.
- The *individual value* focuses on the personal preferences of the consumer in buying a luxury product and concentrates on personal aspects, like materialism, hedonism and personal identity.
- The *social value* refers to the utility perceived by individuals who acquire products or services, which are perceived both in the form of prestige and showiness. These values affect the judgment and the propensity to purchase a luxury brand.

Dubois and Laurent⁸¹, through their studies and consumer surveys, have identified six aspects related to luxury that help to define its nature and characteristics. These are:

- Excellent quality: it is principally assessed by the exceptional nature of the raw materials or components used, secondarily from experience in the manufacture of the product or service. Therefore, quality guarantees durability and reliability and the absence of defects gives "eternity" to the good.
- High price: it is almost as important as quality, since high price can be understood either in absolute terms or in relation to alternative products. It is considered a logical consequence of the excellent quality of the luxury product or service. The cost is acceptable considering the longevity given by quality and it generates feelings of comfort and safety for the consumer.
- Uniqueness and rarity: scarcity is closely related to the perceived quality and the high price of the product. Given the unique characteristics of the raw materials, the extraordinary manufacturing skills, the distribution process and the exclusive price correspondent, it is a signal that the luxury product can't be a mass product. Scarcity also extends to distribution strategy. The luxury shops offer carefully selected products and give the customer a unique experience. The atmosphere, the furnishings, the staff, the windows must communicate a feeling of refinement and well-being.
- Aesthetics: luxury implies a strong aesthetic appeal. In some cases, luxury becomes a work of art, a masterpiece. Luxury consumption becomes a hedonistic experience that involves all the senses. The aesthetic dimension is not exclusive to the product, but it also concerns the context in which it is proposed.
- Tradition and personal background: luxury products must narrate a story. In the consumers' mind, luxury products must have a long tradition, both in production and sales processes.
- Superficiality: luxury products are not necessary goods. Their value does not lie in functional characteristics but in the satisfaction of other kind of benefits.

⁸¹ Dubois et al, 2001

Therefore, a luxury product is defined as the good that satisfies all these six aspects at the same level.

3.1.1.1 The four luxury's drivers of change

The modern society is characterized by two crucial elements that lead to a new interpretation of luxury, that are the female emancipation and world peace. These two factors are the basis for four strong drivers of change, which are democratization, increase in spending power, globalization and communication⁸². Democratization is the most significant driver of luxury and it is the one that better justifies the reasons for its success nowadays. Above all, luxury became accessible to a wider public, and consequentially the customer base increased considerably. Furthermore, another essential aspect of the democratic society is that, since it supports transparency, openness and equalization, social stratification is progressively vanishing. At this point, it is necessary to take a step back. If this is true on one side, it is also true that luxury leads to an actual stratification, becoming its originator. Thus, we are facing a real paradigm of luxury. Nevertheless, it has to be emphasized that, in a democracy, luxury might induce to social stratification, but it constantly promotes humankind, and this is what differentiates it. The second driver, which is the most evident one in terms of growth of this sector, is the increase in spending power. Indeed, this implies the rising availability of money and time, which are two fundamental elements when it comes to luxury. Globalization is the third driver of luxury and it has a double function. First of all, it leads to the accessibility of many resources from all over the world, for example raw materials, that are used to create high-end products. The second role is related to the fact that globalization, in the same way as democratization, induces to the disappearing of stratification of society. Actually, it brings to an equalization of cultures and religions. In fact, a completely globalized society is characterized by a single

⁸² Kapferer J., Bastien V., "The Luxury Strategy: break the rules of marketing to build luxury brands", Kogan Page, London, 2008

language and a single religion. In this case, the social stratification issue is dealt with a wider perspective than democratization. Indeed, it's not considered just the reality of the sole individual, but it is related to an entire culture. In this sense, it is necessary to analyse also the origins, in order to keep from losing the essence of the luxury product deriving from a specific culture. For instance, in drinking a glass of French Champagne, you are not only tasting a simple sparkling wine, but a bit of France as well. The fourth and last driver of change is communication. The diffusion of traditional mass media and new digital media allows people to discover new places and cultures around the world and it makes also possible to live the celebrities' high life behind a screen. Therefore, communication creates a mental condition in people's mind, suggesting the individual that there is a whole universe of possibilities that he can choose. Thus, according to his individual preferences, he becomes the architects of his own social stratification. Often, the vast amount of possibilities available creates an anxiety of choice that results in a lack of free will for the individual, because he prefers to give the power of decision to some external factor.

The truth is that humanity needs some type of social stratification, in order to escape social chaos⁸³. The individual needs to know his place in society. It is now explained the reason why the paradigm of luxury exists. Luxury has the essential role of rebuild the social stratification that has always existed since the original times with emperors, kings and nobility, and that has gone disappearing in the Eighteenth century with the Enlightenment. What is different is that luxury recreates it in a democratic way. Indeed, everyone can pick their strata as they please, following a dream or an ideal. At this stage, the anxiety of choice is the springboard for brands. In other words, they are placed in a superior position by the customer himself, who not only expects a good quality from a luxury brand, but also asks for some kind of advice to mislead the anxiety of freedom condition.

⁸³ Kapferer J., Bastien V., "The Luxury Strategy: break the rules of marketing to build luxury brands", Kogan Page, London, 2008

3.1.2 The rise of the Chinese luxury industry

Bernard Arnault, LVMH's founder and CEO, believes that "luxury is the only sector providing luxury margins"⁸⁴.

This is true, luxury's future is bright and the industry's prospects of growth are enormous⁸⁵. Nevertheless, in recent times the luxury market in Europe is gradually fading. In general, European consumers pay more attention to the principal models. In the countries of Latin American, people prefer to buy affordable luxury brands⁸⁶. Emerging markets, especially the BRIC countries, such as Brazil, Russia, India and China, and the CIV-ETS countries, that are Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa, are still growing. The culture of luxury comes from Europe, the United States of America and other developed countries. This culture has been distributed to emerging countries thanks to the process of globalization. As we know, China is the second-largest economy. Thanks to the development speed of this emerging economy, the richest groups have emerged more rapidly. Householders are getting richer within the Chinese middle classes. Therefore, economic growth has brought more power and currently China has the largest luxury market.

Over the last years, the purchasing power in emerging countries increased by 70%. Indeed, in all these nations the GDP is increasing and as many studies demonstrated, the luxury market growth is correlated to the GDP growth⁸⁷. Indeed, GDP creates a middle class and promotes optimism. Differently from European consumers, consumers from these countries usually don't save money in a forward-looking manner, but prefer to spend on new goods, especially on the ones that confer status and represent a self-achievement symbol⁸⁸.

⁸⁴ Kapferer J. N., "Kapferer on luxury: How luxury brands can grow yet remain rare", Cogan Page, London, 2015

⁸⁵ Tabatoni, Kapferer, 2010

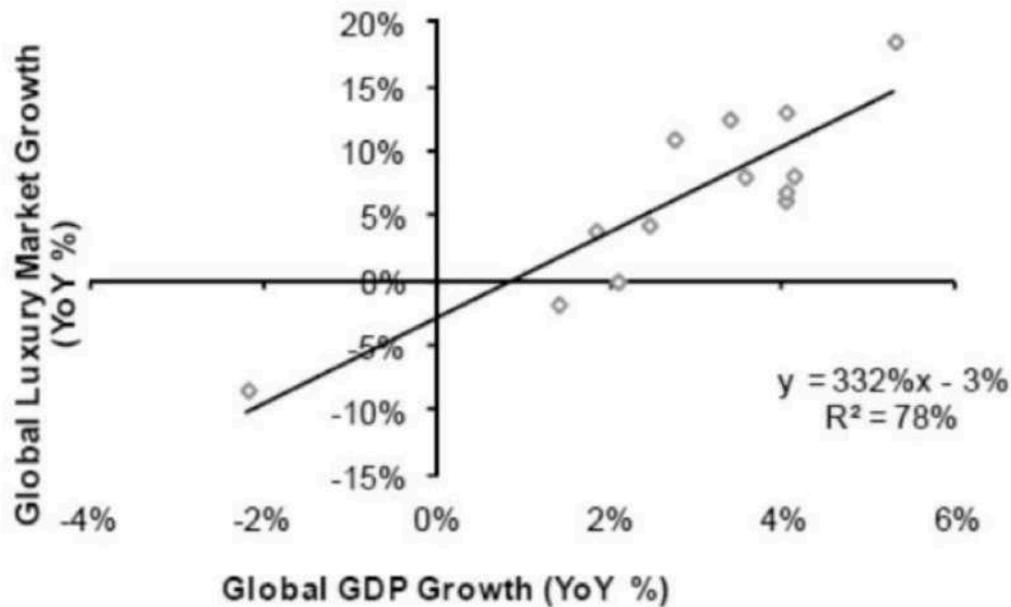
⁸⁶ Deloitte, 2016

⁸⁷ Bernstein Research, Bain & Company, PwC, Altagamma,

⁸⁸ Kapferer, 2015

In the graph below it is represented the relation between GDP growth and luxury market growth, which are correlated by a factor of 2x.

Figure 10: The correlation between GDP and luxury market growth



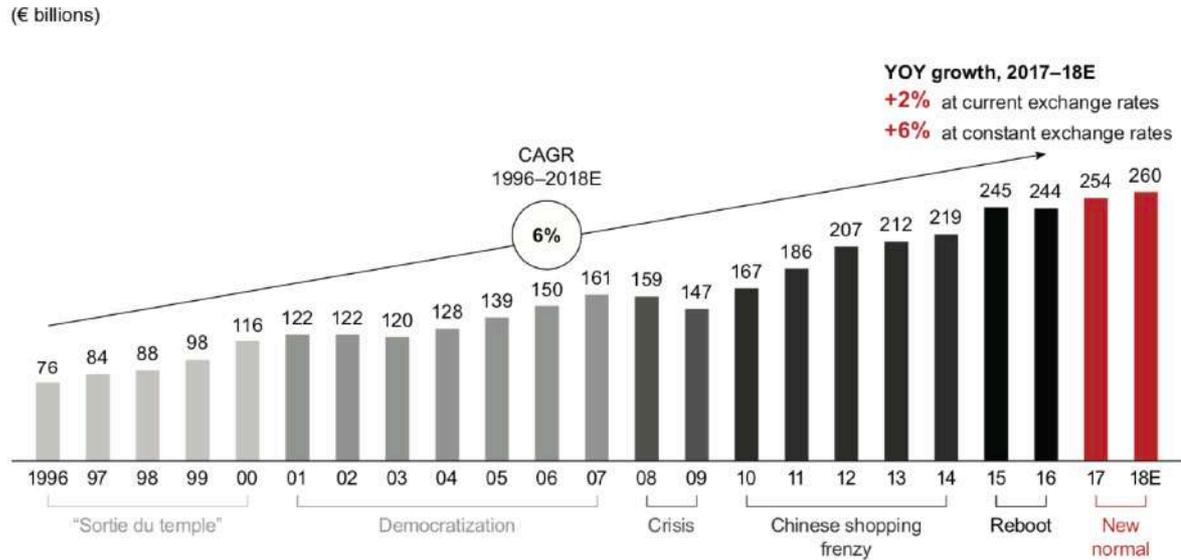
Source: Bernstein Research

According to the annual researches published by Altagamma Foundation, the luxury market is one of the few sectors, if not the only one, that hasn't registered excessive sales declines since the 2008 financial crisis. The 10% drop that occurred in 2009, compared to 2007, was immediately compensated by a new increase in consumption, accounting for 12%, in the following year. From that moment the luxury market kept growing year by year.⁸⁹ After a stop in 2016, the world's personal luxury goods market restarted now a modest growth. The phenomenon can be observed in *Figure 11*, where the current period in which we are now is named “New normal”⁹⁰.

⁸⁹ www.altagamma.it

⁹⁰ Bain & Company, “Luxury goods worldwide market study”, Fall-Winter 2018

Figure 11: Global personal luxury goods market



Source: Bain & Company, 2018

The current leader in the purchase of luxury goods is China, which in recent years is increasingly finding itself at the centre of the luxury world, especially with regard to the fashion industry. According to some estimates⁹¹, by 2025 total luxury sales in China would almost triple to reach an expense of 1.2 trillion RMB (170 billion USD) compared to RMB 398 billion in 2010 (60 billion USD)⁹². Although the luxury fashion market slightly reduced over the last years, China continues to have the right potential to stand as the largest consumer market for the luxury industry.

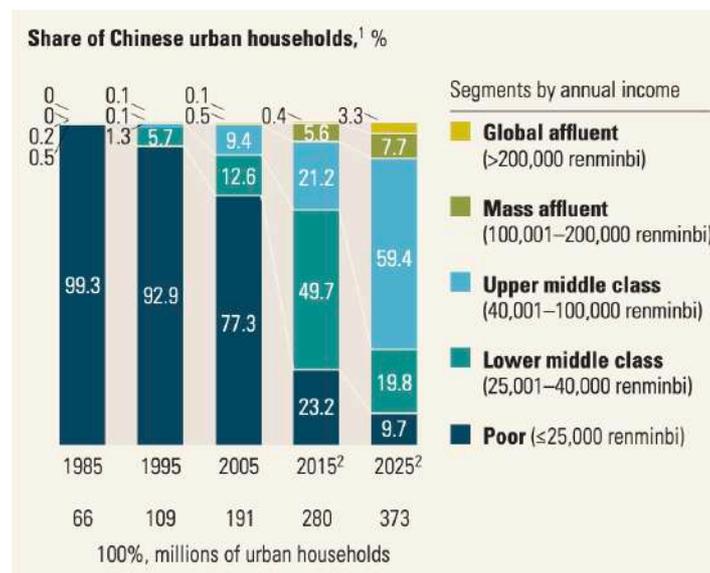
⁹¹ McKinsey & Company, China Luxury Report 2019, “How young Chinese consumers are reshaping global luxury”, April 2019

⁹² McKinsey & Company: “The Chinese luxury consumer”, August 2019

3.1.2.1 The rise of the Chinese middle class

In 1985, more than 99% of Chinese population used to live in poverty conditions⁹³. The rise of the economy has gradually took millions of people out of misery. Over the last 35 years, China's society widely evolved and underwent a rapid change in social conditions, as represented in *Figure 12*. The first thing that sticks out is the emergence of two middle classes, that progressively shaped the new Chinese society.

Figure 12: Spending power is on the rise

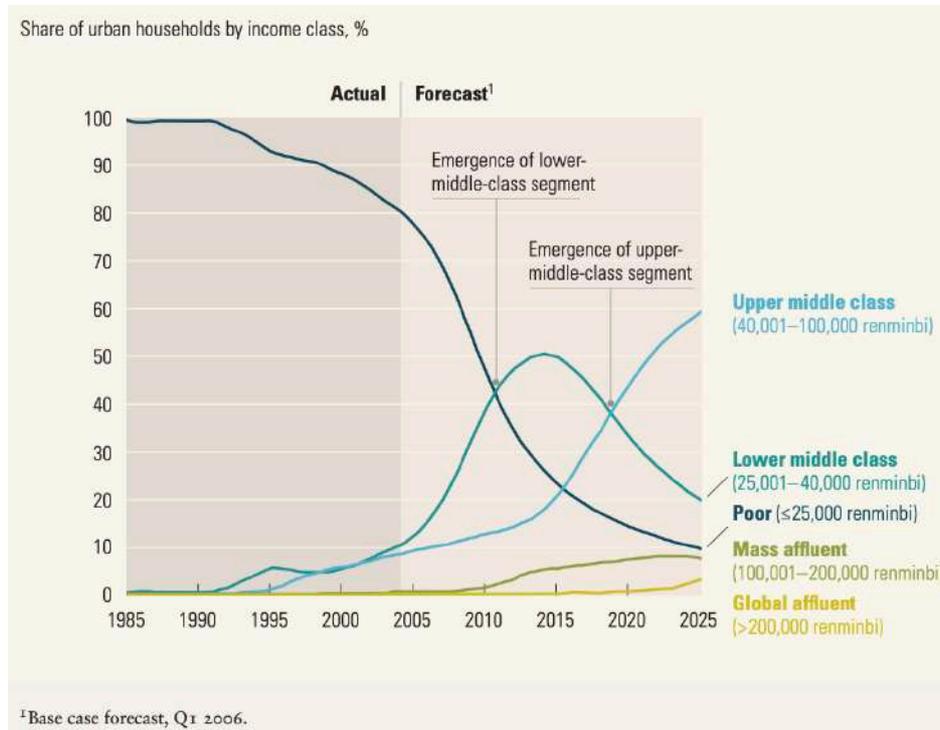


Source: National Bureau of Statistics of China; McKinsey & Company Global Institute analysis, 2006

In *Figure 13* it is shown a clear graph representing the emergence of the two Chinese middle classes, and in parallel we can notice the gradual decrease of poverty.

⁹³ McKinsey & Company, 2006

Figure 13: The emergence of a middle class

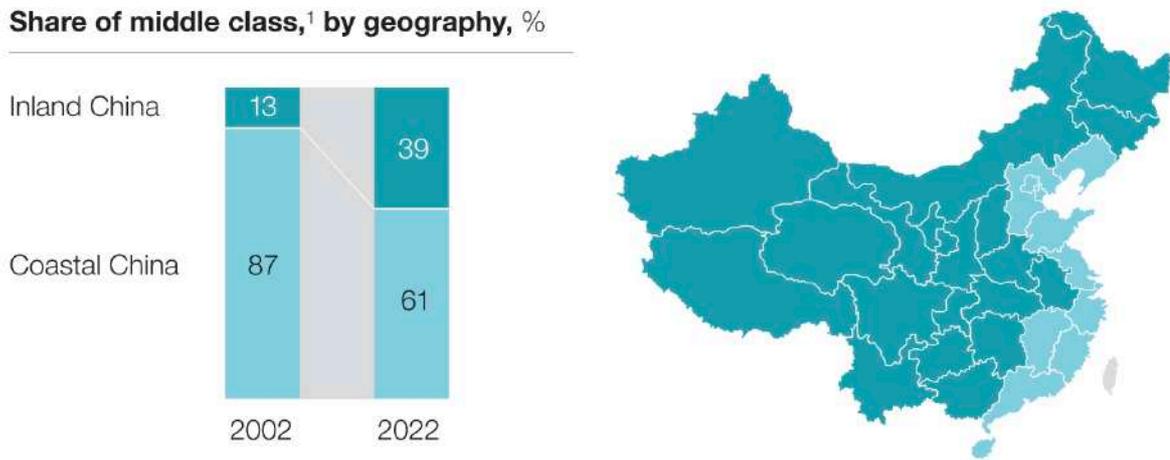


Source: National Bureau of Statistics of China; McKinsey & Company Global Institute analysis, 2006

Moreover, considering the middle class geographic distribution, it is progressively shifting from the coastal area, which has always been the most developed zone of China, to the inland⁹⁴. This is the evident signal of the economic development, which is lifting the poorest areas of the country, leaving room to the rise of this new wealthier social class. *Figure 14* represents such geographic change, considering the twenty years period, from 2002 to 2022.

⁹⁴ McKinsey & Company, “*Mapping China’s middle class*”, 2013

Figure 14: The geographic centre of the middle class growth is shifting



Source: McKinsey & Company, “Mapping China’s middle class”, 2013

In conclusion, as we can see in *Figure 15*, the first class that experienced a development is the lower middle class, who has seen its peak over the last 10 years. Lately, we are witnessing to a reversal of the situation and the upper middle class is rising. Such class is forecasted to become the engine of growth in the luxury goods sector in China. Indeed, China’s upper middle class population will grow to a rate of 28% becoming 350 millions of people from 2018 to 2025⁹⁵.

⁹⁵ McKinsey & Company, China Luxury Report 2019, “How young Chinese consumers are reshaping global luxury”, April 2019

3.2 The Chinese luxury consumer

Chinese consumers are now the protagonists of the luxury industry, being the principal driver in boosting the growth of the luxury expense.

By 2027, middle class consumers are estimated to become 65% of total Chinese households⁹⁶. The increase in the number of wealthy citizens has meant that Chinese people gained a higher spending power and, consequently, it has led them to have the financial capacity to use their money for luxury goods and services, like high-fashion products, jewelry and travels. The main reason why they do it is because luxury is considered as a mean to demonstrate their personal achievements and elevate their position in society.

3.2.1 The approach of the Chinese consumer to luxury

Studies like have shown how social values are changing and they are always more influenced by the phenomenon of globalization⁹⁷. Modesty and humility have a minor consideration rather than before. Furthermore, in the representation of oneself in everyday life, self-control is no longer a categorical imperative. The control of the expression of the emotions is fading away and the manifestation of one's opinions is more open. It should also be emphasized that the higher is the degree of development of an economy, the greater is the desire for self-expression⁹⁸.

The rapid development of China, with its increase in competition, the respect for professionalism and the technological escalation, has encouraged the increase in the value of expressing one's personality in Chinese society. Previously, it was improper to expose oneself by speaking openly about one's talents and abilities. Today, however, especially in urban environments, people no longer try to maintain a moderate profile, but they try to make others discover as much as possible about themselves. This can

⁹⁶ Bain & Company, *“What’s Powering China’s Market for Luxury Goods?”*, March 2019

⁹⁷ Faure and Fang, 2008

⁹⁸ Inglehart & Welzel, 2005

also be connected to the spread of social media, where communication is more direct. Consequently, Faure and Fang conclude that maintaining a good reputation today is still important, but it is no longer a priority. The behavioural model has changed, and the expression of modern culture is based on the image of oneself that is wanted to give to others.

On this basis, China's traditional culture is leaving space to the inclination towards a new and opposite aspect of Chinese citizens, which is materialism.

Materialism is a phenomenon in which the acquisition of material goods plays a central role in the lives of individuals, who see material possession as a key to happiness⁹⁹. Materialism is also seen as a set of attitudes that consider possession as a symbol of success¹⁰⁰. Therefore, materialists tend to possess more things to benefit from a better social status¹⁰¹ and this makes them more sensitive to the social meaning of goods. In fact, materialists tend to prefer goods that can represent well-being and wealth so that they can be exhibited in public, even at the expense of the actual utility of the item itself¹⁰².

As a consequence, the positive correlation between the concept of social reputation and materialism suggests that individuals may seek to gain social prestige through the consumption of luxury goods, but this partially contrasts with the Chinese tradition.

Parsimony has always been one of the core values of Chinese society, indeed, personal savings in China are among the highest in the world¹⁰³. This is considered a product of the traditional Chinese modesty, which induced the limitation in displaying personal possessions for centuries. Today, however, the recent economic growth, the wealthier living standards and the abundance of products on the market has led Chinese consumers to a crossroad. On the one hand there is the traditional attention for savings, on the other there is the desire to spend and obtain material prosperity. As a result, Chinese consumers are gradually moving away from the attitudes of the old generations.

⁹⁹ Richins and Dawson, 1992

¹⁰⁰ Chan and Prendergast, 2007

¹⁰¹ Fitzmaurice and Comegys, 2006

¹⁰² Richins, 1994; Yan, 2013

¹⁰³ Bond and Hofstede, 1989; Faure and Fang, 2008

Shopping is now a hobby and the research for material satisfaction is a psychological compensation for the stress deriving from the change in mentality, habits and the new and more competitive economic environment¹⁰⁴.

As a result, we are witnessing the debut in Chinese society of a new phenomenon that has always been far from China's culture, which is consumerism.

In traditional Chinese conception, the consumption of goods was related to sustenance only. In fact, the prevailing philosophy was favourable to saving and frugality, while human desires were considered as something that couldn't be completely satisfied and as a sin that had to be limited and controlled. Moreover, differences in living standards were considered necessary and justified as indicators of political and social distinction¹⁰⁵.

The first trace of justification to the consumption can be found in the Warring States period (453 BC - 221 BC), period characterized by a great economic fervour and the development of new schools of thought¹⁰⁶. And again, in the *Guanzi*¹⁰⁷ there is a moral justification for consumption since economic development would be based on full employment, achieved by stimulating production through consumption. This would lead to the enrichment of the population starting from the bottom, avoiding the excessive accumulation of capital of government officials that would damage trade¹⁰⁸.

However, in Chinese culture, consumption has not the sole purpose of satisfying basic needs, but also of satisfying social needs for identification, social recognition and attainment of status¹⁰⁹. This condition leads to a growth in consumption, deriving from the increase in available resources and from the possibility of expressing the personal image through the exhibition of what you have. In particular, luxury goods act as an

¹⁰⁴ Bellaiche et al., 2012

¹⁰⁵ Yang, 1957

¹⁰⁶ Yang, 1957

¹⁰⁷ The *Guanzi* is a composition of the Chinese philosopher Guǎn Zhòng, dated 26 BC approximately, in which the author provides various types of indications, including economic ones, to the governor.

¹⁰⁸ Guō Mòruò, 1954

¹⁰⁹ Faure and Fang, 2008

evidence of social success, so it can be said that the consumption of luxury goods is intrinsically linked to the Chinese concept of reputation¹¹⁰.

3.2.2 Today's Chinese luxury consumer

Even though Chinese economy is slowing down, as indeed the whole world since the 2008 crisis, the upper middle class is continuing to buy in luxury sector. In specific, between now and 2025 China's luxury expense will almost double, becoming about 40% of the global luxury spending¹¹¹, as it is possible to notice in *Figure 16*.

From 770 billion RMB (\$115 billion) spent today in luxury items, Chinese consumers will come to spend 1.2 trillion RMB (\$170 billion) by 2025. Therefore, it will deliver 65% of 2018-2025 global luxury growth¹¹².

Studies demonstrated that young Chinese luxury customers have a preference towards foreign brands, especially towards those from Italy, France, Great Britain and also America and Japan, rather than their own household ones¹¹³. Indeed, post-1965s and 1970s generation are not interested in purchasing Chinese high-end brands, but this is something that might be likely to change. As a matter of fact, one out of ten post-1990s consumers stated that they'd choose a Chinese luxury label¹¹⁴. This phenomenon is intended to increase in the short run, since many Chinese brands are slowly acquiring prestige.

¹¹⁰ Yan, 2013

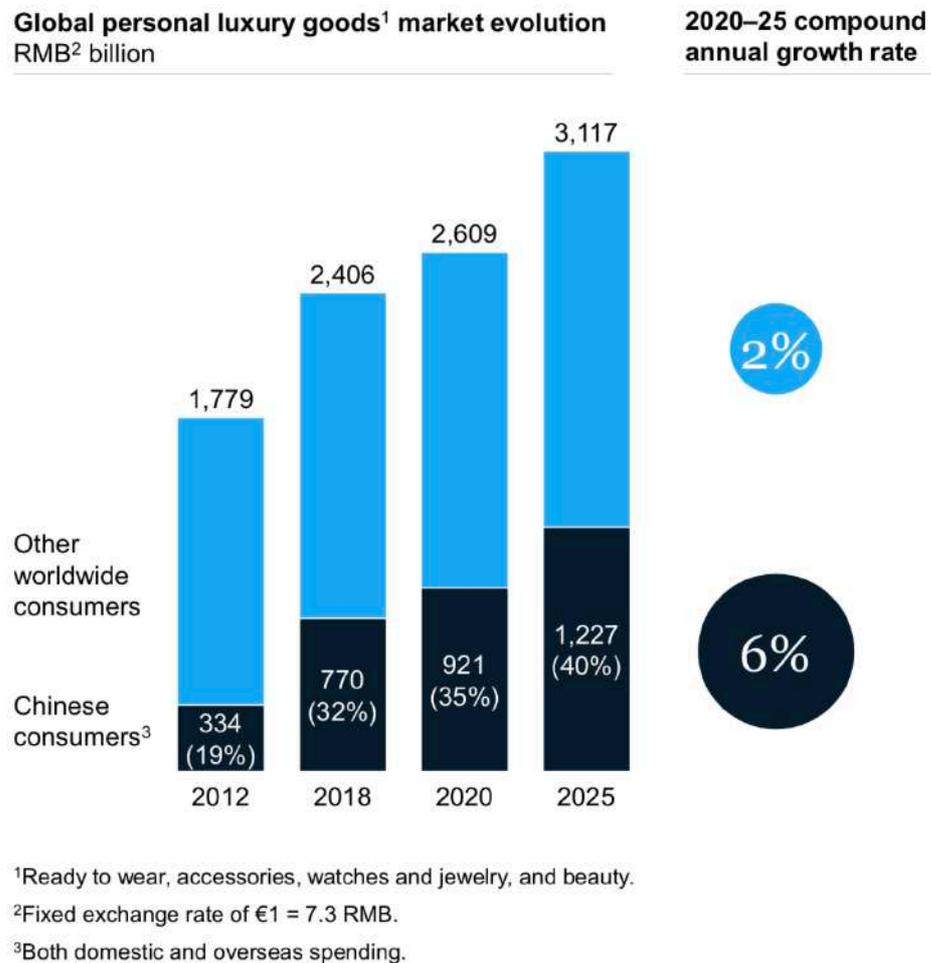
¹¹¹ McKinsey & Company: "*The Chinese luxury consumer*", August 2019

¹¹² McKinsey & Company, China Luxury Report 2019, "*How young Chinese consumers are reshaping global luxury*", April 2019

¹¹³ McKinsey & Company, China Luxury Report 2019, "*How young Chinese consumers are reshaping global luxury*", April 2019

¹¹⁴ McKinsey & Company, China Luxury Report 2019, "*How young Chinese consumers are reshaping global luxury*", April 2019

Figure 16: China is winning half of the luxury world



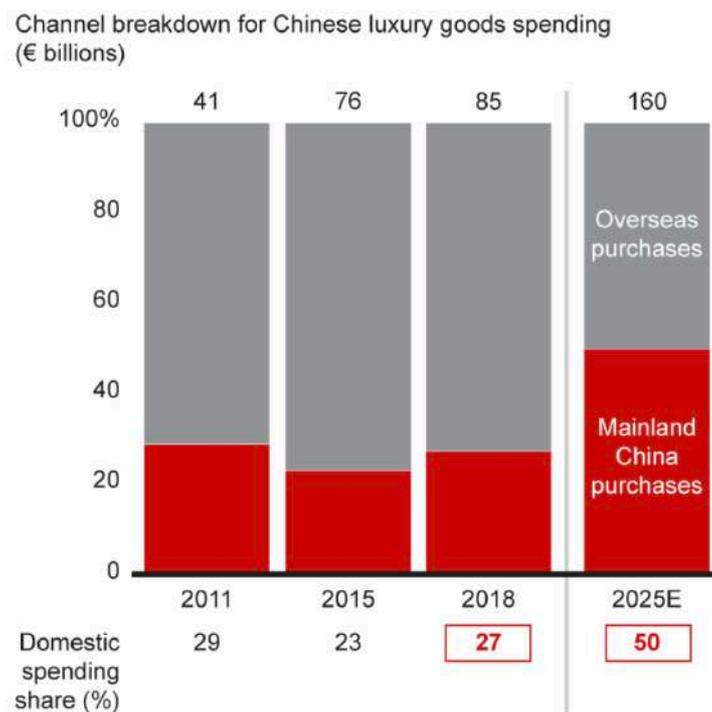
Source: McKinsey & Company, *China Luxury Report 2019*, “How young Chinese consumers are reshaping global luxury”, April 2019

Probably, the world has never beheld a luxury expense greater than now, thanks to the Chinese flourishing market¹¹⁵. Therefore, needless to say, luxury brands, in order to take advantage from this trend, should focus on this new type of consumers, analysing in depth the dynamics of this new source of profit.

¹¹⁵ McKinsey & Company: “*The Chinese luxury consumer*”, August 2019

The world's personal luxury goods market increased across the continents. Europe is the first region dedicated to purchases, followed by North America and South America, Asia, including China, Japan and the other regions of the world. Indeed, it is useful to know that about 70% of Chinese consumers prefer to dedicate themselves to shopping while travelling, but over the years this number might decrease because of the cut of luxury import taxes. As a consequence, the actual predilection for shopping abroad might switch on behalf of the domestic country. A Bain & Company study¹¹⁶ has forecasted that from 27% of Chinese consumers buying in their homeland in 2018 they will become 50% by 2025, as shown in *Figure 17*.

Figure 17: The repartition of spending will continue in the coming years



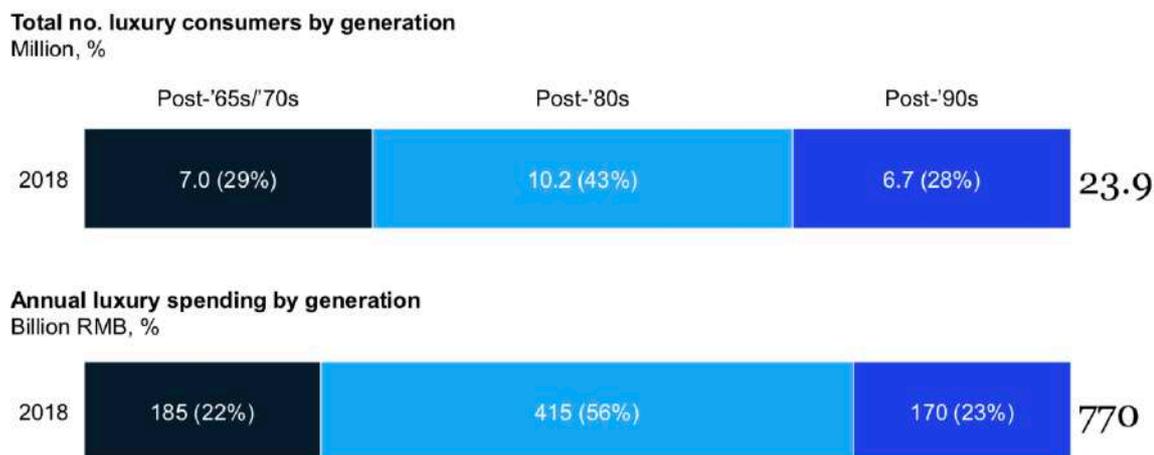
Source: Bain & Company, “What’s Powering China’s Market for Luxury Goods?”, March 2019

¹¹⁶ Bain & Company, “What’s Powering China’s Market for Luxury Goods?”, March 2019

3.2.2.1 Chinese luxury consumers generations

Chinese consumers are varied and multiple, thus they have different purchase behaviours on the basis of different characteristics. A first distinction can be made according to generations. As shown in *Figure 18*, Chinese consumers born in the post-1980s lead in the luxury expense. They grew up during the years of China’s economic development and now they are affluent, at the top of their professional career and they have the desire to spend to prove their individualism and wealth. Being 10.2 million, in 2018 consumers of this generation represented more than half the total Chinese luxury spending. The post-1990s consumers are dynamic and their life revolves around the digital world. They are the new middle class spenders and represent the emerging power. In China, upper middle class post-1990s children receive every month a bank top up of at least 4000 RMB from their parents¹¹⁷. Thus, young Chinese consumers can periodically afford luxury expenses.

Figure 18: Post-’80s consumers are still the largest luxury spending group in terms of both consumer members and total spending



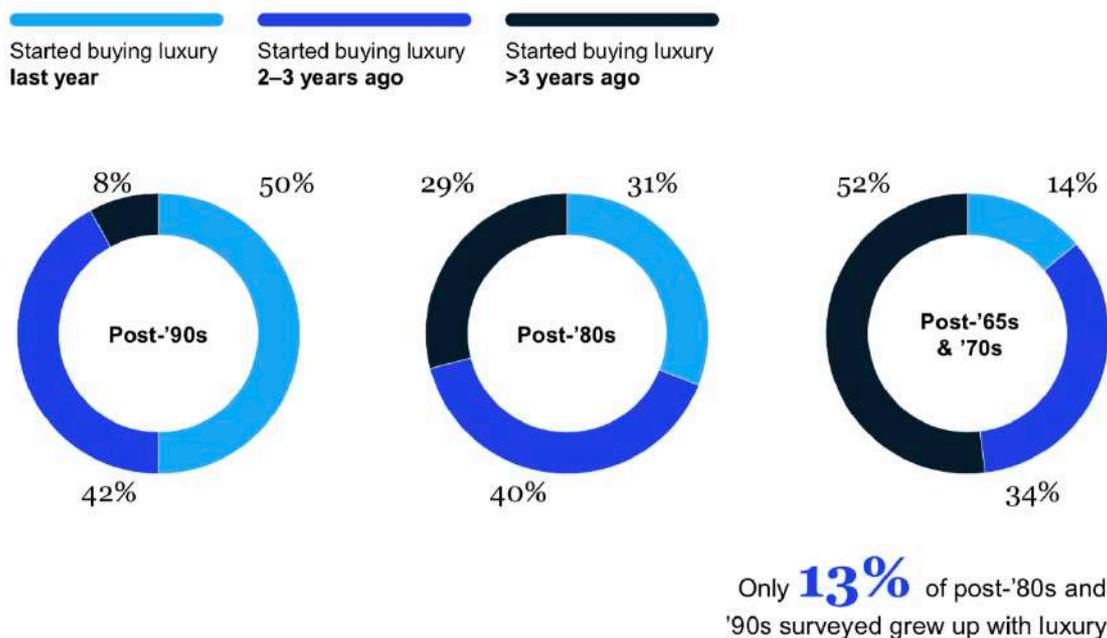
Note: Figures may not sum to 100%, because of rounding.

¹¹⁷ McKinsey & Company, China Luxury Report 2019, “How young Chinese consumers are reshaping global luxury”, April 2019

Source: McKinsey & Company, *China Luxury Report 2019*, “How young Chinese consumers are reshaping global luxury”, April 2019

Young Chinese customers are new to luxury, so they are less devoted to brands since they don't perceive the heritage component at the base of the traditional luxury market. Most of consumers started buying luxury goods only in recent times. About post-1980s generation, 31% of them purchased the first luxury product only in the last year and 40% in the last 2 or 3 years, for a total of more than two thirds of recent customers. Regarding post-1990s generation, consumers that made the first purchase in the last 3 years account for 92%, and even in the post-1965s and 1970s generation they represent almost the 50%, as it is displayed in *Figure 19*.

Figure 19: Post-1980s and post-1990s luxury shoppers in China

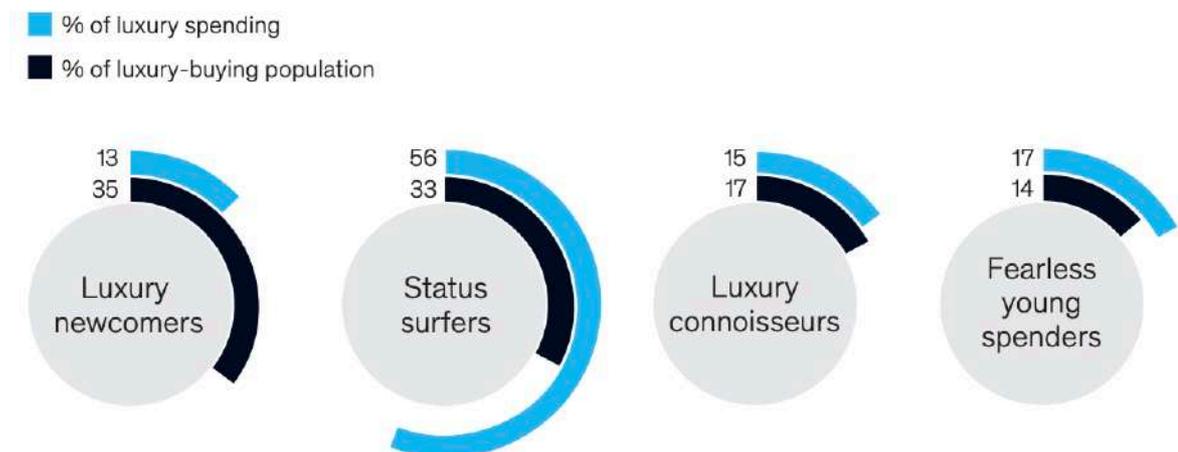


Source: McKinsey & Company, *China Luxury Report 2019*, “How young Chinese consumers are reshaping global luxury”, April 2019

Considering the two generations of Chinese consumers post-1980s and the post-1990s, it is possible to distinguish four groups of spenders¹¹⁸ shown in *Figure 20*, that are:

- Luxury newcomers: consumers who care more about brands;
- Status surfers: the least brand loyal consumers;
- Luxury connoisseurs: more sophisticated consumers, often entrepreneurs with high income;
- Fearless young spenders: consumers who don't care about branded product but prefer to buy what's trendy.

Figure 20: Post-1980s and post-1990s luxury shoppers in China



Source: McKinsey & Company: “The Chinese luxury consumer”, August 2019

Young consumers are not loyal to brands as much as the older generations. They prefer to experiment new luxury experiences, and sometimes they buy luxury goods that are not in the circle of their preferred brands, just to follow trends (see *Figure 21*).

¹¹⁸ McKinsey & Company: “The Chinese luxury consumer”, August 2019

Figure 21: Younger Chinese consumers are less loyal



Source: McKinsey & Company: “The Chinese luxury consumer”, August 2019

Furthermore, the new generations are more careful about the product’s shades. In other words, they are attracted to brand-product combinations, so for example they like wearing an item from a designer and an item from another designer.

Their purchases are more focused on the fabric, design or production of the good, differently from the older generations. Respectively, 25% of post-1980s and post-1990s consumers consider the importance of these factors against the 5% of post-1965s-1970s ones¹¹⁹.

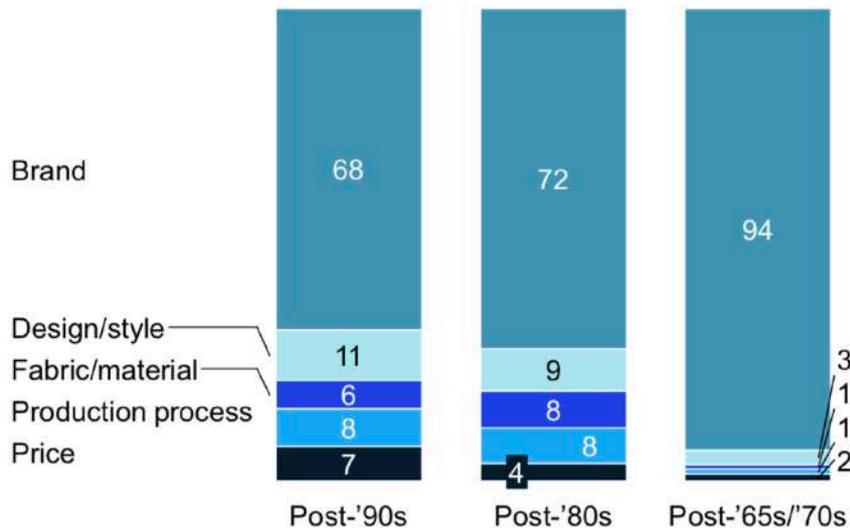
These data are expressed in *Figure 22*, as the result of the study conducted by McKinsey & Company where consumers were asked to rank the five main reasons that led them to their last luxury purchase. Brand is still considered the most important element, but also other factors enter the scenes. Thus, from 94% of the older generation brand’s value decreased to 68% for younger people¹²⁰.

¹¹⁹ McKinsey & Company: “The Chinese luxury consumer”, August 2019

¹²⁰ McKinsey & Company, China Luxury Report 2019, “How young Chinese consumers are reshaping global luxury”, April 2019

Figure 22: Younger Chinese consumers are less loyal

% of respondents who selected reason as no. 1 contributing factor



Source: McKinsey & Company, *China Luxury Report 2019*, “How young Chinese consumers are reshaping global luxury”, April 2019

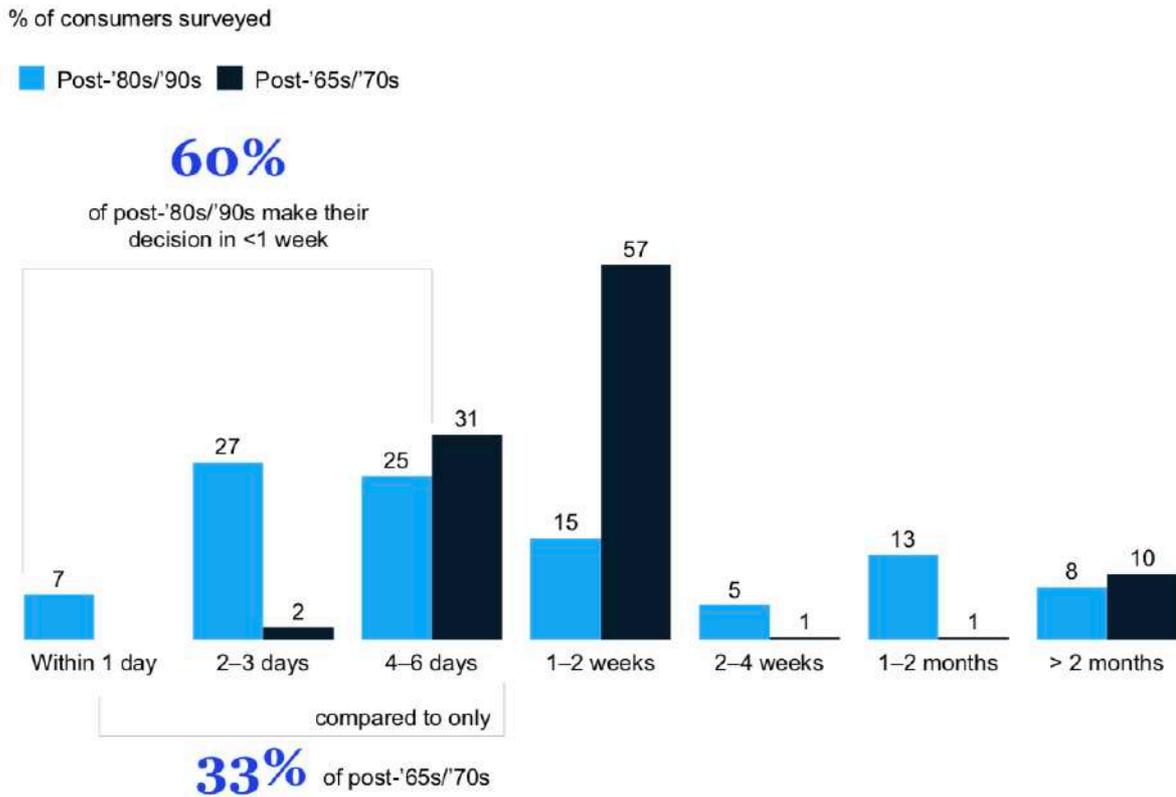
3.2.2.2 Online and offline channels

Young consumers consider fundamental the digital experience, indeed 100% of them consult both offline and online sources. In particular, each customer checks around 16 information sources about luxury goods and they spend an average of 3 to 5 hours each week getting information about luxury and fashion¹²¹. Social media made buyers’ fast purchasing decisions possible. Indeed, about 50% of pos-1980s and post-1990s consumers have already clear in their mind what they are looking for when they enter the store, since they already did researches before. Around 60% of them take less than one week to make their choice. Post-1965s and 1970s generation instead needs more

¹²¹ McKinsey & Company: “*The Chinese luxury consumer*”, August 2019

time to come up to a decision when it comes to buy a luxury item. *Figure 23* is a clear representation of what just mentioned.

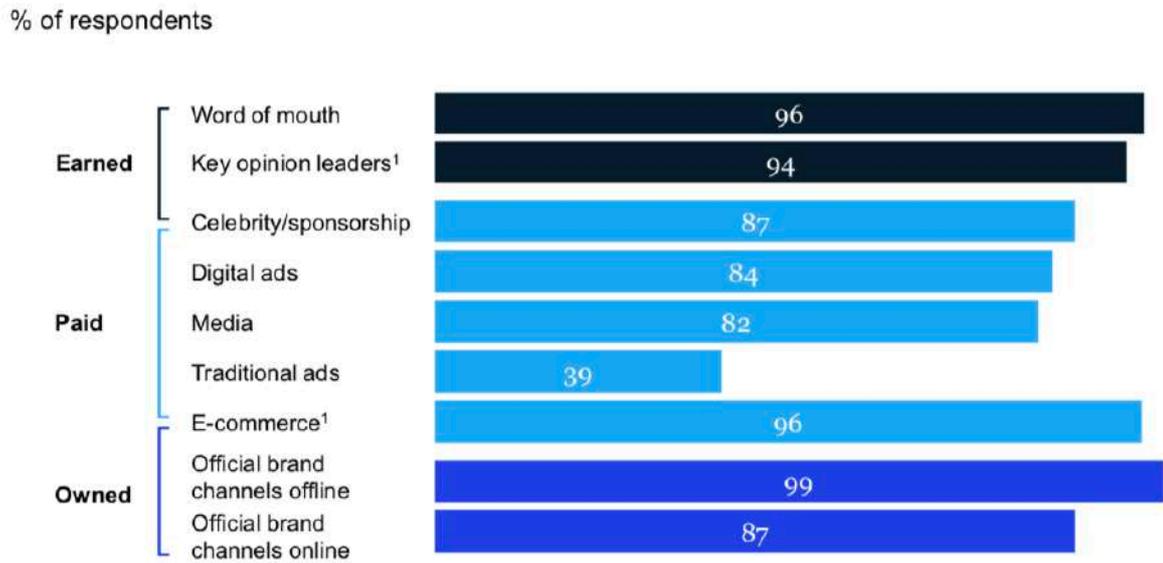
Figure 23: How long did you consider before making the purchase decision?



Source: McKinsey & Company, China Luxury Report 2019, “How young Chinese consumers are reshaping global luxury”, April 2019

Chinese consumers assiduously consult all engagement channels, except for traditional ads which obtained only 39% of consensus. It was asked buyers how they get information about products. The outcome of the research is represented in *Figure 24*.

Figure 24: How do you get information about new luxury brands?

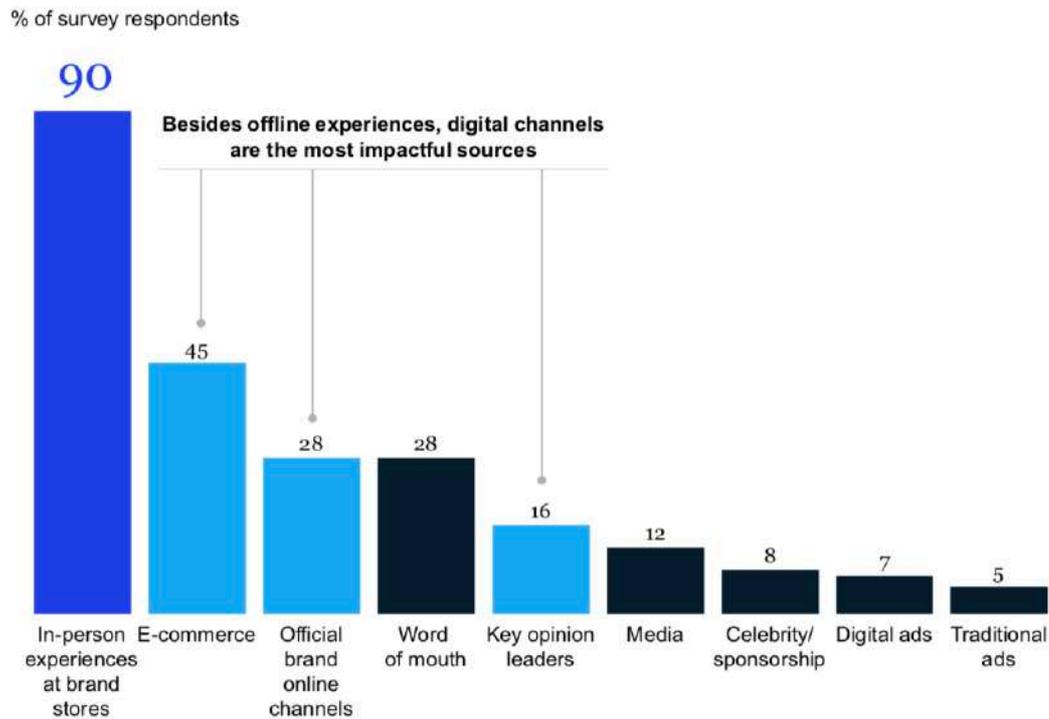


¹KOLs can be either paid or earned; Ecommerce can be either paid or owned.

Source: McKinsey & Company, *China Luxury Report 2019*, “How young Chinese consumers are reshaping global luxury”, April 2019

Similarly, in *Figure 25* it's represented a graph based on the top three mentions of which are considered the most impactful information sources that influence consumers' purchases.

Figure 25: What are the most impactful sources of information that influence your purchase (top 3 mentions)?



Source: McKinsey & Company, *China Luxury Report 2019*, “How young Chinese consumers are reshaping global luxury”, April 2019

In both cases it resulted that in-person experiences in brand stores are what affects the most consumers’ purchase behaviour. E-commerce has a significant role since it is largely used to seek information about products, with 45% of participants considering it as the preferred mean of consultation.

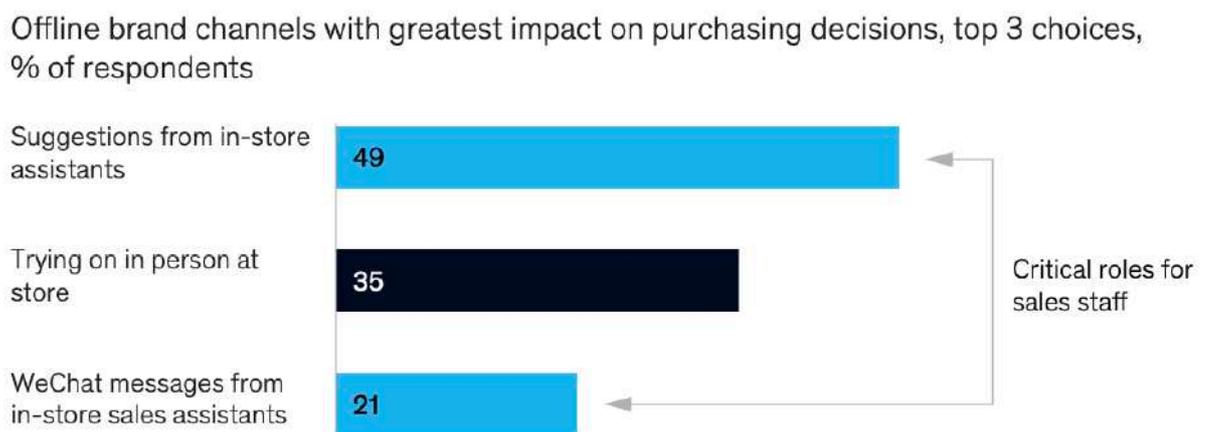
Young Chinese luxury buyers are highly influenced by KOLs’¹²² opinion. They do a lot of online research before purchasing, either on social media or on brands’ websites, to be sure that what they’re going to buy is going to give them a superior social status. For branded media, the principal online platform is WeChat, using either official accounts

¹²² Key Opinion Leaders (KOLs) are famous people, like celebrities or fashion bloggers, who make consumers more aware about a product and have the power to influence their purchase behaviour.

or mini programs, like games or other activities, inside the app. Many brands are also adopting other strategies like sharing videos on an app called TikTok, also known as Douyin. Some platforms are now creating their own mini programs, like Douyin, Baidu and Alipay.

Although their propensity towards digital, nine out of ten buyers prefer the in-store experience with sales assistants when purchasing a luxury product. In *Figure 26* are exposed the three main offline brand channels that influence the most the shopping decision.

Figure 26: Luxury consumers in China look to salespeople for suggestions



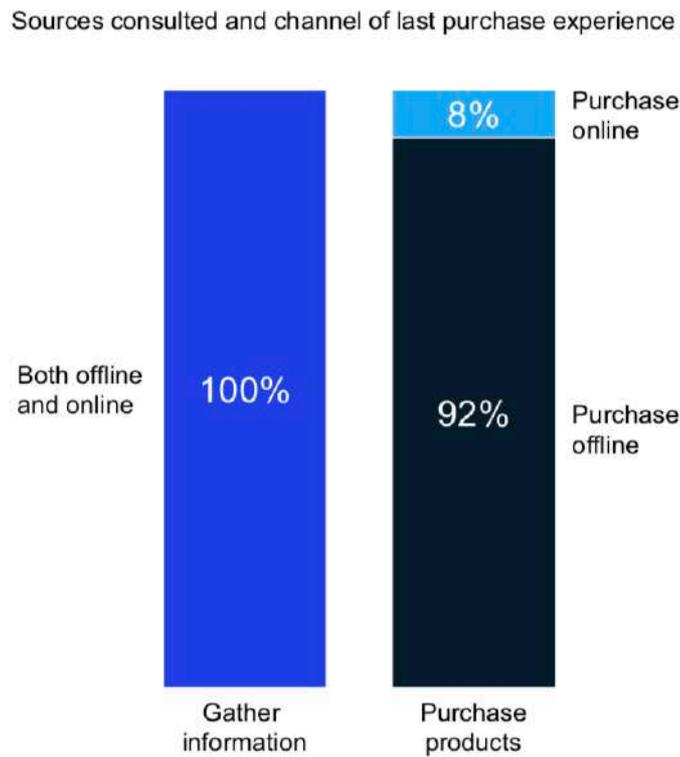
Source: McKinsey & Company: “The Chinese luxury consumer”, August 2019

As just mentioned, there is an absolute preference for offline purchases that amount for 92%, against online purchases that correspond only to 8%¹²³. Moreover, the few online purchases are mostly driven by cosmetics, rather than fashion or jewelry. Thus, in

¹²³ McKinsey & Company, China Luxury Report 2019, “How young Chinese consumers are reshaping global luxury”, April 2019

Figure 27 it's shown that consumers gather information both from online and offline sources, but that most of their purchases are made in stores.

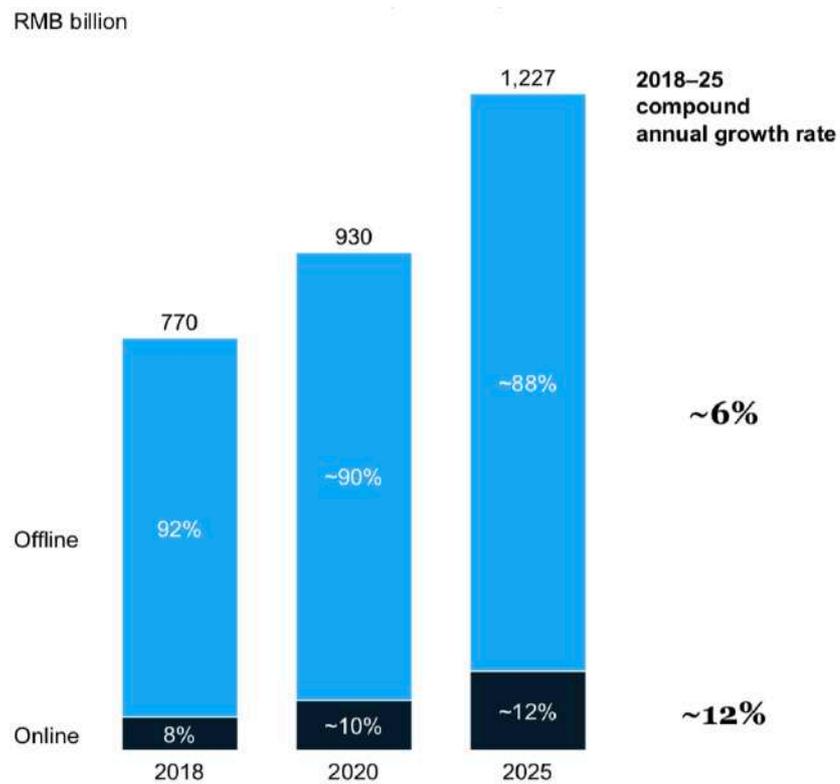
Figure 27: Information and channel preference of Chinese luxury consumers



Source: McKinsey & Company, *China Luxury Report 2019*, “How young Chinese consumers are reshaping global luxury”, April 2019

In a such digitized world, what's interesting is that, even in the near future, offline channels are still expected to be the preferred ones by Chinese consumers, as shown in Figure 28. By 2025, offline purchases will still account for 88% of total.

Figure 28: Breakdown of Chinese online luxury spending



Source: McKinsey & Company, *China Luxury Report 2019*, “How young Chinese consumers are reshaping global luxury”, April 2019

3.2.2.3 Luxury brand’s “special strategies”

Even though every brand has its own international strategy, intended to several out of border markets, because of the enormous weight that China is acquiring in this sector, it needs special attention. To take advantage of the opportunities offered by the Chinese market it is necessary to be present on site. First of all, this led companies to understand the emerging trends and the peculiarities of Chinese demand. Moreover, it shortens the distance between producers and consumers. It also makes possible to constantly monitor both the regulatory evolution and the administrative policies, which considering the

continental vastness of the country, might be subject to significant variations¹²⁴. Companies active in the luxury industry, but not only, must consider the various facets that characterize the Chinese consumer. Coming from a diverse background, in terms of culture and customs, they might perceive the product in a totally different way from western consumers. Therefore, it is necessary a deep knowledge of their manners and an adequate awareness of what customers are sensitive to, either in terms of content or means.

Emblematic example of the foregoing is the difficulty of some global celebrities in reaching consensus in China as well. The American influencer Kim Kardashian, who on Instagram has about 150 million followers, has only 170 thousand fans on the Chinese social media Little Red Book. Instead, the local star Angelababy has on the same platform around 15 million followers.

A successful strategy for luxury brands is to merge their collection with local influences during fashion shows, in order to create unique exhibitions, closer to the foreign market. In 2018 Dior exposed the Haute Couture Spring/Summer collection in Shanghai, including 12 extraordinary pieces specifically made for the show. The items had peculiarities that reminded to Chinese culture, such as the red designs whose colour alluded to fortune and happiness and they were ideated by Chinese fans. In *Figure 29* and *Figure 30* are shown some details of the Dior's special pieces dedicated to China. The strategy had a large success, and because of the many initiatives that Dior is promoting in China, RTG Consulting Group defined it as the most appreciated high-fashion brand for Chinese Generation Z consumers¹²⁵.

¹²⁴ <http://www.infomercatiesteri.it>

¹²⁵ RTG Consulting Group, “*Brand Relevance Report*”, July 2017

Figure 29: Dior's Haute Couture Spring/Summer collection, Shanghai, 2018



Source: Jing Daily: The Business of Luxury in China, April 2018

Figure 30: Details of Dior's Haute Couture Spring/Summer collection, Shanghai, 2018



Source: <https://www.dior.com>

3.3 The Chinese fashion industry

For thousands of years Made in China has been synonymous with craftsmanship and exceptional quality. The production of silk and ceramics, as well as the art of writing and printing, distinguished China making it a country full of heritage and know-how. In the 21st Century the situation changed. China preferred to focus on volumes and low prices, becoming the "factory of the world"¹²⁶. Today the priorities seem to be changed and China is always more oriented towards excellence.

China has succeeded to create its own identity in the fashion world only in the last two decades, inaugurating in 1997 the first China Fashion Week in Beijing. Lagging behind the world scene, the first Milan Fashion Week for instance was set up almost forty years before in 1958, China has demonstrated anyway to be able to enter the international scene fastly and cleverly.

The Chinese designer Guo Pei, one of the icons of Chinese haute couture, said: "I feel we haven't developed that slowly, if you look at the development of fashion in Europe, it actually took a few a few hundred years to get where they are today. China is rapidly catching up with Europe and the West, in fact, over the 30 years that I have been designing, China has caught up with perhaps 80 years of European fashion. So, in those terms China is developing very, very, fast. Thirty years ago we didn't even have a word in Mandarin for fashion. These days in Mandarin we translate 'fashion' as *shishang* (时尚), back then we only had the word *fuzhuang* (服装) which translates as 'clothing'. Then the word *shizhuang* (时装) came along which meant 'clothes in season', or 'contemporary clothing'. So, the concept of fashion didn't even exist in the language."¹²⁷.

¹²⁶ Zhang K. H., "China as the world factory", Routledge, Abingdon, Oxon, 2006

¹²⁷ Coghlan T., "Guo Pei interview", 2012

The Chinese fashion business is making considerable progress in gradually leaving the counterfeit condition, to give space to an entirely original creativity.

Even though the East has always been inspired and strictly connected to the West for a long period, now China is finding its way and trying to turn into an awesome rival for the world's top-level fashion brands. Despite classical China is still the soul of the nation, it must be recognized that the country is developing quickly.

3.3.1 The Chinese fashion history

Separating China from its millenary past is almost impossible. Regardless of what you are talking about, whether art, music, literature or food, everything that is referred to the Celestial Empire has a long and strong history. The same can't be said for fashion. Although traditional Oriental costumes with their fine ornaments have a long past, Chinese fashion, meant as a clothing style with a seasonal life cycle and as an aesthetic trend for business purposes, is a totally recent event. Before the mid-Nineteenth century, Chinese were capable of very high craftsmanship, with clothes embellished with complex decorations¹²⁸, but the costumes worn by mandarins or emperors did not change over time.

Between the end of the Nineteenth century and the beginning of the Twentieth century, under the government of the Qing, the last Chinese dynasty, several European merchants migrated in coastal cities such as Shanghai, Tianjin and Canton, who taught the Chinese the techniques of western tailoring. Zhao Chunlan is considered the father of China's fashion. Son of tailors, in 1848 he had the opportunity to live in the United States where he acquired the tailoring techniques and, in particular, the reproduction of the western women's jacket. When he returned to China, he transmitted what he had learned to his students.

¹²⁸ Garrett V. M., "Chinese clothing: an illustrated guide", Oxford University Press, Oxford, 1994

But it is only since 1912 that China started being influenced by the West in the lifestyle, so that real clothing styles took shape and the Chinese textile and clothing industry was launched for the first time.

Sun Yantsen, the founder of the Republic of China, ideated a new jacket model inspired by the western style, the so called "Sun jacket". Men's and women's clothing started to be developed in both standard and custom sizes, while many clothing stores opened in the cities. One of the first Chinese brands' names of the time is Hong Xiang, which used to produce luxurious clothes at very high prices, intended for rich Chinese people and movie stars. At the beginning of the last century, China, influenced by the Occident, began to make investments in fashion, also developing new clothing ideas, such as the qipao¹²⁹, which is a traditional dress made with silk and characterized by a long slit on the leg and patterned decorations, intended to highlight the beauty and elegance of oriental women. But China's width resulted in the fact that that even the same kind of clothing had many aesthetics and functional differences according to the traditions of the single regions. The qipao, for instance, in Beijing was loose and angular, while in Shanghai it was the right opposite¹³⁰.

However, the scenario went through a transformation when the politics changed¹³¹.

In 1949, Chinese Communist leader Mao Zedong declared the creation of the People's Republic of China (PRC) and nationalized the entire clothing market by imposing citizens to wear a univocal style which would reflect the dictates of Communist China. On the basis of the model designed by Sun Yantsen, the president Mao Zedong introduced the famous Maoist jacket, characterized by neutral colours and sober lines that symbolized the proletariat. The era of the *qipao* was ended. The peasant women were dressed in heavy fabrics, shapeless lines and neutral colours, on which there were

¹²⁹ Roberts C., "Evolution and Revolution: Chinese dress, 1700s-1900s", Powerhouse Museum, Sydney, 1997

¹³⁰ Finnane A., "Changing clothes in China", Columbia University Press, New York, 2008

¹³¹ Finnane A., "Changing clothes in China", Columbia University Press, New York, 2008

sewn red brooches and symbols. The clothing became the same, both for the citizens and for the army¹³².

Chinese fashion reopened to the world only in 1978, when the new President Deng Xiaoping liberalised and opened the Chinese market to the West¹³³, arising interest in the fashion world, which was already well established in Europe. Through his numerous political, social and economic reforms Xiaoping initiated a process of modernization, that can be defined in effect as a westernization.

In 1980 the Central Academy of Arts and Design in Beijing introduced the first fashion university course in China. Authorities realized that more education and more companies would help the local economy growth¹³⁴.

At the turn of 1970s and 1980s, China went through a large absorption of western fashion influences, that led to the production of international styles, especially intended for the mass market¹³⁵.

A new Chinese women's fashion emerged in the cities¹³⁶. High heels, sunglasses and jeans began to be part of the daily life. Moreover, haute couture started to spread among the richest people, thanks to the proposals of Western designers. In 1979, Pierre Cardin was one of the firsts to present a fashion event in Beijing. Soon, during the Nineties, many European brands entered the Chinese market and labels like Chanel, Gucci and Dior started to be appreciated by the Chinese public.

It was from this moment that Chinese companies began to reproduce copies of European clothes for the domestic market. The interest in the luxurious Western brands, along with the low cost of Chinese manufacturing, gave growth to the great market of

¹³² Finnane A., "What should Chinese women wear? A national problem", *Modern China*, vol.22, 1996

¹³³ The "Open Door Policy", initiated by Deng Xiaoping in 1978

¹³⁴ Montgomery L., "China's Creative Industries", Cheltenham, 2010

¹³⁵ Finnane A., "Changing clothes in China", Columbia University Press, New York, 2008

¹³⁶ Roberts C., "Evolution and Revolution: Chinese dress, 1700s-1900s", Powerhouse Publishing Sydney, 1997

counterfeiting. As a consequence, it began the period characterized by big brands' low-quality imitations that, thanks to low prices, reached a great success all over the world.

The turning point in the Chinese fashion market happened during the 2000s, when the Chinese policy began to limit the activity of counterfeit stores. The phenomenon of counterfeiting, despite lasted for a long time and is still present today, has been restricted thanks to multiple controls.

Throughout the following years, China's levels of creativity, innovation and design commenced advancing. The engine of such change were the new generations of designers educated in European fashion academies.

Today, young Chinese want to redeem, obliterating the cliché of Eastern people expert at copying and establishing an authentic and original identity.

3.3.2 Chinese fashion, a new trend

Lately, *Made in China* high fashion, as well as other branches of the luxury industry, is a phenomenon that is starting to take off among Chinese consumers, who used to purchase only Western fashion brands until recently. Chinese luxury fashion companies are also gradually emerging. Indeed, so far, Western stylists were the only model for Chinese designers, fascinated by European taste. In recent times, the Chinese fashion industry has been investing in the domestic market. The number of brands producing clothes, leather goods and accessories has been increasing significantly, along with the promotion of events and exhibitions and the inauguration of fashion institutes like Raffles Design¹³⁷, or the China Central Academy of Fine Arts¹³⁸.

What's happening is that they are taking advantage of some changes in the market. First, a change in the tastes of rich Chinese consumers, who prefer niche products with a

¹³⁷ Founded in 1994 in Shanghai

¹³⁸ Founded in 1918 in Beijing. In 1995 CAFA's program was renewed and they were introduced new majors, like fashion design, communication design and photography.

classic taste. Secondly, quality improvement has helped emerging brands to stay away from the stigma of *Made in China*, to the point of comparing them to Western competitors. Moreover, Xi Jinping's China Dream has fuelled a patriotic sentiment that contributes to the consumption of domestic products.

The goal is to move from the Chinese market leader in clothing production to the Chinese market leader in fashion production¹³⁹.

Thus, at the base of such phenomenon there are always more citizens proud of their mainland.

Chinese artisans' savoir faire is becoming highly appreciated, especially by those rich people who want to distinguish themselves from the rest of the wealthy population who buys western luxury products. Indeed, one out of ten young Chinese consumers prefer buying brands from their homeland, rather than the foreign ones, and this value is set to increase¹⁴⁰. Or more, consumers are very interested in collaborations between European luxury brands and Chinese artists. It is considered also a way to enhance the Chinese workforce's image.

In addition to the opening of academies dedicated to education and practice, a considerable role in the development of China's fashion system is played by magazines and fashion media. Many international magazines have a Chinese edition, like Vogue, Cosmopolitan, Elle and others¹⁴¹.

Moreover, China's two main cities Beijing and Shanghai hosts respectively the Mercedes Benz China International Fashion Week, organized twice a year by the China National Textile and Apparel Council, and the China Fashion Week, managed by Shangtex¹⁴². The China International Fashion Week of Beijing mainly presents large

¹³⁹ Yuan-Feng Liu, president of the Institute of Fashion Technology of Beijing.

¹⁴⁰ McKinsey & Company, China Luxury Report 2019, "*How young Chinese consumers are reshaping global luxury*", April 2019

¹⁴¹ Dutch Design Fashion Architecture, "Fashion in China Mapping", 2011

¹⁴² Shangtex is a listed holding company of various textile and clothing companies located in Shanghai.

Chinese companies, while in Shanghai are exposed the creations of independent designers, characterized by a style closer to the Western one.

But Chinese designers certainly do not forget their culture and heritage, recalling the uses and the beliefs of their millenary civilization. Many styles are inspired by the past, with decorations and colours that remind to the great classics of Chinese history. The red, for instance, is a fundamental colour in the tradition of Chinese culture, being the representation of happiness, success and luck. The iconic elements that symbolize the Chinese tradition are the peach flowers and the peonies, as well as the use of precious oriental fabrics. The mark left by the traditional costumes, like the women's dress with large and long sleeves called *hanfu*, is still evident.

Nevertheless, Chinese designers have a connection with their history in many different ways. Some of them, however, seek to get away from the classics to be much closer to Occidental fashion, which has always been a source of inspiration for Chinese stylists¹⁴³.

3.3.3 The three generations of Chinese fashion designers

Christine Tsui¹⁴⁴ is a Chinese fashion scholar who has always been passionate about the evolution of this field. Her studies and researches led her to identify three generations of Chinese fashion designers¹⁴⁵:

- The *Pioneers*: they belong to the first generation of Chinese designers, who were born between the 1950s and the 1960s and characterized by scarce oestrum and limited creativity. In this period, 2 designers are laying the foundations for contemporary Chinese fashion: Frankie Xie and Wu Haiyan.

¹⁴³ Christine Tsui, “China Fashion: Conversations with Designers”, New York, 2009

¹⁴⁴ Christine Tsui has a master’s degree in Fashion Marketing and Management (2003) from London College of Fashion. She was a scholar at Parsons School of Design in New York (2013-2014).

¹⁴⁵ Christine Tsui, “China Fashion: Conversations with Designers”, New York, 2009

Frankie Xie studied Tokyo and then he became chief designer of the Japanese fashion brand *Nicole*. In 2000 he created the brand *Jefen*, obtaining a space in the Paris fashion shows. An important stage for Chinese fashion that demonstrated its personality to the main protagonists of the sector. *Jefen* embodies refinement and it is the label of the wealthy and career woman. Frankie Xie's style blends the traditional with the modern, trying to satisfy also Western tastes¹⁴⁶.

Wu Haiyan, president of the design and clothing department of the Chinese Academy of Fine Arts and a leading figure in the 90s of the last century, is a designer still very tied to the elements of Chinese culture. In 2000 she gives birth the brand *WHY* (Wu Haiyan), through which she enhances elegance, femininity and naturalness inspired by Chinese tradition. The peculiarity of her art is the production of clothes made of silk and linen. Details, transparencies and floral decorations are the main motifs of Wu Haiyan's creations. Unlike Frankie Xie, this designer is beginning to slightly deviate from tradition, using bright and contrasting colours and giving to her clothes a note of sensuality, which is a trait much closer to the Western style¹⁴⁷.

- The *Practitioners*: with this second generation of designers born around the 70s, it begins a phase of profound change. For the first time it comes into existence the first China Fashion Week and there is the introduction of newspapers, magazines, festivals and events dedicated to Oriental fashion. The great classics are always more reinterpreted in accordance with the needs of the market, which is always more international. During this period the figures that stand out are Liang Zi, Lin Li, Vivienne Tam, Ma Ke and Guo Pei.

Born in Hangzhou in 1970, one of the most interesting figures of this period is Liang Zi, whose professional education takes place between New York and Paris. The designer is the creator of *Tangy*, a brand definitely in line with the Western style. The traditional fabrics of the East meet the minimalist style of the Occidental

¹⁴⁶ <http://www.jefen.com/>

¹⁴⁷ Christine Tsui, "China Fashion: Conversations with Designers", New York, 2009

continents, creating a product that can be easily distributed internationally¹⁴⁸. Liang Zi, in addition to using traditional Chinese silk and linen, uses another ancient Chinese fabric called *shuliang*.

Lin Li is the founder of the brand *JBNY*, which means "Just Naturally Be Yourself", that is the result of more than 18 years of work. Her style is minimal and simple, where soft fabrics and delicacy predominate. Her trademark now has a turnover of 320 million euros, an unquestionable success for Chinese fashion.

Vivienne Tam is one of the most famous Chinese fashion designers at international level. She grew up and studied in Hong Kong but then decided to start a career in the United States. In New York she reached the esteem and affection of celebrities, like Madonna, Julia Roberts and Demi Moore.

Some artists show their ideas considering clothing not only as something to wear, but as a form of expression. This is the case of the designer Ma Ke, who expresses her thoughts through "biological", composed of natural fibre, and sculptural clothes. She wants to enhance craftsmanship and organic materials, opposing to the consumerism of international fashion¹⁴⁹.

Guo Pei is an artist born in 1967 in Beijing, where she studied fashion design. At the age of 30 she started her own project, a brand inspired by the Chinese imperial tradition. In fact, her clothes are very prosperous and rich in precious decorations, like her famous dress made with 200 thousand Swarovski crystals¹⁵⁰. The international turning point for the artist happened in 2015 when Rihanna wore a Guo Pei's dress on the red carpet of the Met Gala. Guo Pei is also very appreciated by the singer Lady Gaga, who considers her as one of her favourites fashion designers.

- The *Prospects*: the latest generation of stylists has an advantage over its predecessors because of many reasons. Indeed, the economic and cultural environment has profoundly changed, the market has grown and studies abroad and at home are encouraged through scholarships. Although there is a very strong

¹⁴⁸ <http://www.tangysilk.com>

¹⁴⁹ Christine Tsui, "China Fashion: Conversations with Designers", New York, 2009

¹⁵⁰ <http://www.guo-pei.fr/>

competition, there are many young people in China who decide to pursue a career as a fashion designer. This is the most consistent phase in the research for China's own stylistic identity, that no longer relies on the Western one or at least not as markedly as it has been so far.

The designers belonging to this generation that had the greatest success are Uma Wang, Zhang Da and Zhang Na¹⁵¹.

Perhaps the most well-known Chinese designer today is Uma Wang. Based in Shanghai, she has been a stylist in China for ten years, before attending classes at the Central Saint Martins in London. Her style doesn't take inspiration from the Western one but, according to her, "from the little things that touch the heart" such as impressions, travels, feelings and emotions. Thanks to her international education, she is now able to combine in her brand, launched in 2005, two different worlds. The English training has allowed her to create beautiful fabrics in Italy that are the main ingredient of her collections, characterized by minimal and sculpted exotic shapes¹⁵².

For years Zhang Da has been a designer for the French brand *Hermès* and he still collaborates with the Chinese brand owned by *Hermès* named *Shang Xia*. In 2005 he launched his *Boundless* line in Shanghai. Thanks to the original shapes and the use of traditional and cheap materials, such as the blue cotton of the traditional uniforms, he is considered one of the most conceptual and interesting designers, with a retro style but at the same time revolutionary and non-conformist.

Zhang Na is a representative of Generation Y, being born in 1981. She is a designer trained in China and later specialized in Paris. Back home, in 2008, she created her own brand *NA(TOO)*, which since 2011 is called *FAKE NATOO*. Her brand collaborated with numerous brands including *Swatch* and *Nike*, getting the public's attention¹⁵³.

¹⁵¹ Christine Tsui, "China Fashion: Conversations with Designers", New York, 2009

¹⁵² <http://www.umawang.com>

¹⁵³ <http://www.fakenatoo.net>

Many Chinese designers are therefore showing that they have a solid connection with their own culture, expressed in typical stylistic codes combined with contemporaneity, dynamism and modernity. This is to emphasize that Chinese fashion exists and it reinterprets its roots, being able to be in step with the times.

Hermès International Group saw an opportunity in Chinese fashion becoming a new trend, and it understood precociously where the market was directed. Therefore, in 2007 the French brand founded a completely new brand called *Shang Xia*¹⁵⁴, distinct from Hermès, which combines modern and ancient Chinese culture, with the Hermès' philosophy touch¹⁵⁵. The Hermès' CEO of that time Patrick Thomas defined it as the "Chinese Hermès", because the two brands share the same craftsmanship, creativity and style¹⁵⁶. The brand's main purpose was to relaunch the Chinese manufacture, with the aim of being sold all over the world. The first boutique opened in Shanghai in 2010, followed by a second one in Beijing in 2012. In 2013 Shang Xia opened its first European store in Paris.

Shang Xia, being part of a European group, had a privileged channel in expanding in the foreign market. But do the other Chinese luxury brands have the same capacity?

¹⁵⁴ <http://www.shang-xia.com/CN>

¹⁵⁵ <http://www.shang-xia.com/EN>

¹⁵⁶ Jing Daily, October 2012

CHAPTER FOUR

Empiric Research

4.1 The aim of the research

In the previous chapters, it was examined the role of the Country of Origin as an extrinsic variable for the evaluation of a product and it was studied how it influences the latter's success in the market. Then, it was dedicated a particular attention to the luxury industry, finding a great relevance in this sector for two components of the COO, that are the Country of Design (COD) and the Country of Manufacture (COM).

In specific, this analysis is not only intended to deepen the Country of Origin Effect in the luxury market, but it is aimed at finding the intersections of different variables, some related to luxury and some to the COO, to study their effects on consumer's behavior. Then, the ultimate purpose of the research is to see if there are consistent differences among the two cases taken in consideration related to two different countries of origin, that are China and Italy.

In this regard, they were chosen two luxury fashion brands, the Chinese brand *Shanghai Tang* and the Italian brand *Prada*.

The intent is to analyze if and how much the "Made in" mark results in a difference of perception in consumer's mind among China and Italy, even when the product considered is the same one.

4.1.1 The selected brands

Shanghai Tang

According to Gentlemen Marketing Agency¹⁵⁷, *Shanghai Tang* stands as the first Chinese luxury fashion brand. Shanghai Tang was founded in 1994 by David Wing-Cheung Tang, who started his business with a small boutique in Hong Kong, and today is part of the Swiss group Richemont. Over time, Shanghai Tang opened not only in other Chinese cities, such as Beijing, Shanghai or Chengdu, but also in other multiple locations, reaching also Western capitals like Miami and London. It is seen by many as a symbol of the Chinese style able to put together the elegance and stylistic details of the Han dynasty's customs with the modernity of the 21st Century. Indeed, a meticulous search for elegance and high quality and careful respect for the traditional Chinese' canons of style combined with a western taste have allowed the brand to be internationally well-established. Besides, designers located in numerous fashion cities have ensured a full understanding of the international market. Digital marketing platforms have made it possible to track potential customers, obtaining original ideas for future designs and following the most loyal customers' trends, in order to ensure greater competitiveness in the market¹⁵⁸.

Prada

Prada's history began in 1913, when Mario Prada with his brother Martino opened a very elegant boutique in the Galleria Vittorio Emanuele in Milan, that they called "Fratelli Prada". The two brothers started their business selling handmade suitcases, travel bags, evening bags and jewelry boxes, made with precious leathers, such as elephant, crocodile, snake, walrus, etc. Furthermore, they used to create also many design objects in ceramics,

¹⁵⁷ Gentlemen Marketing Agency is a Chinese digital marketing company established in Beijing, Shanghai and Shenzhen. It helps businesses to develop their interests in China and to reach and communicate with their Chinese consumers.

¹⁵⁸ <https://www.shanghaitang.com/en-eu>

porcelain, silverware and crystal. This exclusive variety of items brought the small boutique to be known among noble circles in just six years. At the end of the First World War, 1919 was Prada's turning point. The store became the official supplier of the Savoia royal family. A highly prestigious role, which brought Prada to have a large consensus among the Italian and European families. Very soon it became a reference point for national and international fashion for leather accessories. During the Second World War, however, Prada lost successes, as well as many other activities at that time. The idea of opening a third store in Rome was abandoned and also the second store of Via Manzoni in Milan closed miserably. It is in these years that Prada changed its target, becoming more popular and bringing its products in the bourgeois class. With the extension of the target, the small luxury boutique slowly recovered. Success finally returned in 1977, when the company passed into the hands of Mario's niece, Miuccia. Graduated in Political Science at the State University of Milan, after struggling for women's rights in Milan in the 1970s, Miuccia transformed the company into a global luxury giant, thanks also to the marketing ability of the CEO Patrizio Bertelli. Prada is the expression of the society, thus it constantly changes with it. Simplicity and classicism are distorted and reinterpreted in the incessant research for new perspectives¹⁵⁹. Today, the Prada Group brand portfolio includes four Brands: Prada, Miu Miu, Chruch's, Car Shoe and Marchesi 1824, which have made it one of the most important, elegant and well-known fashion brands in the world¹⁶⁰.

4.1.2 The research method

The study is based on an empirical research, started with the administration of two surveys, one related to Shanghai Tang and one to Prada.

The questionnaires were formulated through the Google Forms survey program, and they were sent online to people who voluntarily filled them. In releasing the two surveys

¹⁵⁹ <https://www.pradagroup.com/en.html>

¹⁶⁰ <https://www.prada.com/it/en.html>

it was paid attention to send them to two different groups of respondents, one responding to the first survey and one to the other one.

The surveys' structure was the same one. The two questionnaires were composed of 33 questions each, including multiple-choice, 5 points scale and text entry questions, divided in 7 sections as follows:

- The first section of the analysis was about the interviewees' data.
- The second part measured the Brand Awareness and the Attitude Towards Brands.
- The third part regarded the perceptions of the interviewees about the Country of Origin concerned, respectively China or Italy.
- The fourth, the fifth and the sixth sections were referred to the brand in question and were related respectively to the quality, attractiveness and price perceptions of the products considered.
- The seventh part was intended to measure the Purchase Intention and to analyze if a different Country of Origin (Italy for the survey related to Shanghai Tang and China for the survey related to Prada) would modify the perception of the variables analyzed before.

In both of the surveys they were exposed three identical photos representing some fashion items taken from the Shanghai Tang's *2017 Limited-Edition Evening Dresses* collection.

The only different thing among the surveys was the brand's name attributed to the products, that in the case of Shanghai Tang it was the real one and in the case of Prada it was fictitious. Of course, the country of origin considered once was China and once was Italy, depending on the home country of the brand.

What is intended to verify is that, even if the products shown in the surveys are the same ones, the perception of the variables related to the brand or the product are different and they can change according to the COO but also to other factors related to the respondent himself.

The variables analyzed are Brand Awareness, Attitude Towards Brand, Quality Perception, Price Perception, Attractiveness and Purchase Intention. Then, it is studied what happens when putting such variables in relation with other factors, for instance with the provenience of the respondent or with the other personal data related to the interviewee.

The hypotheses intended to demonstrate are the following ones:

H1: The Country of Origin is taken as a quality signal.

H2: Brands Made in Italy have a better reputation than brands Made in China.

H3: There is a positive correlation between the Country of Origin and the perceived quality of a product.

H4: There is a positive correlation between the Country of Origin and the perceived attractiveness of the brand.

H5: There is a positive correlation between the Country of Origin and the perceived price of a product.

H6: There is a positive correlation between the Country of Origin and the Willingness to Pay.

H7: There is a positive correlation between the Country of Origin and the Purchase Intention.

H8: There is a positive correlation between the trust in the Country of Origin and the Purchase Intention.

H9: There is a positive correlation between the Country of Origin and the Brand Awareness.

H10: There is a positive correlation between the Brand Awareness and the perceived quality of the brand.

H11: There is a positive correlation between the Brand Awareness and the perceived attractiveness of the brand.

H12: There is a positive correlation between the Brand Awareness and the perceived price of the brand's products.

H13: The quality perception changes when moving the production process to the other country (China or Italy).

H14: The price perception changes when moving the production process to the other country (China or Italy).

H15: The Purchase Intention changes when moving the production process to the other country (China or Italy).

H16: The Country of Origin Effect has a different impact depending on the provenience of the respondent.

H17: The Country of Origin Effect has a different impact depending on the age of the respondent.

4.2 The analysis and the results

The first part of the data analysis regards the study of the respondents' profiles. The second part is the heart of the research it is focused on the variables already mentioned in the previous paragraph. The research is implemented through the elaboration of tables and graphs drawn up with R, Excel and Google Forms.

4.2.1 Descriptive analysis of the sample

The sample of people interviewed is composed of 300 respondents, split in the following way:

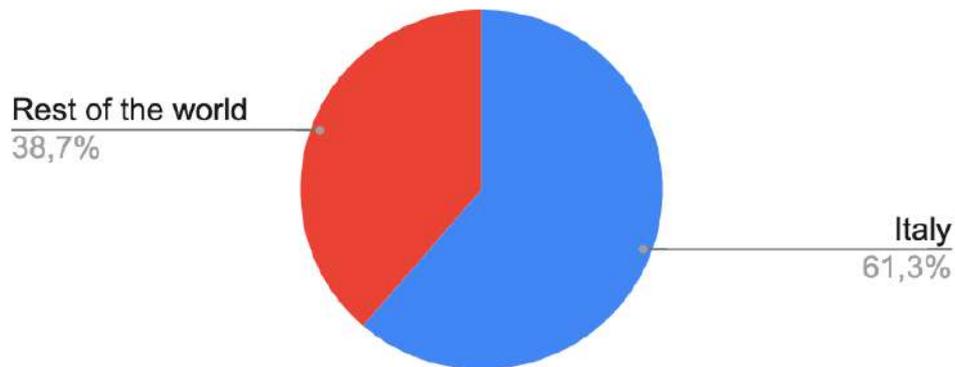
- 150 respondents completed the survey related to Shanghai Tang
- 150 respondents completed the survey related to Prada.

A first information emerging from the analysis is that the sample is quite equally distributed between the genders male and female. Indeed, considering the total of the interviewees, it was found that 44% are men and 56% are women.

In order to obtain a result concerning a more extensive and realistic reality, the survey was sent worldwide. This way, it has been possible to have opinions deriving from many sides of the globe.

As a matter of fact, a first analysis revealed that almost 40% of the respondents come from a different country other than Italy.

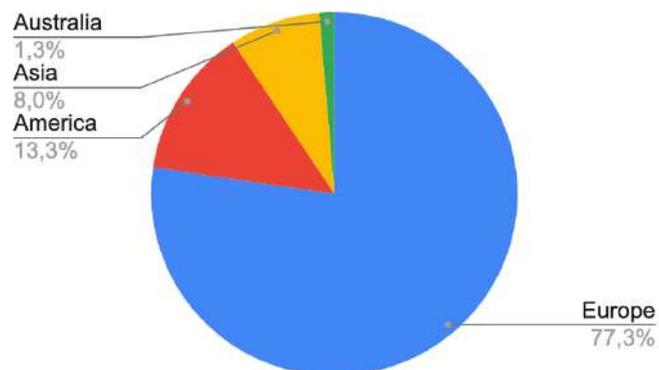
Figure 31: Provenience of the sample



Source: Graph generated with Excel

Moreover, it was found out that the sample consists of people originating from four different continents. In particular, 77% of individuals come from Europe, 13% come from America (Both North America and Latin America), 8% come from Asia and 1,3% come from Australia.

Figure 32: Continent of provenience



Source: Graph generated with Excel

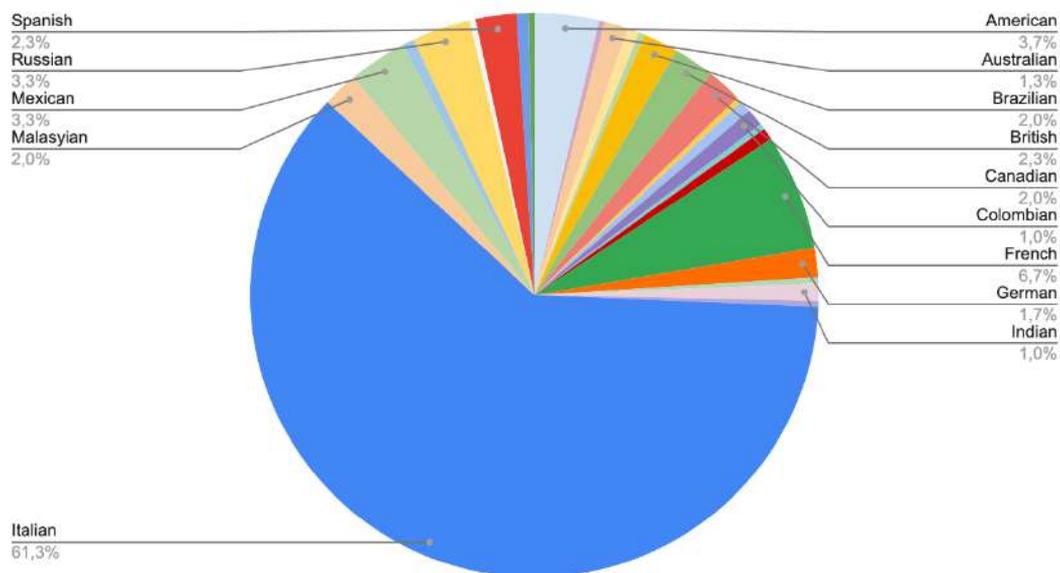
Going into the specific, the individuals in question are from 27 different countries of the world. These are: Armenia, Australia, Belgium, Bosnia, Brazil, Canada, Chile, China, Colombia, Dominican Republic, Ecuador, France, Germany, Great Britain,

Hungary, India, Ireland, Italy, Malaysia, Mexico, Romania, Russia, South Korea, Spain, Sweden, Turkey and USA.

As mentioned before, the majority of the sample is Italian, with a percentage of about 61%. The second most common nationality is the French one, with almost 7% of respondents, followed by American (3,7%), Russian (3,3%), Mexican (3,3%), British (2,3%) and Spanish (2,3%) nationalities.

In the graph below it can be seen the distribution of people in terms of nationality.

Figure 33: Nationality

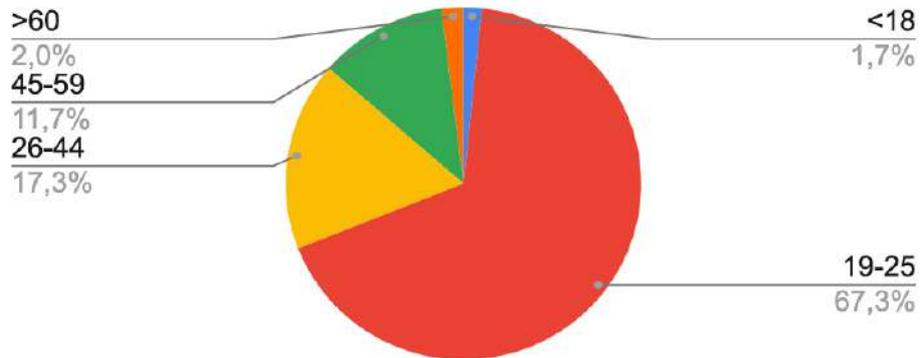


Source: Graph generated with Excel

Considering the analysis by age groups, it can be observed that more than the 67% of the sample belongs to the age range 19-25 years old. Moreover, 17% of interviewees are aged between 26 and 44 and around the 12% are from 45 to 59 years old. Respondents under 18, as well as the ones over 60, account for about 2% each.

In *Figure 34* it can be noticed that the sample is mainly composed by young individuals.

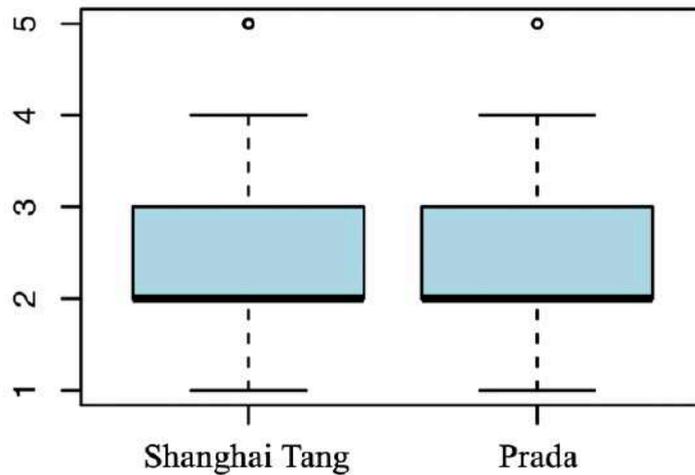
Figure 34: Age groups



Source: Graph generated with Excel

Considering the sample split in the two groups, one related to Shanghai Tang’s respondents and one related to Prada’s respondents, they are the same age in average. Thus, the sample is balanced in terms of age, as it is possible to notice from the box plot below, in Figure 35.

Figure 35: Box plot related to the Age groups

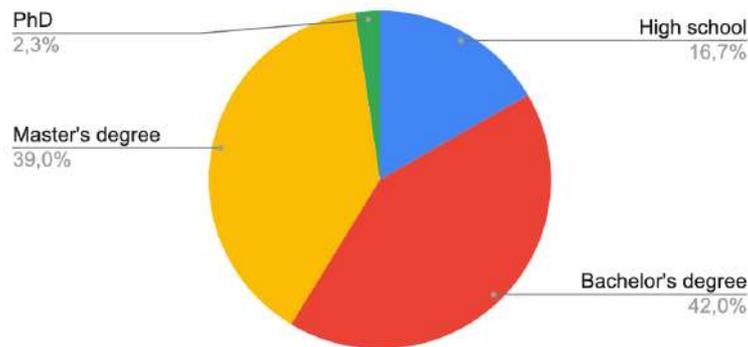


Source: Graph generated with R

It was then examined the educational level of the people involved in the survey. The result was that almost 75% has at least a Bachelor's degree. This means that only 16,7% of interviewees has the High School Diploma as educational level.

In particular, 42% is in possession of a Bachelor's degree, 39% has a Master's degree and 2,3% has a PhD.

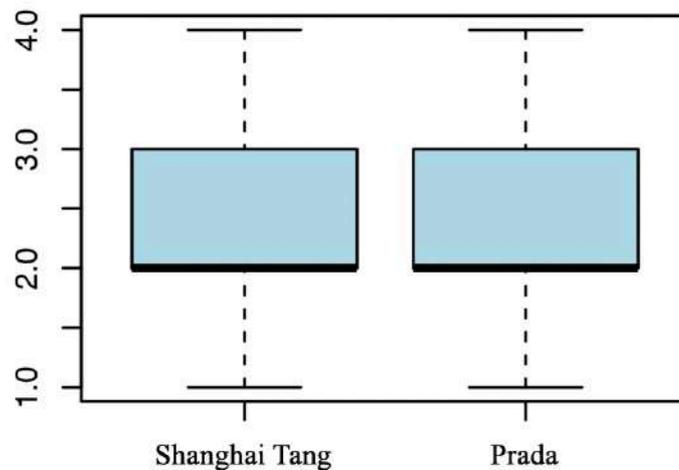
Figure 36: Educational Level



Source: Graph generated with Excel

Also in this case, the box plot in Figure 37 reveals that the two groups in the sample (Shanghai Tang's interviewees and Prada's interviewees) are balanced if we consider the Educational level.

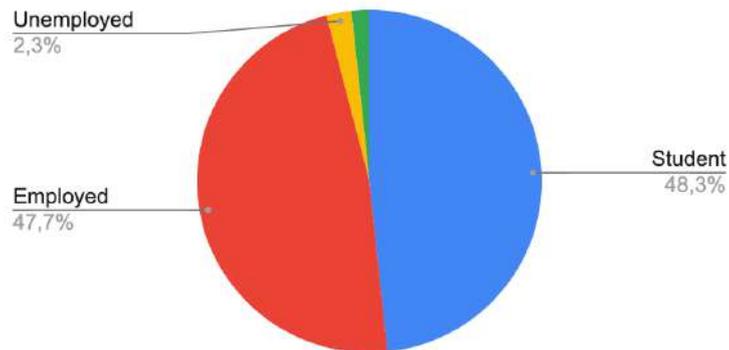
Figure 37: Box plot related to the Educational Level



Source: Graph generated with R

Then it was asked the figures interviewed to indicate what's their current occupation. It came out that only 2% of the sample is unemployed and 2% is retired. The remaining 96% is equally split in students (48,3%) and employees (47,7%).

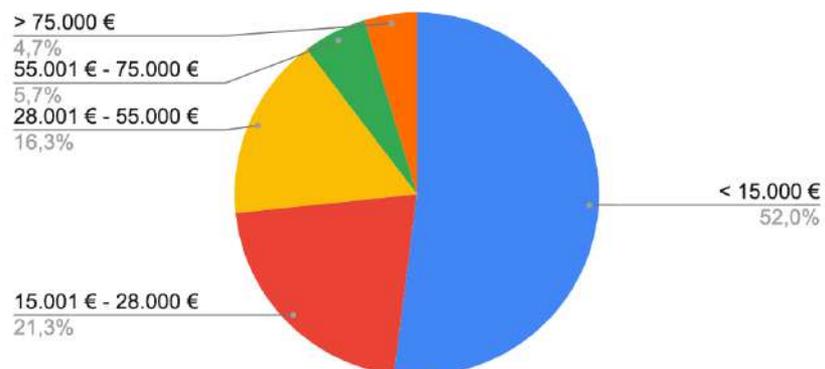
Figure 38: Current occupation



Source: Graph generated with Excel

The data analysis identified the following results regarding the level of personal income. More than half of the individuals has a personal income lower than 15.000€ per year, data that perfectly reflects the large number of students present in the sample. The other half is divided in 21% of people with an income between 15.001€ and 28.000€, 16% with an income between 55.001€ and 75.000€ and 5% with an income higher than 75.000€.

Figure 39: Personal income



Source: Graph generated with Excel

4.2.2 Analysis of the results

H1: The Country of Origin is taken as a quality signal.

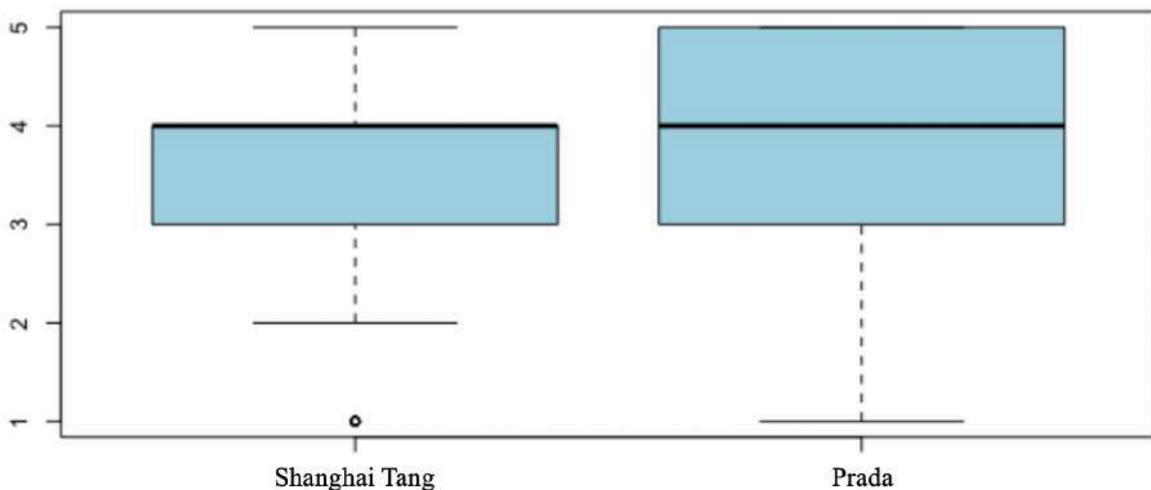
The first hypothesis that is intended to demonstrate is related to the only question that has the same valence for both of the surveys, since it isn't related to a specific country, brand or product, but it has a general meaning. Such question is:

“When buying a fashion product, I take the country of origin of the brand as a quality signal”.

As a matter of fact, on a scale of 1 to 5, both of the groups of respondents attributed to the question a score of 4. In other words, it means that people are very likely to be influenced by the Country of Origin when buying a product, during the quality evaluation process.

The box plot in *Figure 40* gives an illustration of such result, indicating on the left the average score given by the respondents of Shanghai Tang's survey and on the right the one given by the respondents of Prada's survey, which in both of the cases is 4.

Figure 40: “When buying a fashion product, I take the country of origin of the brand as a quality signal”



Source: Graph generated with R

Thus, Hypothesis 1 is demonstrated.

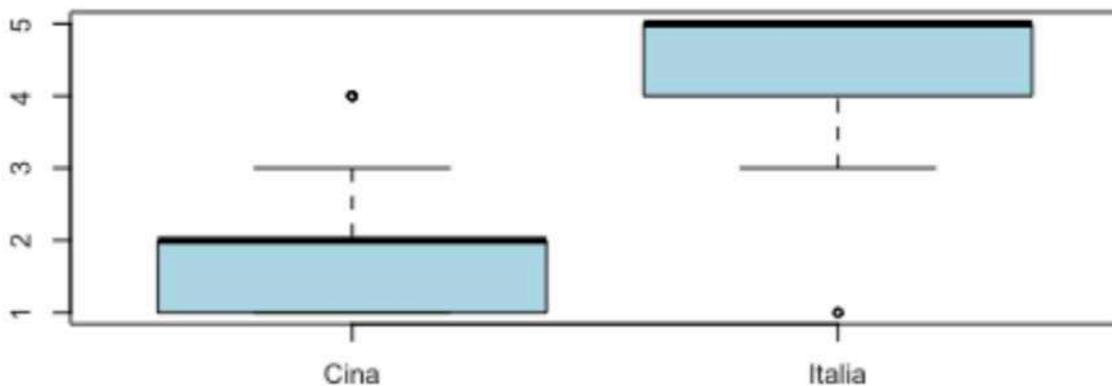
H2: Brands Made in Italy have a better reputation than brands Made in China.

Hypothesis 2 can be demonstrated in an analogous way, considering the box plot in *Figure 41* obtained from study of the following questions:

- “Chinese brands have a very good reputation”
- “Italian brands have a very good reputation”

From the box plot graph it emerges that Italy got a median of 5 points out of 5. Comparing such result with the median of 2 points received by China, it means that Italian brands have a way better reputation than Chinese brands. Another information that can be extrapolated from the graph is the fact that Italy not only has a better reputation when compared to China, but the score of 5 indicates that it has an excellent reputation in general. On the contrary, China not only has a worse reputation than Italy, but the score of 2 means that the country has a bad notoriety.

Figure 41: “Chinese brands have a very good reputation” versus “Italian brands have a very good reputation”



Source: Graph generated with R

Thus, Hypothesis 2 is demonstrated.

To demonstrate the next hypothesis of the research it was adopted the Logistic Regression Model, focusing on the various variables mentioned in the previous paragraphs.

Firstly, it was analyzed the correlation between the Country of Origin and other factors like quality, attractiveness and price perception, Willingness to Pay, Purchase Intention and Brand Awareness.

In *Table 2* are indicated the significative variables that are going to be examined in order to demonstrate our hypothesis, from H3 to H9.

Table 2: Logistic Regression Analysis related to the Country of Origin

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	-9.717	4.697	-2.069	0,04	*
Products made in China are prestigious / Product made in Italy are prestigious	2.681	1.025	2.616	0,01	**
Products made in China are expensive / Products made in Italy are expensive	2.130	1.125	1.894	0,06	.
How much do you think that the long dress in the picture costs?	2.625	1.129	2.324	0,02	*
I would buy <i>Shanghai Tang</i> 's products / I would buy Prada's products	0.5828	0.1065	5.472	0,00	***
Do you know some Chinese fashion brands? / Do you know some Italian fashion brands?	-4.731	2.194	-2.156	0,03	*

Source: Table generated with R

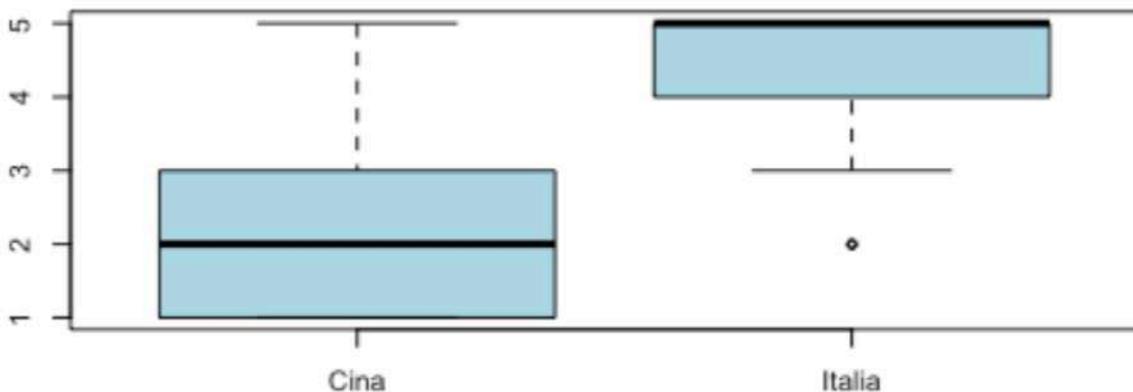
H3: There is a positive correlation between the Country of Origin and the perceived quality of a product.

To demonstrate this hypothesis, the quality perception is analyzed under two analysis methods. Firstly, it can be useful the adoption of the box plot method, by considering the statements:

- "*Products Made in China are of good quality*"
- "*Products Made in Italy are of good quality*".

In *Figure 43* can be observed the two medians related to China and Italy. In the first case, the quality perception is 2, while in the second case it is 5. Thus, we can conclude that Made in Italy products are perceived of better quality than Made in China products.

Figure 42: "Products Made in China are of good quality" versus "Products Made in Italy are of good quality"



Source: Graph generated with R

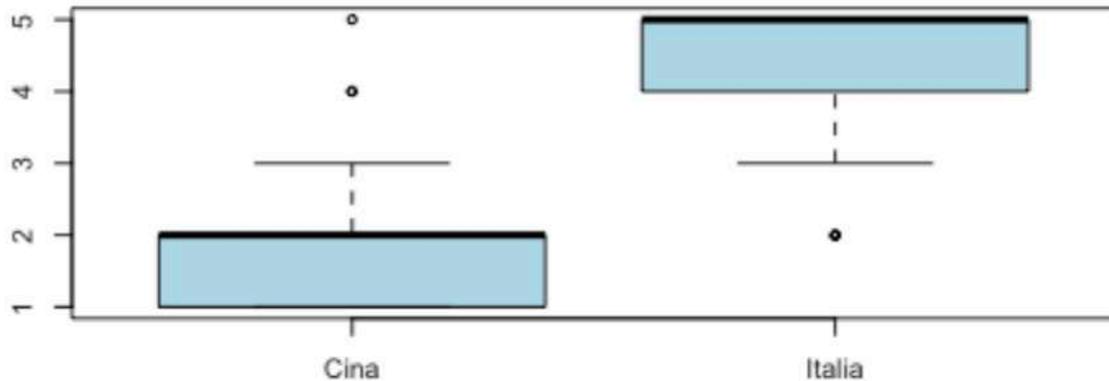
Moreover, according to a second and deeper study, the Logistic Regression Analysis, such theory is confirmed when considering the affirmations:

- *"Products made in China are prestigious"*
- *"Products made in Italy are prestigious"*.

Indeed, *Table 2* proves that such variable is very significative ($p < 0.01$), and it has a positive contribution (Estimate=2681). This means that the second country, that is Italy, is believed to produce products of better quality than the first country, that is China.

The same result is also noticeable from the box plot in *Figure 43*. In fact, Italy's median value is 5 and China's one is 2.

Figure 43: “Products made in China are prestigious” versus “Products made in Italy are prestigious”



Source: Graph generated with R

Thus, Hypothesis 3 is demonstrated.

H4: There is a positive correlation between the Country of Origin and the perceived attractiveness of the brand.

To measure the attractiveness of the brands it was shown the same photo, but in one case it was written the real brand's name (Shanghai Tang) and in the other case the fictitious one (Prada), as illustrated in *Figure 44* and *Figure 45*. Then, they were asked the following questions, to be evaluated on a scale of 1 to 5:

- "I would wear the products in the picture"
- "I would feel cool wearing the products in the picture"

Figure 44: Shanghai Tang's attractiveness picture



Source: Shanghai Tang's survey

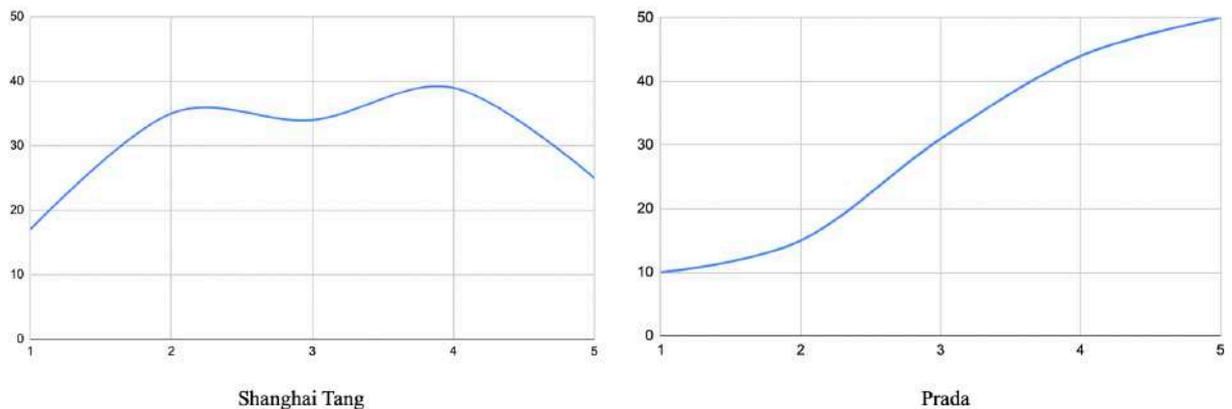
Figure 45: Prada's attractiveness picture



Source: Prada's survey

In the first question there is a situation where Prada obtained more consensuses. Indeed, as shown in *Figure 46*, its line leans towards the high values of the scale, which means that 5 is the most attributed score. Considering Shanghai Tang's line, instead, we can see that the most frequent values are 2, 3 and 4. This means that people would wear the Chinese brand's products with less probabilities than the Italian ones.

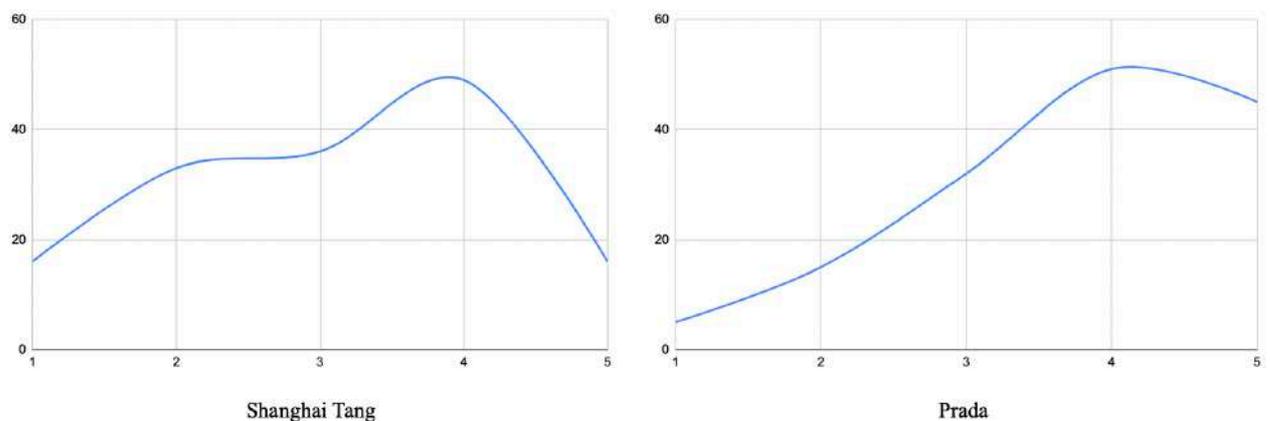
Figure 46: "I would wear the products in the picture"



Source: Graph generated with Google Spreadsheet

In the second question the results obtained are similar to the first one, but less pronounced. As a matter of fact, *Figure 47* illustrates that both of the brands registered a score of 4 as the most frequent value, but while Shanghai Tang leans more towards low values, especially 2 and 3, Prada leans more towards high values, that is 5.

Figure 47: "I would feel cool wearing the products in the picture"



Source: Graph generated with Google Spreadsheet

Anyways, being the attractiveness based on extrinsic factors like the aesthetics aspect of the products, the difference in perceptions between Chinese and Italian brands exist, but it is not substantial. Indeed, for both of the questions, the medians are 3 for Shanghai Tang and 4 for Prada.

Thus, Hypothesis 4 is demonstrated.

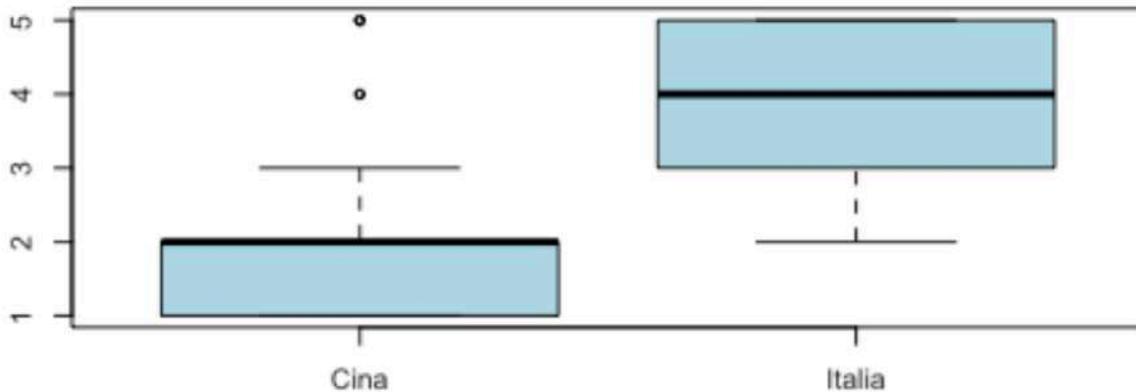
H5: There is a positive correlation between the Country of Origin and the perceived price of a product.

Before focusing on the feedbacks related to a particular product, it was asked a general question regarding the Country of Origin. The questions were respectively for Shanghai Tang and Prada's questionnaires:

- *"Products made in China are expensive"*
- *"Products made in Italy are expensive"*.

The Logistic Regression Analysis in *Table 2* exposes that there is a significance ($p < 0.1$) that gives a positive contribution (Estimate=2.130) in terms of price perception when you go from country one, that is China, to country two, that is Italy. In other words, it means that products made in Italy are considered as more expensive than products made in China. Such outcome can be obtained also from the box plot analysis shown in *Figure 48*, where, on a scale of 1 to 5, Italian products have a median of 4 and Chinese products have a median of 2.

Figure 48: “Products made in China are expensive” versus “Products made in Italy are expensive”



Source: Graph generated with R

Let's see in the specific what happens when it is examined a specific product and how the price perception of such good changes if considering a Chinese brand or an Italian brand.

In the two surveys, both for Shanghai Tang and Prada, it was shown to the interviewees the same Shanghai Tang's *Prisma Ornaments Print Sleeveless Silk Long Dress*¹⁶¹, illustrated in *Figure 49*. It was asked, then, to give an opinion in terms of price about the product in question. Even if the dress is the same, the results obtained change depending on the presumed country of origin, China or Italy.

¹⁶¹ <https://www.shanghaitang.com>

Figure 49: Prisma Ornaments Print Sleeveless Silk Long Dress



Source: <https://www.shanghaitang.com>

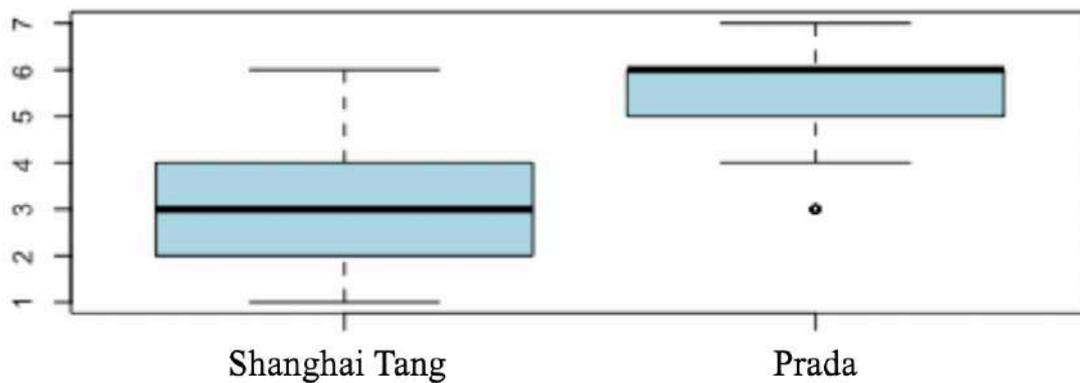
The analysis related to the price is composed of two questions, that measure the consumer's price perception and his Willingness to Pay. The price range is between less than 50€ and more than 2.000€. The real price of the dress is 1.050€.

The first question is "*How much do you think that the long dress costs?*"

The Logistic Regression Analysis in *Table 2* related to such variable reveals that there is a significance ($p < 0.05$) that gives a positive contribution (Estimate=2.625) in terms

of price perception when you go from country one, China, to country two, Italy. That is to say that when the product is believed to be Italian, people attribute a higher cost to it. Such different price perception can be noticed in the box plot below, in *Figure 50*.

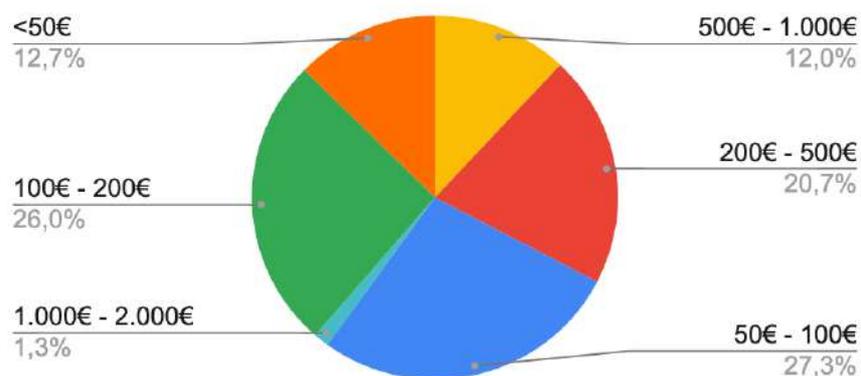
Figure 50: “How much do you think that the long dress in the picture costs?”



Source: Graph generated with R

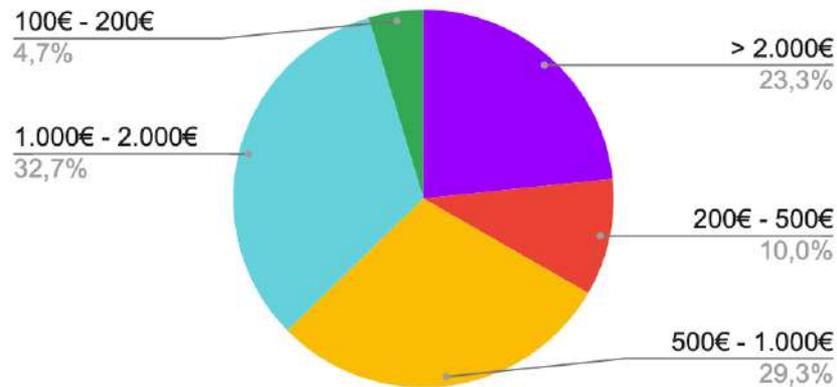
It is interesting now to deepen the study of the price perception. In this regard, it is appropriate to look at the pie charts below, where are exposed more in details the differences in the evaluation of the price that come out from the two surveys.

Figure 51: Price perception (Shanghai Tang)



Source: Graph generated with Excel

Figure 52: Price perception (Prada)



Source: Graph generated with Excel

The outcomes of the survey are shown in *Figure 51* and *Figure 52*, where the two graphs indicate two different situations.

The price perception related to Shanghai Tang is lower than the one of Prada. In fact, the most frequent price range attributed to the Chinese brand is 50€-100€ (27%), followed by 100€-200€ (26%) and 200€-500€ (21%). Moreover, 13% of people stated that the dress' price was less than 50€, and no one said that it was more than 2.000€. In conclusion, only 1% of responded gave the right price, picking the range 1.000€-2.000€. Considering the results obtained from the Prada's questionnaire, instead, it figures that the main price range is exactly the right one, that is 1.000€-2.000€, with a percentage of 33%. In this case it happened the reverse situation, indeed no one said that the dress' cost was less than 50€, but 23% of interviewees affirmed that it was more than 2.000€. Moreover, another relevant difference is that while with Shanghai Tang 87% of people attributed to the dress a price lower than 500€, with Prada it was the opposite, and 85% of people stated that the price was higher than 500€.

Thus, Hypothesis 5 is demonstrated.

H6: There is a positive correlation between the Country of Origin and the Willingness to Pay.

As already mentioned, the Willingness to Pay is the second variable that needs to be analyzed to see how the price evaluation changes in relation with the COO.

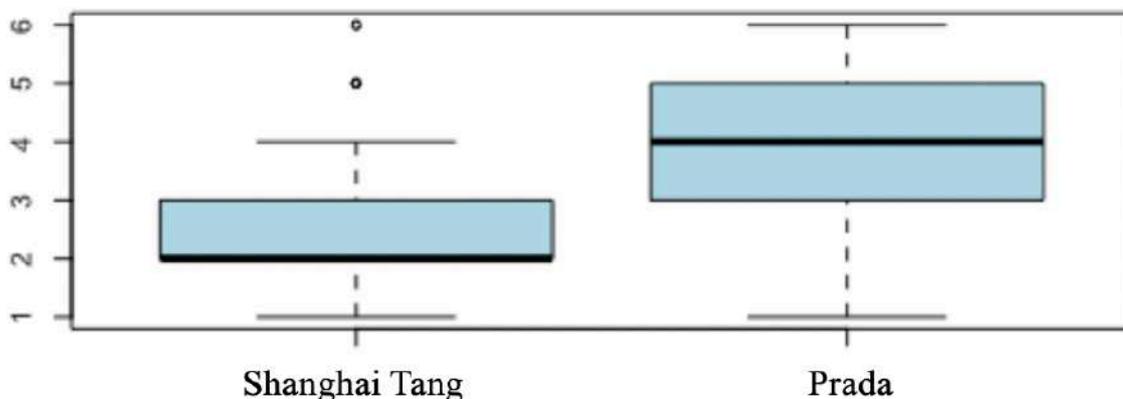
Table 3: Logistic Regression Analysis related to the correlation between the COO and the Willingness to Pay

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	-38565,0	0.4560	-8457,0	0,00	***
How much would you be willing to pay for the long dress in the picture?	12124,0	0.1376	8814,0	0,00	***

Source: Table generated with R

Referring to the Logistic Regression Analysis in *Table 3*, it is observable that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate=12124.0) in terms of Willingness to Buy when a good is believed to be Italian, rather than Chinese. Such propensity to evaluate an Italian product with a higher price when comparing it with a Chinese one can be also noticed from the box plot analysis, in *Figure 53*. As a matter of fact, Shanghai Tang's median is 2 while Prada's median is 4. This is a result extremely interesting since the product exposed in the surveys is the same and, therefore, the respondent's evaluation is influenced by the Country of Origin of such product, as well as probably by the good reputation that goes with the Italian brand Prada.

Figure 53: "How much would you be willing to pay for the long dress in the picture?"

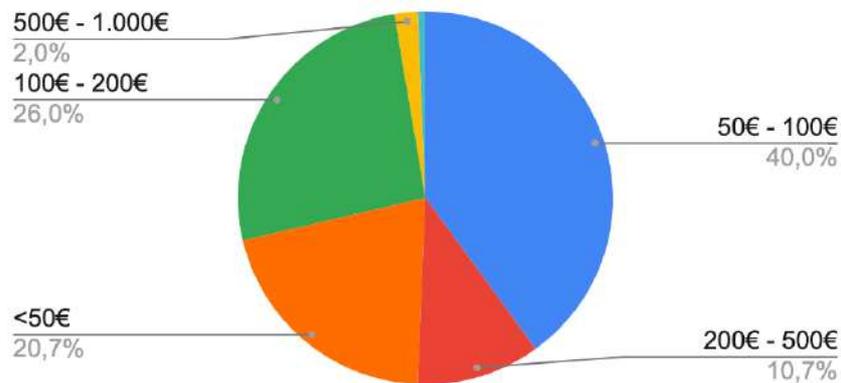


Source: Graph generated with R

Considering also in this case the pie charts, it is possible to have a more explicative result deriving from the two surveys.

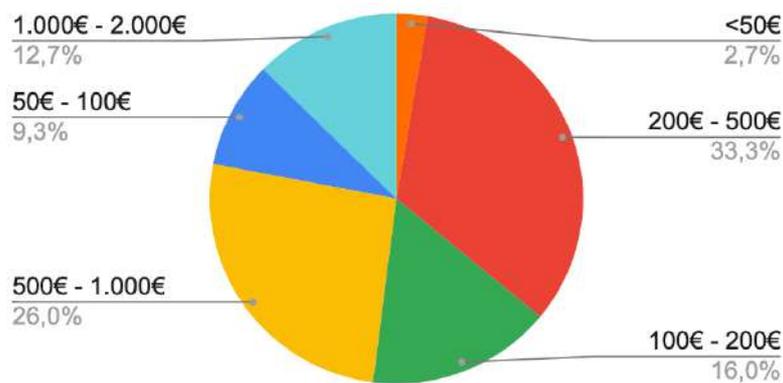
To measure the Willingness to Pay it was asked “How much would you be willing to pay for the long dress?”

Figure 54: Willingness to pay (Shanghai Tang)



Source: Graph generated with Excel

Figure 55: Willingness to pay (Prada)



Source: Graph generated with Excel

Regarding the willingness to pay, the situation is very similar to the one just mentioned. Talking about Shanghai Tang, only 13% of respondents is willing to pay more than 200€

for the dress, where only 0,7% would pay the real price. Most of the sample (40%) would be willing to pay less than 50€.

With regard to Prada, instead, most of the people (70%) would pay more than 200€, of which about 13% would be willing to pay the real price of the dress.

Thus, Hypothesis 6 is demonstrated.

H7: There is a positive correlation between the Country of Origin and the Purchase Intention.

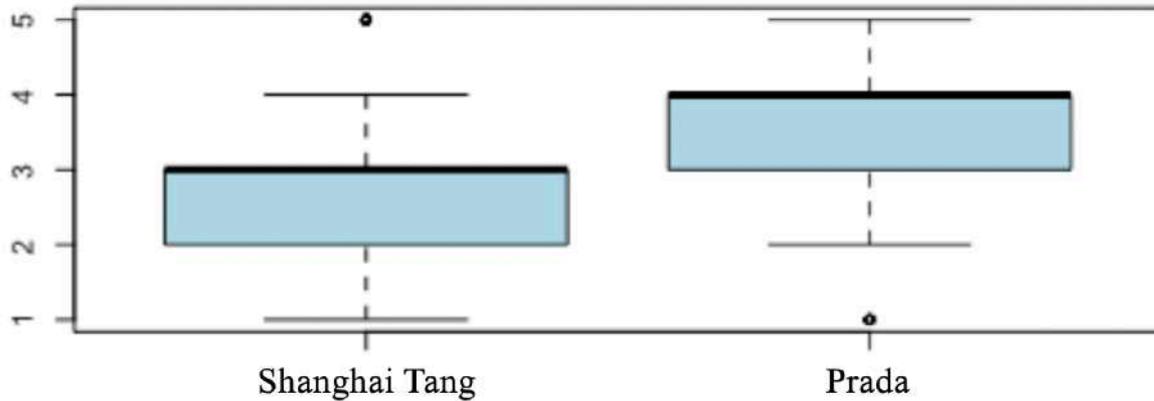
Hypothesis 7 finds a demonstration in the analysis of the following statements:

- *“I would buy Shanghai Tang’s products”*
- *“I would buy Prada’s products”*

The Logistic Regression Analysis in *Table 2* reveals that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate=0.5828) in terms of Purchase Intention when a good is produced by Prada rather than Shanghai Tang. So, it results that an individual is more willing to buy a “Made in Italy” product instead of “Made in China”.

In *Figure 56* it is illustrated the box plot related to this question, which, as well as the Logistic Regression, demonstrates our hypothesis. Taking into account the single cases, Shanghai Tang obtained a Purchase Intention equal to 3, which places it in the middle of the scale, meaning that, on average, respondents have no positive or negative inclination regarding their willingness to buy Shanghai Tang’s products. Prada, instead, received a Purchase Intention equal to 4, which locates it in a higher position, so that individuals have a positive propensity in buying Prada’s goods. As a consequence, also in this case, you come to the same conclusion that Italian brands are characterized by a higher consumer’s Willingness to Buy rather than the Chinese brands.

Figure 56: “I would buy Shanghai Tang’s products” versus “I would buy Prada’s products”



Source: Graph generated with R

Thus, Hypothesis 7 is demonstrated.

H8: There is a positive correlation between the trust in the Country of Origin and the Purchase Intention.

In this matter, it was asked the respondents, referring to the same scale of 1 to 5 that we have adopted so far, to evaluate the following affirmations:

- “I trust products made in China”
- “I trust products made in Italy”

Table 4: Logistic Regression Analysis related to the correlation between the trust in the COO and the Purchase Intention

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	161645,0	0.15632	10341,0	0,00	***
I trust products made in China / I trust products made in Italy	0.43949	0.04426	9929,0	0,00	***

Source: Table generated with R

The Logistic Regression Analysis in *Table 4* exposes that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate=0.43949) in terms of trust in the COO when you go from country one, that is China, to country two, that is Italy. This means that products made in Italy are considered as more trustable than products made in China.

Thus, Hypothesis 8 is demonstrated.

H9: There is a positive correlation between the Country of Origin and the Brand Awareness.

To calculate the Brand Awareness about Chinese and Italian fashion brands, depending on the survey, it was asked:

-*"Do you know some Chinese fashion brands?"*

-*"Do you know some Italian fashion brands?"*.

The box plot in *Figure 57* gives a first illustration of the opposite results obtained. In specific, while for Italian brands there is a strong Brand Awareness, for Chinese brands it happens quite the contrary (on the y-axis: 1=yes, 2=no).

Figure 57: "Do you know some Chinese fashion brands?" versus "Do you know some Italian fashion brands?"



Source: Graph generated with R

Moreover, the Logistic Regression Analysis in *Table 5* reveals that there is a significance ($p < 0,05$) that gives a negative contribution (Estimate= -4.731) in terms of Brand Awareness when considering Chinese fashion brands rather than Italian fashion brands. It means that the latter benefit from a higher Brand Awareness.

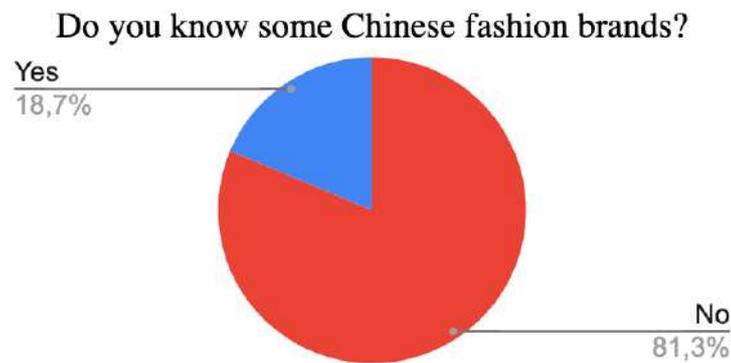
Table 5: Logistic Regression Analysis related to the correlation between the COO and the Brand Awareness

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	-9.717	4.697	-2.069	0,04	*
Do you know some Chinese fashion brands? / Do you know some Italian fashion brands?	-4.731	2.194	-2.156	0,03	*

Source: Table generated with R

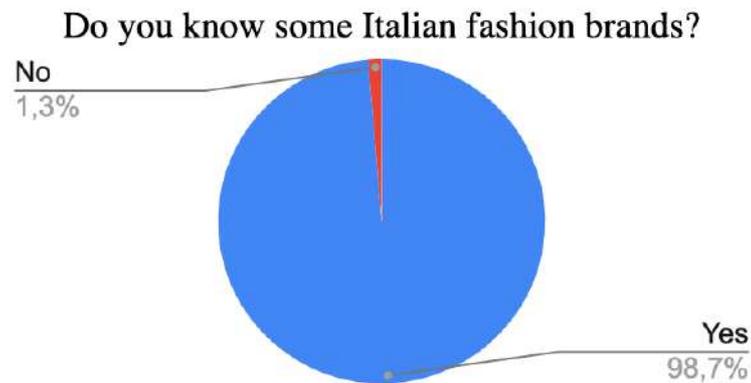
In particular, it resulted that less than 19% of respondents knows some Chinese fashion brands, against 99% that is aware of some Italian fashion labels. This highlights the fact that Chinese fashion is still lagging behind in the world scene.

Figure 58: Brand Awareness (Shanghai Tang)



Source: Graphs generated with Excel

Figure 59: Brand Awareness (Prada)



Source: Graphs generated with Excel

More specifically, it was then asked what people think about the two brands considered in the analysis. It resulted that only 5% of respondents had heard about Shanghai Tang before, while the opposite situation happened with Prada and only 7% didn't know it. Given that Shanghai Tang is considered as the most influent fashion brand in China, it is clear that Chinese fashion still has a lot to do in order to expand its horizons worldwide.

Thus, Hypothesis 9 is demonstrated.

Attitude Towards Brand

Moreover, it hasn't been possible to analyze the Attitude Towards Brand. In fact, 95% of respondents had never heard about Shanghai Tang, so it wasn't possible to obtain feedbacks about what they think about it. Instead, about 90% of them have a positive attitude towards Prada.

It is now shifted the focus to the Brand Awareness, considering it as the independent variable. To demonstrate the hypothesis from H10 to H12, it was observed how Brand Awareness influences the quality perception, the attractiveness perception and the price perception.

H10: There is a positive correlation between the Brand Awareness and the perceived quality of the brand.

In this instance, to analyze the quality perception of the two brands, they were shown the images in Figure 60 and Figure 61 and then it was asked the respondents to give an evaluation to the following statements:

- *“The products in the picture are made with high end materials”*

- *“The products in the picture are durable”*

Figure 60: Shanghai Tang’s Quality Perception picture



Source: Shanghai Tang’s survey

Figure 61: Prada's Quality Perception picture



Source: Prada's survey

Regarding the first statement “*The products in the picture are durable*”, the Logistic Regression Analysis in *Table 6*, indicates that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate= -0.5146) in terms of materials' quality when the good is believed to be Prada, rather than Shanghai Tang. Therefore, Prada is perceived of better quality than Shanghai Tang.

With regard to the second statement “*The products in the picture are made with high end materials*”, from the Logistic Regression Analysis in *Table 6*, it is observable that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate= - 0.7387) in terms of products' durability when the good is believed to be Prada, rather than Shanghai Tang. Therefore, Prada is perceived of better quality than Shanghai Tang.

Table 6: Logistic Regression Analysis related to the correlation between Brand Awareness and quality perception

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	35214,0	0.5208	6761,0	0,00	***
The products in the picture are made with high end materials	-0.5146	0.1777	-2896,0	0,00	**
The products in the picture are durable	-0.7387	0.1684	-4388,0	0,00	***

Source: Table generated with R

Thus, Hypothesis 10 is demonstrated.

H11: There is a positive correlation between the Brand Awareness and the perceived attractiveness of the brand.

In demonstrating this hypothesis, they were shown the pictures in *Figure 44* and *Figure 45* that were already mentioned during the analysis of the correlation between the COO and the Brand Attractiveness (H4).

The question under consideration is the following:

- *“I would feel cool wearing these products”.*

The Logistic Regression Analysis in *Table 7* proves that such variable is very significant ($p < 0.001$) when correlated with the Brand Awareness, and it has a negative contribution (Estimate=-0.4787). This means that, in this case, Prada’s products would make the respondent feel cooler than the Shanghai Tang’s ones would do.

Table 7: Logistic Regression Analysis related to the correlation between Brand Awareness and attractiveness perception

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	12815,0	0.3770	3400,0	0.00	***
I would feel cool wearing these products	-0.4787	0.1056	-4532,0	0,00	***

Source: Table generated with R

Thus, Hypothesis 11 is demonstrated.

H12: There is a positive correlation between the Brand Awareness and the perceived price of the brand's products.

Referring to the dress shown in *Figure 49*, it was asked to evaluate on a scale of 1 to 5 the statement:

- “How much do you think that the long dress in the picture costs”

The Logistic Regression Analysis in *Table 8* shows that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate= -10357.0) in terms of price perception when a good is believed to be Prada or Shanghai Tang. In this matter, when the dress is attributed to Prada it is evaluated as more expensive than if it is attributed to Shanghai Tang.

Therefore, similarly to the case where the price was correlated to the COO (H5), also the Brand Awareness highly influences the price perception of a product.

Table 8: Logistic Regression Analysis related to the correlation between Brand Awareness and price perception

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	38890,0	0.4831	8049,0	0,00	***
How much do you think that the long dress in the picture costs?	-10357,0	0.1149	-9010,0	0,00	***

Source: Table generated with R

Thus, Hypothesis 12 is demonstrated.

Inverting the Country of Origin

The following table represents the Logistic Regression Analysis obtained when moving the Country of Origin of a product. In particular, it was analysed the change in perception regarding quality, price and Willingness to Buy when:

- A Shanghai Tang's item is produced in Italy;
- A Prada's item is produced in China.

Table 9: Logistic Regression Analysis related to the Change of the Country of Origin

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	54686,0	0.5984	9138,0	0,00	***
If these products were <i>Made in China / Made in Italy</i> they would have a better quality	-0.6864	0.1973	-3479,0	0.00	***
If these products were <i>Made in China / Made in Italy</i> they would be more expensive	-13286,0	0.2033	-6534,0	0,00	***

Source: Table generated with R

H13: The quality perception changes when moving the production process to the other country (China or Italy).

To demonstrate this hypothesis it was respectively asked to the respondents, depending if they were answering the Shanghai Tang or the Prada survey:

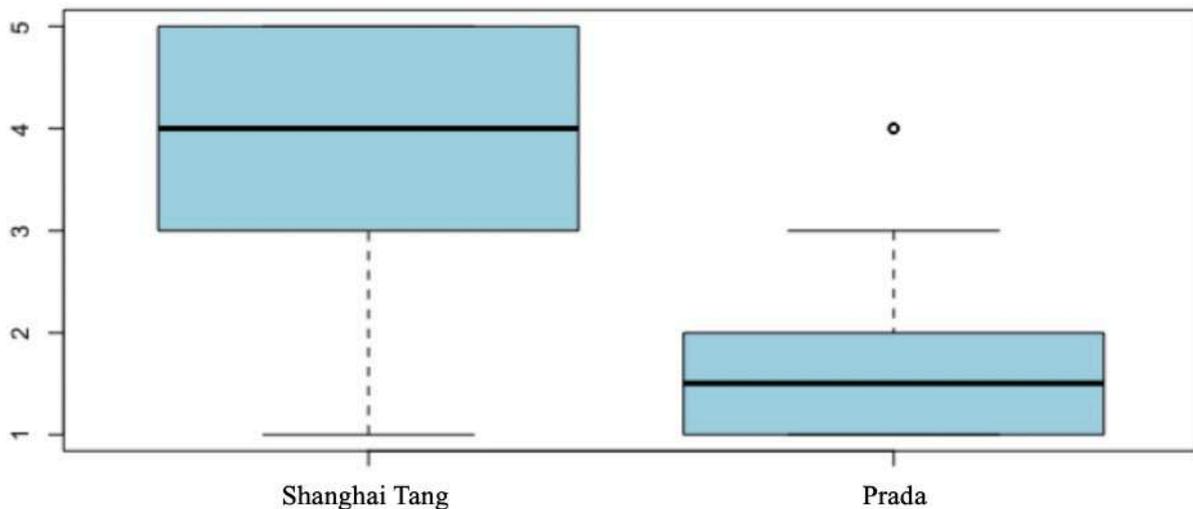
- “*If these products were Made in Italy they would have a better quality*”
- “*If these products were Made in China they would have a better quality*”.

The Logistic Regression Analysis in *Table 9* reveals that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate= -0.6864) in terms of quality perception when moving the production process from Italy to China. Thus, the quality perception changes, and more specifically, products made in Italy are considered of better quality than the ones made in China.

Also the box plot in *Figure 62* highlights a great difference in feedbacks regarding the quality perception when moving the production process from China to Italy and vice-versa. Indeed, there is a common belief, with a median score of 4 out of 5 in the first case, that if the products were made in Italy rather than in China they would have a better quality. Considering the opposite case, the result is the same. With a median score

of 1.5 out of 5, respondents believe that if the products were made in China rather than in Italy they wouldn't have a better quality.

Figure 62: “If these products were Made in Italy they would have a better quality” versus “If these products were Made in China they would have a better quality”



Source: Graph generated with R

Thus, Hypothesis 13 is demonstrated.

H14: The price perception changes when moving the production process to the other country (China or Italy).

In a similar way to what was done with the Hypothesis 13, to demonstrate if the change of the COO would influence the price perception of a product, it was asked the respondents respectively:

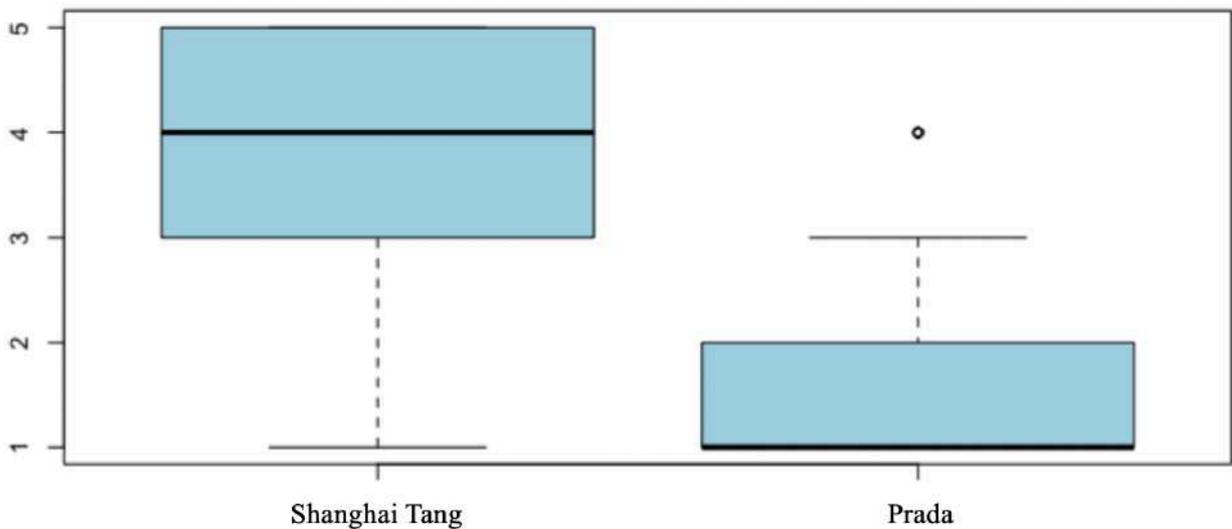
- “If these products were Made in Italy they would be more expensive”
- “If these products were Made in China they would be more expensive”.

Always referring to the Logistic Regression Analysis in Table 9, it is observable that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate= - 13286.0) in terms of price perception when a good is produced in China rather than in

Italy. Even in this case, the price perception changes, and more specifically, products made in Italy are considered as more expensive than the ones made in China.

Considering the box plot analysis, the first question received an agreement of 4, while the second question obtained a median of 1, as represented in *Figure 63*.

Figure 63: “If these products were Made in Italy they would be more expensive” versus “If these products were Made in China they would be more expensive”



Source: Graph generated with R

Thus, Hypothesis 14 is demonstrated.

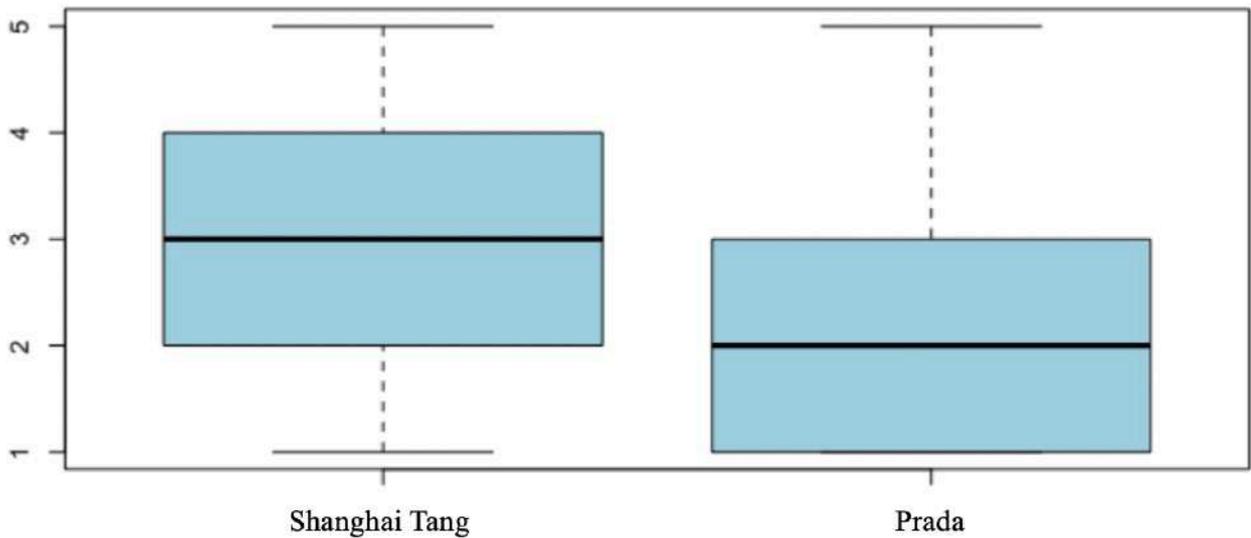
H15: The Purchase Intention changes when moving the production process to the other country (China or Italy).

In this case as well, to measure if the Purchase Intention would change when moving the country of origin, the interviewees were asked to respond to the following two questions, always depending on which questionnaire they were filling:

- “If these products were Made in Italy I would buy them”
- “If these products were Made in China I would buy them”.

As illustrated in *Figure 64*, the box plot finds out that even in this case there is a situation where the switch of the COO to Italy affects positively the Purchase Intention of the respondents, even though the score of the medians differs only of 1 point (3 versus 2).

Figure 64: "If these products were Made in Italy I would buy them" versus "If these products were Made in China I would buy them"



Source: Graph generated with R

Thus, Hypothesis 15 is demonstrated.

Regarding the change of the COO, from China to Italy and vice-versa, in all cases analyzed it figures that the Italian origin of a product influences in a positive way its reputation in consumer's mind. As a consequence of the higher quality perceived, the product is also considered as more expensive than if it was made in China. Nevertheless, it results in a higher willingness to buy as well.

In this last part of the analysis they are considered as independent variables two characteristics of the respondents' profile, that are Nationality (H16) and Age (H17), in order to see if the Country of Origin Effect impacts in a different way the individuals, depending on their specific personal traits.

To proceed with the analysis it is necessary to consider the cluster in the two groups: Shanghai Tang's respondents and Prada's respondents. Indeed, we need to keep in mind

that the individuals' perceptions can deeply change when considering the Chinese brand or the Italian brand.

H16: The Country of Origin Effect has a different impact depending on the provenience of the respondent.

In this case the sample was divided in "Italian" (that represents the 60% of the cluster) and "Non-Italian" (that represents the 40% of the cluster).

Table 10 is referred to the Shanghai Tang's survey. Considering the following questions, it results that for some variables there is a difference in perception if the individual comes from Italy or not, and it is as follows.

Table 10: Logistic Regression Analysis related to the nationality of Shanghai Tang's respondents

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	-10972,0	15854,0	-0.692	0.49	
Do you know some Chinese fashion brands?	-10061,0	0.4866	-2068,0	0.04	*
China is a developed country	0.5053	0.1838	2749,0	0.01	**
How much do you think that the long dress in the picture costs?	-0.5059	0.1555	-3254,0	0.00	**

Source: Table generated with R

Regarding the Brand Awareness it was asked:

- "Do you know some Chinese fashion brands?"

The Logistic Regression Analysis in Table 10 reveals that there is a significance ($p < 0.05$) that gives a negative contribution (Estimate = -100061.0) in terms of Brand Awareness when talking about Chinese brands or Italian brands. In specific, it resulted

that, even though Shanghai Tang Awareness is limited¹⁶², Italians are more aware than non-Italians.

Concerning the perceived degree of development of the country it was asked:

- *“China is a developed country”*

The Logistic Regression Analysis in *Table 10* reveals that there is a significance ($p < 0.01$) that gives a positive contribution (Estimate= 0.5053) in terms of perceived degree of development when talking about China. That means that non-Italians consider China as more developed than the Italians do.

From this observation it is possible to deduce that the rest of the world outside Italy believes China as more advanced than Italians do.

With regard to the price perception it was asked:

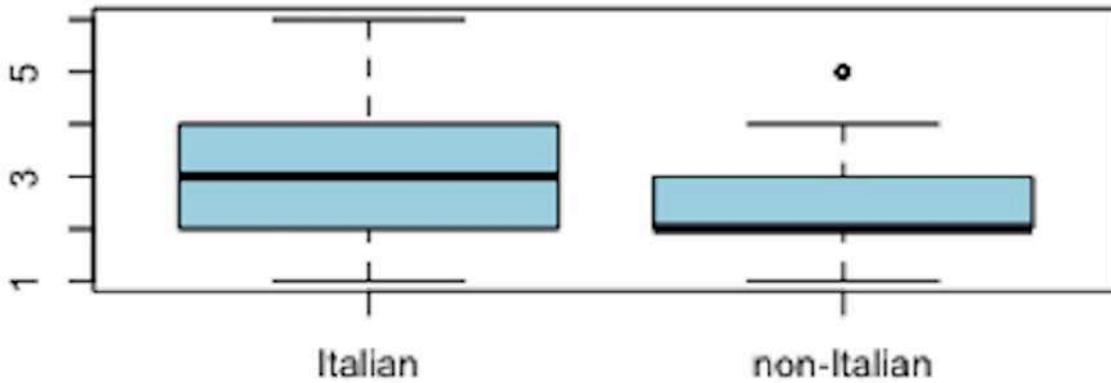
- *“How much do you think that the long dress costs?”*

The Logistic Regression Analysis in *Table 10* reveals that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate= -0.5059) in terms of price perception when Italians or non-Italians give their price evaluation. In particular, as shown in the box plot in *Figure 65*, Italians attribute a higher price to the dress¹⁶³ rather than non-Italians do.

¹⁶² Only 5% of the respondents have heard about Shanghai Tang.

¹⁶³ Referred to the dress in *Figure 49*.

Figure 65: “How much do you think that the long dress costs?”, Shanghai Tang’s survey



Source: Graph generated with R

Table 11 is referred to the Prada’s survey. Considering the following questions, it results that, regarding some variables, also in this case there is a difference in perception if the individual comes from Italy or not, and it is as follows.

Table 11: Logistic Regression Analysis related to the nationality of Prada’s respondents

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	-222331,0	14057501,0	-0.016	0.98	
Do you know some Italian fashion brands?	184699,0	14057493,0	0.013	0.98	
Italy is a developed country	0.9908	0.2563	3866,0	0.00	***
Product made in Italy are prestigious	-0.7581	0.2811	-2697,0	0.00	**
I would buy Prada’s products	0.2789	0.1983	1407,0	0.15	
I would feel cool wearing these products	0.3814	0.2373	1607,0	0.10	

Source: Table generated with R

Regarding the perceived degree of development of the country it was asked:

- “Italy is a developed country”

The Logistic Regression Analysis in *Table 11* illustrates that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate = 0.9908) in terms of perceived degree of development when talking about Italy. That means that non-Italians consider Italy as more developed than the Italians do.

From this observation it is possible to deduce that the rest of the world outside Italy believes that Italy is more advanced than Italians do.

Concerning the prestige degree of the country it was asked:

- *“Products made in Italy are prestigious”*

The Logistic Regression Analysis in *Table 11* illustrates that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate = -0.7581) in terms of perceived degree of prestige when talking about Italy. That means that Italians consider Italian products as more prestigious than non-Italians do.

The variables highlighted in grey are non-significant.

Thus, Hypothesis 16 is demonstrated.

H17: The Country of Origin Effect has a different impact depending on the age of the respondent.

In this instance the sample was divided in “over 25” (that represents the 69% of the cluster) and “under 25” (that represents the 31% of the cluster).

Table 12 is referred to the Shanghai Tang’s survey. Considering the following questions, it results that with regard to some variables there is a difference in perception if the individual is over or under 25 years old, and it is as follows.

Table 12: Logistic Regression Analysis related to the age of Shanghai Tang's respondents

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	-13203,0	0.6420	-2057,0	0.03	*
Products made in China are expensive	-0.4428	0.2477	-1788,0	0.07	.
The products in the picture are made with high end materials	0.6116	0.2287	2674,0	0.00	**
How much do you think that the long dress in the picture costs?	0.4708	0.1739	2708,0	0.00	**

Source: Table generated with R

Regarding the price perception it was asked:

- *“Products made in China are expensive”*

The Logistic Regression Analysis in Table 12 reveals that there is a significance ($p < 0.1$) that gives a negative contribution (Estimate= -0.4428) in terms of price perception when evaluated by an individual over or under 25 years old. In specific, it resulted that, the over 25 cluster believes that Chinese products are more expensive than the under 25 cluster does.

Always with respect to the price perception it was asked:

- *“How much do you think that the long dress in the picture costs?”*

The Logistic Regression Analysis in Table 12 shows that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate= 0.4708) in terms of price perception when evaluated by an individual over or under 25 years old. In specific, it resulted that, the under 25 cluster attributes to Shanghai Tang's products a higher price than the over 25 cluster does.

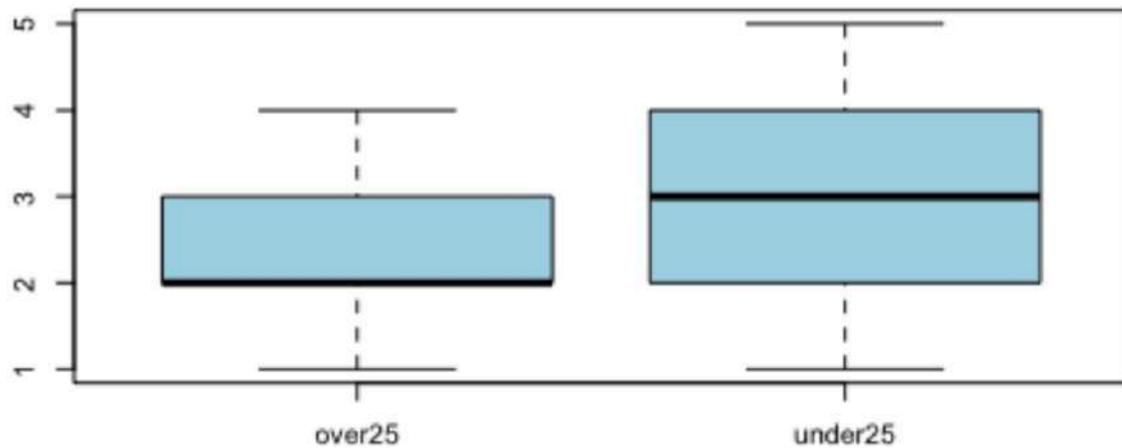
Concerning the perceived quality of the materials it was asked:

- *“The products in the picture are made with high end materials”*

The Logistic Regression Analysis in Table 12 reveals that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate= 0.6116) in terms of materials' quality perception when evaluated by an individual over or under 25 years old. In specific, it resulted that, the under 25 cluster thinks that Shanghai Tang's products have

a better quality than the over 25 cluster does. Such outcome can be seen also from the box plot in *Figure 66*, where the under 25 median is higher than the over 25 one (3 versus 2).

Figure 66: “The products in the picture are made with high end materials”, Shanghai Tang’s survey



Source: Graph generated with R

Table 13 is referred to Prada’s survey. In this case, only one question resulted in a difference in perception if the individual is over or under 25 years old, and it is as follows.

Table 13: Logistic Regression Analysis related to the age of Prada’s respondents

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	27641,0	18775,0	1472,0	0.14	
Italy is a developed country	-0.2688	0.1950	-1379,0	0.16	
Product made in Italy are prestigious	0.2781	0.2457	1132,0	0.25	
I would buy Prada’s products	-0.4684	0.2079	-2253,0	0.02	*
I would feel cool wearing these products	0.1588	0.2176	0.730	0.46	

Source: Table generated with R

Regarding the Purchase Intention it was asked:

- “*I would buy Prada’s products*”

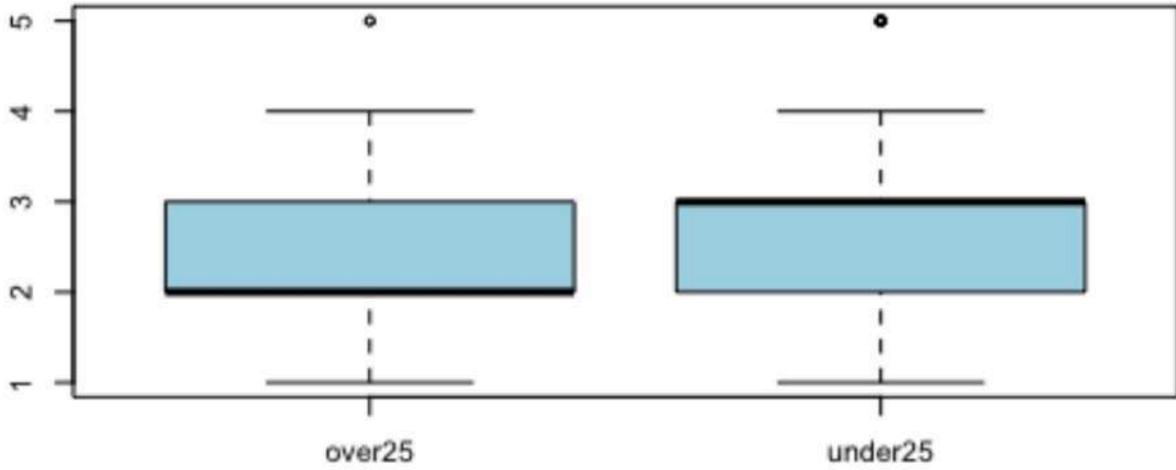
The Logistic Regression Analysis in *Table 13* reveals that there is a significance ($p < 0.05$) that gives a negative contribution (Estimate = -0.4684) in terms of Purchase Intention when considered an individual over or under 25 years old. In specific, it resulted that, the over 25 cluster are more willing to buy a Prada item than the under 25 cluster does. This result can be observable also from the box plot in *Figure 68*.

Also in this case, the variables highlighted in grey are non-significant.

Thus, Hypothesis 17 is demonstrated.

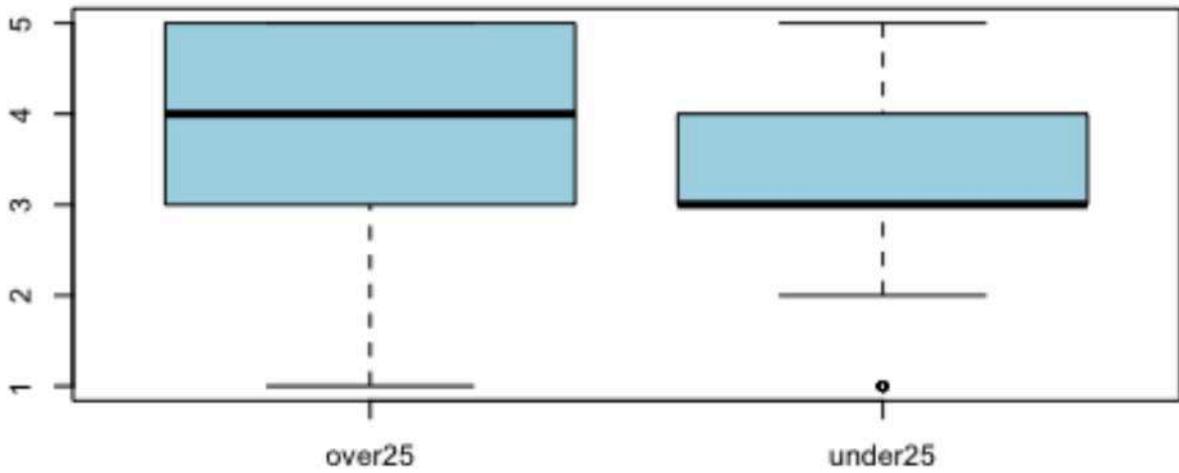
Moreover, from the box plot representations in *Figure 67* and *Figure 68* it appears that the younger audience is more willing to buy Shanghai Tang’s products rather than the over 25, while the opposite situation happens when considering Prada’s products. In this case, respondents over 25 years old have a higher Purchase Intention than the under 25. Such phenomenon could find an explanation in the fact that maybe younger consumers are less affected by the negative image of China that used to characterize the country until recent times. Having grown up during the time of Chinese economic development, young people might be more influenced by the image of a China which is actually the second greatest power in the world.

Figure 67: "I would buy Shanghai Tang's products"



Source: Graph generated with R

Figure 68: "I would buy Prada's products"



Source: Graph generated with R

CONCLUSIONS

Throughout this study it has been thoroughly explored the origins, the developments and the implications of the Country of Origin Effect, placing it in a very precise framework, which is the luxury industry.

Considered as a behavioural driver, the COE affects, even unconsciously, consumer's comportment. Without realizing it, individuals create associations in their minds, categorizing the information acquired and creating biases. This tendency is particularly evident when referring to the Country of Origin, both in a positive and negative way. The "Made In" mark stimulates an associative process, transferring to the brand or the product the characteristics attributed to the country, as well as any feeling or memory related to it.

It emerged that, while for Western fashion brands the COO is a positive variable, because associated with prestige, style and elegance, for Chinese fashion brands it represents a limiting factor. The reason why Chinese fashion brands are not successful abroad is precisely because of the image that their country of origin had for decades. Because of its past as the "word's workshop", focused on big volumes and low prices, its products still carry the reputation of bad quality and unqualified goods.

Considered the factors that make China be perceived as a not reliable country, Chinese fashion brands, in order to expand their market at international level, should focus on those variables that in the present analysis were found to be not significant when compared to Italy. For instance, the variable "*China is a developed country*" obtained the same score of 4 than "*Italy is a developed country*"¹⁶⁴. In this regard, Chinese brands should aim to valorize the fact that China nowadays became the second largest economy in the world, and consequently it acquired many competences also in this field.

Or more, when considering the attractiveness, both of the respondents of Shanghai Tang and Prada's surveys stated that the products exposed in the picture fit their style in the

¹⁶⁴ On a scale of 1 to 5 points.

same extent¹⁶⁵. This could mean that, if it is exclusively considered the aesthetic aspect of an item, Chinese brands have met the same consideration of Italian brands. This is probably due to the fact that Chinese fashion is progressively affirming its taste worldwide and because Chinese designers are always more influenced by Western styles, combining two different traditions, so even Occidental people started appreciating the appearance of such products. Nevertheless, when considering other factors like quality, prestige and price, international consumer's perception about Chinese fashion products extremely change, because of their negative attitude towards the country of origin. Indeed, Chinese fashion brands still have difficulties in expanding in the foreign market because, as demonstrated by the statistical analysis reported in this research, the international market's propensity towards Chinese luxury brands is very low.

Therefore, Chinese brands should implement specific strategies focused on their strengths, aimed at valorizing the substantial qualities of the second economic power in the world, transforming the notorious *Made in China* mark in *Made by China*. Their main purpose should be to regain the reputation of country full of heritage and know-how, distinguished for the prestigious craftsmanship and exceptional quality that characterized China in past times.

Despite the unfavorable results of the present thesis and although the rest of the world doesn't have a completely positive perception towards this country, I assume that, deep down, everyone has no doubts about what many studies affirm, in other terms that China won't stop its development and that it will soon become the most developed nation on the planet. As a result, even the Chinese high fashion industry will benefit from it.

¹⁶⁵ Picture in *Figure 44* and *Figure 45*.

APPENDIX I

Index of Designers' Collections

Image 1: Frankie Xie, Jefen, Fall/Winter collection, 2018



Source: <http://www.jefen.com/>

Image 2: Wu Haiyan, WHY, 1999



Source: Peter Rogers, Getty Images, Beijing, 1999

Image 3: Liang Zi, Tangy



Source: <http://www.tangysilk.com>

Image 4: Lin Li, JNBY, Fall/Winter collection, 2019



Source: <https://www.jnby.us/>

Image 5: Vivienne Tam, Fall/Winter Collection, 2016



Source: <https://www.viviennetam.com/>

Image 6: Ma Ke, Exception De Mixmind



Source: <https://agnautacouture.com>

Image 7: Guo Pei, “Daijin”, 2015



Source: <http://www.guo-pei.fr/>

Image 8: Uma Wang, Spring/Summer Collection, 2016



Source: <http://www.umawang.com>

Image 9: Zhang Na, FAKE NATOO, Spring/Summer Collection, 2018



Source: <http://www.fakenatoo.net>

APPENDIX II

Surveys Country of Origin Effect:

Survey I (Shanghai Tang)

Survey II (Prada)

Survey 1: Country of Origin Effect (Shanghai Tang)

Dear Participant,

Thank you for completing this short and anonymous questionnaire which aims to conduct a marketing investigation for my Master's Degree thesis. There are no right or wrong answers, so please respond to all the following questions according to your own personal opinion.

Thanks for your collaboration, it's really appreciated!

Section 1:

Q1. Do you know some Chinese fashion brands?

- Yes
- No

Q2. How familiar are you with the Chinese fashion brand *Shanghai Tang*?

- I've never heard about it
- I've heard about it, but I've never bought its products
- I rarely buy its products
- I regularly buy its products

Q3. Which one of the following Chinese fashion brands are you more informed about?
(e.g. collections, iconic pieces, Creative Director, etc.)

- Shanghai Tang
- Bosideng
- Xander Zhou
- Mukzin
- ShushuTong
- Xiao Li

- None of them

Q4. What do you think about the Chinese fashion brand *Shanghai Tang*?

- I really like it
- I don't mind it
- I don't like it
- I can't express an opinion because I don't know the brand

Section 2:

Indicate on a scale of 1 (*strongly disagree*) to 5 (*strongly agree*) how much you agree with the following statements.

Q5. China is a developed country.

Q6. Chinese brands have a very good reputation.

Q7. Products made in China are of good quality.

Q8. Products made in China are prestigious.

Q9. Products made in China are trendy.

Q10. Products made in China are expensive.

Q11. I trust products made in China.

Section 3:

In the picture below are shown some items of the Chinese fashion brand *Shanghai Tang*. Indicate on a scale of 1 (*strongly disagree*) to 5 (*strongly agree*) how much you agree with the following statements.



Q12. The products in the picture are of good quality.

Q13. The products in the picture are made with high end materials.

Q14. The products in the picture are carefully produced.

Q15. The products in the picture are made with high manufacturing technologies.

Q16. The products in the picture are durable.

Section 4:

Referring to the picture below, indicate on a scale of 1 (*strongly disagree*) to 5 (*strongly agree*) how much you agree with the following statements.



Q17. The products in the picture are luxury.

Q18. I would feel cool wearing these products.

Q19. The products in the picture fit my style.

Q20. I would wear the products in the picture.

Section 5:

Referring to the picture below, please answer to the questions below.



Q21. How much do you think that the long dress in the picture costs?

- < 50€
- 50€ - 100€
- 100€ - 200€
- 200€ - 500€
- 500€ - 1.000€
- 1.000€ - 2.000€
- > 2.000€

Q22. How much would you be willing to pay for the long dress in the picture?

- < 50€
- 50€ - 100€
- 100€ - 200€

- 200€ - 500€
- 500€ - 1.000€
- 1.000€ - 2.000€
- > 2.000€

Section 6:

Indicate on a scale of 1 (*strongly disagree*) to 5 (*strongly agree*) how much you agree with the following statements.

Q23. I would buy *Shanghai Tang*'s products.

Q24. If these products were *Made in Italy* they would be more expensive.

Q25. If these products were *Made in Italy* they would have a better quality.

Q26. If these products were *Made in Italy* I would buy them.

Q27. When buying a fashion product I take the country of origin of the brand as a quality signal.

Section 7:

Q28. Nationality:

Q29. Gender:

- Male
- Female

Q30. Age:

- <18
- 19-25
- 26-44
- 45-59
- >60

Q31. Personal income:

- < 15.000 €
- 15.001 € - 28.000 €
- 28.001 € - 55.000 €
- 55.001 € - 75.000 €
- > 75.000 €

Q32. Educational level:

- High school
- Bachelor's degree
- Master's degree
- PhD

Q33. Current occupation:

- Student
- Employed
- Unemployed
- Retired

Survey 2: Country of Origin Effect (Prada)

Dear Participant,

Thank you for completing this short and anonymous questionnaire which aims to conduct a marketing investigation for my Master's Degree thesis. There are no right or wrong answers, so please respond to all the following questions according to your own personal opinion.

Thanks for your collaboration, it's really appreciated!

Section 1:

Q1. Do you know some Italian fashion brands?

- Yes
- No

Q2. How familiar are you with the Italian fashion brand *Prada*?

- I've never heard about it
- I've heard about it, but I've never bought its products
- I rarely buy its products
- I regularly buy its products

Q3. Which one of the following Italian fashion brands are you more informed about?
(e.g. collections, iconic pieces, Creative Director, etc.)

- Prada
- Gucci
- Fendi
- Dolce&Gabbana
- Versace
- Valentino

- None of them

Q4. What do you think about the Italian fashion brand *Prada*?

- I really like it
- I don't mind it
- I don't like it
- I can't express an opinion because I don't know the brand

Section 2:

Indicate on a scale of 1 (*strongly disagree*) to 5 (*strongly agree*) how much you agree with the following statements.

Q5. Italy is a developed country.

Q6. Italian brands have a very good reputation.

Q7. Products made in Italy are of good quality.

Q8. Products made in Italy are prestigious.

Q9. Products made in Italy are trendy.

Q10. Products made in Italy are expensive.

Q11. I trust products made in Italy.

Section 3:

In the picture below are shown some items of the Italian fashion brand *Prada*. Indicate on a scale of 1 (*strongly disagree*) to 5 (*strongly agree*) how much you agree with the following statements.



Q12. The products in the picture are of good quality.

Q13. The products in the picture are made with high end materials.

Q14. The products in the picture are carefully produced.

Q15. The products in the picture are made with high manufacturing technologies.

Q16. The products in the picture are durable.

Section 4:

Referring to the picture below, indicate on a scale of 1 (*strongly disagree*) to 5 (*strongly agree*) how much you agree with the following statements.



Q17. The products in the picture are luxury.

Q18. I would feel cool wearing these products.

Q19. The products in the picture fit my style.

Q20. I would wear the products in the picture.

Section 5:

Referring to the picture below, please answer to the questions below.



Q21. How much do you think that the long dress in the picture costs?

- < 50€
- 50€ - 100€
- 100€ - 200€
- 200€ - 500€
- 500€ - 1.000€
- 1.000€ - 2.000€
- > 2.000€

Q22. How much would you be willing to pay for the long dress in the picture?

- < 50€
- 50€ - 100€
- 100€ - 200€

- 200€ - 500€
- 500€ - 1.000€
- 1.000€ - 2.000€
- > 2.000€

Section 6:

Indicate on a scale of 1 (*strongly disagree*) to 5 (*strongly agree*) how much you agree with the following statements.

Q23. I would buy *Prada's* products.

Q24. If these products were *Made in China* they would be more expensive.

Q25. If these products were *Made in China* they would have a better quality.

Q26. If these products were *Made in China* I would buy them.

Q27. When buying a fashion product I take the country of origin of the brand as a quality signal.

Section 7:

Q28. Nationality:

Q29. Gender:

- Male
- Female

Q30. Age:

- <18
- 19-25
- 26-44
- 45-59
- >60

Q31. Personal income:

- < 15.000 €
- 15.001 € - 28.000 €
- 28.001 € - 55.000 €
- 55.001 € - 75.000 €
- > 75.000 €

Q32. Educational level:

- High school
- Bachelor's degree
- Master's degree
- PhD

Q33. Current occupation:

- Student
- Employed
- Unemployed
- Retired

APPENDIX III

Index of Figures and Tables

INDEX OF FIGURES AND TABLES

CHAPTER ONE

The Country of Origin Effect

<i>Figure 1: Chanel's Brand Identity Prism</i>	13
<i>Table 1: The COO concept according to young people</i>	31

CHAPTER TWO

The Chinese economy

<i>Figure 2: GDP growth (annual %)</i>	42
<i>Figure 3: GDP (current US\$)</i>	43
<i>Figure 4: GDP per capita (current US\$)</i>	43
<i>Figure 5: China's population density (people per square kilometre of land area)</i>	44
<i>Figure 6: China's urban population (% of total)</i>	45

CHAPTER THREE

The Chinese luxury industry

<i>Figure 7: Maslow's Hierarchy of Needs</i>	49
<i>Figure 8: Engle curve for inferior goods and luxury goods</i>	51
<i>Figure 9: The Conceptual Model</i>	52
<i>Figure 10: The correlation between GDP and luxury market growth</i>	57
<i>Figure 11: Global personal luxury goods market</i>	58
<i>Figure 12: Spending power is on the rise</i>	59
<i>Figure 13: The emergence of a middle class</i>	60
<i>Figure 14: The geographic centre of the middle class growth is shifting</i>	61
<i>Figure 15: The magnitude of China's middle class growth is transforming the nation</i>	62
<i>Figure 16: China is winning half of the luxury world</i>	67
<i>Figure 17: The repartition of spending will continue in the coming years</i>	68

<i>Figure 18: Post-'80s consumers are still the largest luxury spending group in terms of both consumer members and total spending</i>	69
<i>Figure 19: Post-1980s and post-1990s luxury shoppers in China</i>	70
<i>Figure 20: Post-1980s and post-1990s luxury shoppers in China</i>	71
<i>Figure 21: Younger Chinese consumers are less loyal</i>	72
<i>Figure 22: Younger Chinese consumers are less loyal</i>	73
<i>Figure 23: How long did you consider before making the purchase decision?</i>	74
<i>Figure 24: How do you get information about new luxury brands?</i>	75
<i>Figure 25: What are the most impactful sources of information that influence your purchase (top 3 mentions)?</i>	76
<i>Figure 26: Luxury consumers in China look to salespeople for suggestions</i>	77
<i>Figure 27: Information and channel preference of Chinese luxury consumers</i>	78
<i>Figure 28: Breakdown of Chinese online luxury spending</i>	79
<i>Figure 29: Dior's Haute Couture Spring/Summer collection, Shanghai, 2018</i>	81
<i>Figure 30: Details of Dior's Haute Couture Spring/Summer collection, Shanghai, 2018</i>	81

CHAPTER FOUR

Empiric research

<i>Figure 31: Provenience of the sample</i>	100
<i>Figure 32: Continent of provenience</i>	100
<i>Figure 33: Nationality</i>	101
<i>Figure 34: Age groups</i>	102
<i>Figure 35: Box plot related to the Age groups</i>	102
<i>Figure 36: Educational Level</i>	103
<i>Figure 37: Box plot related to the Educational Level</i>	103
<i>Figure 38: Current occupation</i>	104
<i>Figure 39: Personal income</i>	104
<i>Figure 40: "When buying a fashion product, I take the country of origin of the brand as a quality signal"</i>	105

<i>Figure 41: “Chinese brands have a very good reputation” versus “Italian brands have a very good reputation”</i>	106
<i>Figure 42: "Products Made in China are of good quality" versus "Products Made in Italy are of good quality"</i>	108
<i>Figure 43: “Products made in China are prestigious” versus “Products made in Italy are prestigious”</i>	109
<i>Figure 44: Shanghai Tang's attractiveness picture</i>	110
<i>Figure 45: Prada's attractiveness picture</i>	110
<i>Figure 46: "I would wear the products in the picture"</i>	111
<i>Figure 47: "I would feel cool wearing the products in the picture"</i>	111
<i>Figure 48: “Products made in China are expensive” versus “Products made in Italy are expensive”</i>	113
<i>Figure 49: Prisma Ornaments Print Sleeveless Silk Long Dress</i>	114
<i>Figure 50: “How much do you think that the long dress in the picture costs?”</i>	115
<i>Figure 51: Price perception (Shanghai Tang)</i>	115
<i>Figure 52: Price perception (Prada)</i>	116
<i>Figure 53: “How much would you be willing to pay for the long dress in the picture?”</i> ..	117
<i>Figure 54: Willingness to pay (Shanghai Tang)</i>	118
<i>Figure 55: Willingness to pay (Prada)</i>	118
<i>Figure 56: “I would buy Shanghai Tang’s products” versus “I would buy Prada’s products”</i>	120
<i>Figure 57: "Do you know some Chinese fashion brands?" versus "Do you know some Italian fashion brands?"</i>	121
<i>Figure 58: Brand Awareness (Shanghai Tang)</i>	122
<i>Figure 59: Brand Awareness (Prada)</i>	123
<i>Figure 60: Shanghai Tang’s Quality Perception picture</i>	124
<i>Figure 61: Prada’s Quality Perception picture</i>	125
<i>Figure 62: “If these products were Made in Italy they would have a better quality” versus “If these products were Made in China they would have a better quality”</i>	129
<i>Figure 63: “If these products were Made in Italy they would be more expensive” versus “If these products were Made in China they would be more expensive”</i>	130

<i>Figure 64: "If these products were Made in Italy I would buy them" versus "If these products were Made in China I would buy them"</i>	<i>131</i>
<i>Figure 65: "How much do you think that the long dress costs?", Shanghai Tang's survey.....</i>	<i>134</i>
<i>Figure 66: "The products in the picture are made with high end materials", Shanghai Tang's survey.....</i>	<i>137</i>
<i>Figure 67: "I would buy Shanghai Tang's products"</i>	<i>139</i>
<i>Figure 68: "I would buy Prada's products".....</i>	<i>139</i>
<i>Table 2: Logistic Regression Analysis related to the Country of Origin</i>	<i>107</i>
<i>Table 3: Logistic Regression Analysis related to the correlation between the COO and the Willingness to Pay</i>	<i>117</i>
<i>Table 4: Logistic Regression Analysis related to the correlation between the trust in the COO and the Purchase Intention.....</i>	<i>120</i>
<i>Table 5: Logistic Regression Analysis related to the correlation between the COO and the Brand Awareness</i>	<i>122</i>
<i>Table 6: Logistic Regression Analysis related to the correlation between Brand Awareness and quality perception.....</i>	<i>126</i>
<i>Table 7: Logistic Regression Analysis related to the correlation between Brand Awareness and attractiveness perception.....</i>	<i>126</i>
<i>Table 8: Logistic Regression Analysis related to the correlation between Brand Awareness and price perception.....</i>	<i>127</i>
<i>Table 9: Logistic Regression Analysis related to the Change of the Country of Origin</i>	<i>128</i>
<i>Table 10: Logistic Regression Analysis related to the nationality of Shanghai Tang's respondents.....</i>	<i>132</i>
<i>Table 11: Logistic Regression Analysis related to the nationality of Prada's respondents.....</i>	<i>134</i>
<i>Table 12: Logistic Regression Analysis related to the age of Shanghai Tang's respondents.....</i>	<i>136</i>
<i>Table 13: Logistic Regression Analysis related to the age of Prada's respondents</i>	<i>137</i>

APPENDIX I

Index of designers' collections

<i>Image 1: Frankie Xie, Jefen, Fall/Winter collection, 2018.....</i>	144
<i>Image 2: Wu Haiyan, WHY, 1999.....</i>	145
<i>Image 3: Liang Zi, Tangy</i>	146
<i>Image 4: Lin Li, JNBY, Fall/Winter collection, 2019</i>	147
<i>Image 5: Vivienne Tam, Fall/Winter Collection, 2016</i>	148
<i>Image 6: Ma Ke, Exception De Mixmind.....</i>	149
<i>Image 7: Guo Pei, “Daijin”, 2015</i>	150
<i>Image 8: Uma Wang, Spring/Summer Collection, 2016.....</i>	151
<i>Image 9: Zhang Na, FAKE NATOO, Spring/Summer Collection, 2018</i>	152

BIBLIOGRAPHY

Aiello G. et al., “An international perspective on luxury brand and Country of Origin Effect”, *JBM*, 2008

Agrawal J., Kamakura W. A., “Country of Origin: A competitive advantage?”, *International Journal of Research in Marketing*, 1999

Amatulli C., De Angelis M., “Luxury Marketing: vendere il lusso nell’epoca della sostenibilità”, *LUISS University Press, Rome*, 2018

Bain & Company, “Luxury goods worldwide market study”, Fall-Winter 2018

Bain & Company, “What’s Powering China’s Market for Luxury Goods?”, March 2019

Carvalho S. W., Samu S., Sivaramakrishnan S., “The Effect of Country-Related Brand Associations and Product Attributes on Attitude toward Unfamiliar Foreign Brands: A Schema Congruity Perspective”, *Journal of International Consumer Marketing*, 2011

Ciappei C., Sani A., “Strategie di internazionalizzazione e grande distribuzione nel settore dell’abbigliamento”, *Firenze University Press, Florence*, 2006

Chao P., “The moderating effects of Country of Assembly, Country of Parts and Country of Design on Hybrid Product Evaluations”, *Journal of Advertising*, 2001

Chevalier M., Mazzalovo G., “Luxury Brand Management: a world of privilege”, *John Wiley & sons*, 2008

Chitturi R., Raghunathan R., Mahajan V., “Delight by Design: The Role of Hedonic versus Utilitarian Benefits”, *Journal of Marketing* 72, 2008

Christine Tsui, "China Fashion: Conversations with Designers", Berg Publishers, àNew York, 2009

Clarke I., Owens M., Ford J. B., "Integrating country of origin into global marketing strategy", International Marketing Review, 2001

Dmitrovic T., Vida I., "Consumer behavior induced by product nationality; the evolution of the field and its theoretical antecedents", Transformation in Business and Economics, 2010

Easey M., "Fashion Marketing", Malden Mass: Blackwell Science, Oxford, 2002

Engel E., "Die Productions - und Consumtionsverhältnisse des Königreichs Sachsen", Statistischen Büreaus des Königlich Sächsischen Ministeriums des Innern, 1857

Fan Y., "Country of Origin, branding strategy and internationalization: the case of Chinese piano companies", Journal of Chinese Economic and Business Studies, 2008

Finnane A., "Changing clothes in China", Columbia University Press, New York, 2008

Garrett V. M., "Chinese clothing: an illustrated guide", Oxford University Press, Oxford, 1994

Gutsatz M., Auguste G., "Luxury Talent Management: leading and managing a luxury brand", Palgrave Macmillan, 2013

Hamzaoui L., Merunka D., "The impact of Country of Design and Country of Manufacture on consumer perceptions of bi-national product's quality: an empirical model based on the concept of fit", Journal of Consumer Marketing, 2006

Heine, Klaus, “The Identity of Luxury Brands”, Technical University of Berlin, Department of Marketing, Berlin, 2012

Huang P. C. C., Bernhardt K., “Modern China: An International Journal of History and Social Science”, Sage Publications, Los Angeles, USA

Kapferer J. N., “Kapferer on luxury: How luxury brands can grow yet remain rare”, Cogan Page, London, 2015

Kapferer J. N., Bastien V., “The Luxury Strategy: break the rules of marketing to build luxury brands”, Kogan Page, London, 2008

Kapferer J. N., Bastien V., “The specificity of Luxury Management: Turning Marketing upside down”, Journal of Brand Management, 2008

Kotler P., Keller K. L., Ancarani F., Costabile M., “Marketing Management”, Pearson Italia, Milano, 2012

Marinozzi G., Tartaglia A., “Il lusso: magia e marketing. Presente e futuro del superfluo indispensabile”, FrancoAngeli, 2006

Maslow A. H., “Motivation and Personality”, Harper and Brothers, New York, 1954

Mazzei R., “Brand equity: il valore della marca: teoria e prassi dei processi valutativi”, Milano: Egea, 1999

McKinsey & Company, China Luxury Report 2019, “How young Chinese consumers are reshaping global luxury”, April 2019

McKinsey & Company, “Mapping China’s middle class”, 2013

McKinsey & Company: “The Chinese luxury consumer”, August 2019

Nagashima A., "A comparison of Japanese and US attitudes toward foreign products", *Journal of Marketing*, 1970

Phau I., Prendergast G., "Will a country of origin be relegated to obscurity in the global reality?", *Globalization of Business Conference*, Gazimagusa, 1998

Roberts C., "Evolution and Revolution: Chinese dress, 1700s-1900s", *Powerhouse Museum*, Sydney, 1997

Schooler R. D., "Production bias in the Central American common market", *Journal of Marketing Research*, Vol. 2, 1965

Schooler R. D., Sunoo D. H., "Consumer perceptions of internal products", *Social Science Quarterly*, Vol. 49, 1969

Veblen T., "The Theory of the Leisure Class", *Dover Thrift Editions*, New York, 1899.

Vickers J., Renand F., "The marketing of Luxury Goods", *The Marketing Review*, 2003

Vigneron, F., & Johnson, L. W., "Measuring perceptions of brand luxury", *Journal of Brand Management*, 2004

Wiedmann, Hennings, Siebels, "Measuring Consumers' Luxury Value Perception: A Cross-Cultural Framework", *Academy of Marketing Science Review*, 2007

World Bank, "China 2030", *Development Research Center of the State Council*, the People's Republic of China

Zhang K. H., "China as the world factory", *Routledge*, Abingdon, Oxon, 2006

SITOGRAPHY

<https://www.esteri.it/mae/it>

<https://www.worldbank.org>

<https://eur-lex.europa.eu/homepage.html>

https://ec.europa.eu/commission/index_en

<https://www.gazzettaufficiale.it/>

<https://www.finanze.it/opencms/it/>

<https://www.geopolitica.info>

<https://www.unric.org/it/>

https://ambpechino.esteri.it/ambasciata_pechino/it

<https://www.mckinsey.com/>

<https://www.bain.com/it/>

<https://www.bcg.com/>

<http://www.treccani.it>

<https://www.voguebusiness.com>

<https://jingdaily.com/>

<http://www.jefen.com/>

<http://www.tangysilk.com>

<https://www.jnby.us/>

<https://www.viviennetam.com/>

<https://agnautacouture.com>

<http://www.guo-pei.fr/>

<http://www.umawang.com>

<http://www.shang-xia.com/EN>

<http://www.fakenatoo.net>

<https://www.shanghaitang.com/en-eu>
<https://www.prada.com/it/en.html>
<https://www.dior.com>
<https://www.pradagroup.com/en.html>
<https://www.worldometers.info>
<http://worldpopulationreview.com>
<http://www.stats.gov.cn/english/>
<http://www.infomercatiesteri.it>
<https://www.made-in-china.com>
<https://www.chinadialogue.net>
<https://www.chinalawblog.com>
<https://www.chinalawinsight.com>
<https://2016.export.gov/china/>
<http://search.mofcom.gov.cn>
<https://it.cifnews.com/>
<http://english.customs.gov.cn>

SUMMARY

LUISS



Department of Business and Management
Chair of Advanced Marketing Management

“THE EFFECT OF COUNTRY OF ORIGIN ON
CONSUMER’S PURCHASE BEHAVIOUR:
A STUDY OF THE CHINESE FASHION INDUSTRY”

SUPERVISOR

Prof. Marco Francesco Mazzù

CO-SUPERVISOR

Prof. Alberto Festa

CANDIDATE

Ludovica Siciliano

ACADEMIC YEAR 2018/2019

INDEX

INTRODUCTION.....	8
 CHAPTER ONE	
The Country of Origin.....	11
1.1 The Country of Origin.....	11
1.1.1 The brand and the COO	11
1.1.1.1 Brand Identity	12
1.1.1.2 Brand Image, Product Image and Country Image	14
1.1.2 The Prism Effect	15
1.2 The Country of origin Effect	17
1.2.1 Literature review and COE evolution: the single-cue approach, the multi-cue approach, and the COE in the globalized era	18
1.2.1.1 The single-cue approach.....	19
1.2.1.2 The multi-cue approach.....	22
1.2.1.3 The Country of Origin Effect in the globalized era.....	26
1.2.2 Country of Design and Country of Manufacture as behavioural drivers in the luxury world	30
1.3 Country of Origin regulation.....	32
1.3.1 Italian and EU COO labelling regulation.....	32
1.3.2 Made in China Regulation	35
 CHAPTER TWO	
The Chinese economy	36
2.1 The Chinese economy	36
2.1.1 The historical and political context.....	37
2.1.2 Economic and demographic data	41
 CHAPTER THREE	
The Chinese luxury industry.....	47

3.1 The luxury industry	47
3.1.1 A definition of luxury.....	47
3.1.1.1 The four luxury’s drivers of change	54
3.1.2 The rise of the Chinese luxury industry	56
3.1.2.1 The rise of the Chinese middle class	59
3.2 The Chinese luxury consumer	63
3.2.1 The approach of the Chinese consumer to luxury.....	63
3.2.2 Today’s Chinese luxury consumer.....	66
3.2.2.1 Chinese luxury consumers generations	69
3.2.2.2 Online and offline channels	73
3.2.2.3 Luxury brand’s “special strategies”.....	79
3.3 The Chinese fashion industry	82
3.3.1 The Chinese fashion history.....	83
3.3.2 Chinese fashion, a new trend	86
3.3.3 The three generations of Chinese fashion designers	88
CHAPTER FOUR	
Empiric Research	93
4.1 The aim of the research	93
4.1.1 The selected brands	94
4.1.2 The research method	95
4.2 The analysis and the results	99
4.2.1 Descriptive analysis of the sample.....	99
4.2.2 Analysis of the results	105
CONCLUSIONS	140
APPENDIX I	143
Index of Designers’ Collections	143
APPENDIX II	153
Survey 1: Country of Origin Effect (Shanghai Tang)	154
Survey 2: Country of Origin Effect (Prada)	161

APPENDIX III168
Index of figures and tables..... 169

BIBLIOGRAPHY174
SITOGRAPHY178
SUMMARY180

INTRODUCTION

Over the last 40 years, China has successfully transformed itself from a poor and underdeveloped country into an economic powerhouse, imposing its economy on an international scale, managing to outperform advanced nations like Japan, Germany, France, and Italy. At this point in time, China's economy is second only to the United States. Nevertheless, recent studies conducted by the World Bank predict shifts in economic trends that will further the growth of China's economy, implying the surpass of the US in the global ranking, making it the world's ultimate economy by 2030.

Despite this, China still can't escape the cliché that considers it as "the world's workshop" and that attributes to the country the bad reputation related to the low quality of its products. On the contrary, nowadays China is emerging among the most avantgarde countries and it is gaining relevance also in prestigious sectors like the luxury industry. In the last few years, the notorious *Made in China* mark is giving way to *Made by China*, because an always increasing part of goods is not only assembled in China as before, but it is also designed, developed and marketed in it. However, Chinese fashion brands still have difficulties in expanding in the foreign market, since the image of their country of origin negatively affects the international consumer's purchase behaviour. In particular, this thesis is intended to study, through a concrete analysis of the Country of Origin Effect, how Chinese high fashion brands are perceived by the foreign market, with a comparison with the Italian case. To achieve this goal, after having carried out a research on the topics in question, it was conducted an empirical study on a sample of 300 individuals coming from all over the world, to observe how their perception about the same product varies depending on whether the product is declared to be Chinese or Italian.

CHAPTER ONE: The Country of Origin Effect

- The *Country of Origin* (COO) is the territory, the area, the region associated with the design, the creation or the manufacture of a product or a service. Given this, the *Country of Origin* plays a fundamental role in the purchase process of the consumer, because he associates certain values to the product linked to the nationality of the brand. In the marketing field there are two fundamental aspects that characterise a brand, that are *Brand Identity* and *Brand Image*. If *Brand Identity* regards the intent of the brand to build a good position in the market, because having a recognisable and strong identity is an essential trait of powerful and long-

lasting brands, *Brand Image* is how the audience perceives the brand and its products. Dupuis and Prime developed a model that identifies four elements that characterize the way brands are perceived from the market, that are: customers, point of sale, the environment and the intern and extern relationship management. According to the authors, these factors are influenced by the culture and the traditions of the country of origin, therefore it is important to understand what effect they produce when set in different cultural contexts. Indeed, a certain product may be perceived differently depending on whether it is sold in the domestic or in a foreign country. For instance, the value of the product could be amplified or reduced. On the basis of such effects, brands can choose if and how to adapt their products to the particular characteristics of the specific countries they want to dedicate their supply, or if leave it unchanged in the different markets. The phenomenon just described is a consequence of the “Country of Origin Effect” (COE), which is the impact that the country of origin of a specific product has on the customer’s purchase behaviour. This theory has been object of several studies and it states that, in certain cases, the country of origin and the perception that the customer has of it are considered as substitutes of the information in the evaluation process of the characteristics of a particular product. Thus, the COE represents a mean throw which customers evaluate positively or negatively a product, a brand or a service, basing their judgement on their geographical origin. If a product is associated to a country considered superior in a particular sector, as a consequence, it is perceived superior as well. Thus, brands adopt specific branding and marketing strategies, in order to take advantage of this aspect.

The purchase behaviour is the decisional process that usually consists of five steps, which are the recognition of the need, the research of alternatives, the evaluation of the alternatives, the purchase choice and the post-purchase evaluation. As a result of globalization, in a context where the market is becoming more and more interconnected and barrier-free, customers are faced with the choice between several products very similar to each other, which basically satisfy the same need. Moreover, they are constantly subject to information and stimuli coming from various sources that affect their preferences and the purchase decision as well, like the packaging, the communication, the COO, and so on. Thereby, individuals are not rational in their choices, but they depend on external factors that help them to make a choice among all the possible alternatives that they have. Having said that, customers come to a decision not only on the basis of intrinsic characteristics, which are not always easy to notice, but mainly on the basis of extrinsic properties, like appealing packaging, effective brand name or

associations with the country of origin. The correlations with the country of origin can be positive or negative in virtue of the culture, religion, politics and other macroeconomic factors. Thus, for decades, international marketing is studying the impact that the country of origin has on customers' purchase choices. Especially since when companies look for new profit opportunities outside their national boundaries, as a consequence of a globalized market, this topic became the subject of much debate. All the studies conducted on the *Country of Origin Effect* can be classified in three historical periods:

- From 1965 to 1982 the phenomenon is characterized by a great innovation even if the methodological approach is simple and the *Country of Origin Effect* is analysed without considering other factors. For this reason, it is called *single-cue* approach.
- From 1982 to 1992 the approach is deepened and the methodology is refined. The *Country of Origin Effect* is not considered anymore as the only variable that influences the customer's purchase behaviour, but many other factors are taken into account. For instance, the brand, the price and the quality of the product were discovered to have a strong impact on customer's choices. For this reason, it is called *multi-cue* approach.
- From 1993 to the present day the *Country of Origin Effect* becomes the subject of new studies and researches that divide it into different components and reformulate its original meaning. The main driver of this change is globalization, which creates new "hybrid" products that come from different places around the globe, since companies want to reduce costs by maximizing the advantages deriving from the multi-localization. Thus, it is necessary to split the COO into five components: Country of Design, Country of Manufacture, Country of Assembly, Country of Parts and Country of Brand. Among the five COE's components, the Country of Design and the Country of Manufacture, play a fundamental role in the luxury field. In fact, COD and COM have a considerable influence on the quality perceived by the customer. In particular, design represent an essential aspect. It is the sum of characteristics that impact the way a product looks, feels and functions and it provides functional and aesthetic advantages, attracting both the rational and emotional aspects. Marketers know very well that design is the differentiation variable to customers' eyes, that makes a brand recognizable among all the others. This is why it acquires great importance in luxury, even because it is the answer to the *Need for Uniqueness* that every individual searches for.

The tendency of brands to optimize the activities of the value chain by moving the production process in foreign countries is a process that most of the companies are unwilling to expose.

That's why this is a matter that received a lot of attention, especially in the last decades since when the phenomenon began to spread and companies decided to shift their production processes towards emerging countries. Consequently nations, in an attempt to prevent the occultation of information concerning the production process, introduced specific laws intended to regulate such matter. In Italy, the Law No 55/2010 of the *Gazzetta Ufficiale* states that the "Made in Italy" origin mark can be affixed only to those finished goods whose at least two of their production phases take place within the national borders, and, at the same time, it is verified the traceability for the remaining phases. However, such Law is currently inapplicable, since the European Union requires a particular condition for which goods, the production of which involves two or more countries, are considered originating in the country where they underwent the last economically justified and substantial working or transformation, that resulted in the realization of a new product or that represented a fundamental phase in the production process. Thus, the two phases that need to take place in Italy to ensure the "Made in Italy" origin mark don't ensure a "substantial working or transformation" requested by the Union Customs Code. In China the Decree of the State Council of the People's Republic of China N. 416 regulates the PRC's origin of imported and exported goods. The Chinese law, similarly to the EU, provides that a country is considered as the origin of a particular good if this good has been totally obtained in such country. In the case of more than one country is involved in the production process of that good, its country of origin is the one where the last substantial transformation took place.

CHAPTER TWO: The Chinese economy

China is a country that is becoming more and more influent in today's world and the main reason of its progress is surely linked to an industrial nature. Since when it started to be more open towards the rest of the globe, China became the "world's workshop", with the secondary sector accounting for around 50% of GDP. This expression may remind to a negative interpretation, considering China as a laboratory of mass production of goods characterized by a low added value. But over time and especially nowadays, it demonstrated the right opposite. From a subcontractor country of foreign mandates, China is becoming the protagonist of the whole process. This is the consequence of a new industrialization, that is bringing to the emergence of new brands, one hundred percent Chinese. However, to better understand these new Chinese giants that today remodel the world industry, it is essential to

consider that they come from a different and very particular background, deriving from a socialist market economy. Moreover, China's economic expansion, which began with the accession to power of Deng Xiaoping in 1978 and his reforms and opening-up policies, resulted in a consistent development of productivity and a consequent improvement of the living conditions of the population, especially of the middle class, making possible the creation of the adequate prerequisites so that also the Chinese luxury market benefited from this context. The old political climate, focused on principles like egalitarianism, the contrast to capitalism, implying, therefore, a very low degree of materialism, has gradually left space to a new and opposite ideology, making the consumption of luxury goods spread. Further important manoeuvres are implemented from 2012 by Xi Jinping, who is the current leader of PRC. He focuses his policy on the *Chinese Dream*, which refers to “*the great rejuvenation of the Chinese nation*”. This results in the intent to make China a modern Socialist country, characterized by prosperity, strength, democracy and culturally advanced. Today, China knows that the realization of such prospects can't be materialized in a country marked by a passive attitude in the international context, so the rebirth can be achieved adopting a more assertive and proactive foreign policy. Regarding its economy, Nowadays China is one of the greatest economic powers in the world. With a population of around 1.4 billion of inhabitants, representing almost 20% of the total world population, and an area of approximately 9.6 million square kilometres, this country has acquired a more and more influential role in modern times. Over the last 40 years, it has been expanding considerably, given that, in terms of GDP, it reached an average annual growth rate of 10%. For this reason, China's economy is the one that witnessed the most rapid expansion in history. If in the year 2000 China was in sixth place in the world rankings, in 2010 it was second, still far behind the United States, but surpassing Japan. Numerically speaking, if at the beginning of the millennium China represented 3% of the global GDP, 10 years later it constituted 10% and in 2018 it was about 16%. Furthermore, in the past 30 years, China's poverty rate decreased from over 65% to under 10%, since around 500 million people left the poverty condition as a consequence of urbanization. After 30 years characterized by a rapid development, China's growth is slowing down. Even if it was registered the lowest annual growth rate of recent times in 2018, at 6.6%, in the first few months of 2019, the Chinese economy remained stable and the International Monetary Fund estimated a growth of 6.2% for the current year. However, according to the report drawn up by the World Bank called *China 2030*, although the growth is decreasing,

China will probably become the first economy in the world before 2030. The intense urbanization, the increase in the middle class' purchasing power, as well as and the birth of new trends in culture and fashion inspired by Western models, are determining new consumption patterns in the Chinese market. Such conditions generated a vast market for luxury goods.

CHAPTER THREE: The Chinese luxury industry

The origins of luxury date back to ancient times. The various stages of its fascinating history not only show its evolution through the ages, but they also illustrate how society changed over time. The concept of luxury has its roots in an ambiguous context, which puts it in the middle between a psychological dimension that considers it as a kind of reward and gratification for the individual, and that at the same time associates it to a negative attitude of ostentation and superfluous. Therefore, luxury represents a constant in our society, connected with the concept of need. Maslow's Hierarchy of Needs Theory points out that luxury goods, even in their superfluity, can satisfy needs that are not marginal and irrelevant at all, like esteem, recognition and self-realization. Thus, luxury appears less frivolous and more closely connected to human nature than what is believed. The modern society is characterized by a new interpretation of luxury, defined by four strong drivers of change, which are democratization, increase in spending power, globalization and communication. Democratization is the most significant driver of luxury because, first of all, it made it become accessible to a wider public, increasing the customer base, and then, supporting transparency, openness and equalization, it implied the vanishing of social stratification. But, if this is true on one side, it is also true that luxury leads to an actual stratification, becoming its originator. Thus, we are facing a real paradigm of luxury. The truth is that humanity needs some type of social stratification, in order to escape social chaos. The individuals need to know their place in society, and this is the reason why the paradigm of luxury exists. Luxury has the essential role of rebuild the social stratification that has always existed since the original times with emperors, kings and nobility. What is different now is that luxury recreates it in a democratic way. Indeed, everyone can pick their own strata as they please, following a dream or an ideal. At this stage, the anxiety of choice is the springboard for brands. In other words, they are placed in a superior position by the customer himself, who not only expects good quality from them, but he also asks for some kind of advices to mislead the anxiety of freedom condition.

According to several researches, the luxury market is one of the few sectors, if not the only one, that hasn't registered excessive sales declines since the 2008 financial crisis. The 10% drop that occurred in 2009, compared to 2007, was immediately compensated by a new increase in consumption, accounting for 12%, in the following year. From that moment the luxury market kept growing year by year. After a stop in 2016, the world's personal luxury goods market restarted now a modest growth, entering in a new period called "New Normal". The culture of luxury comes from Europe, the United States and other developed countries, which distributed such culture to the emerging countries thanks to the process of globalization. The current leader in the purchase of luxury goods is China, but looking back at 40 years ago, the situation was quite the opposite from what it is now. In 1985, more than 99% of Chinese population used to live in poverty conditions. The rise of the economy has gradually took millions of people out of misery, bringing to the emergence of a new social class, the Chinese middle class. By 2027, middle class consumers are estimated to become 65% of total Chinese households. The increase in the number of wealthy citizens has meant that Chinese people gained a higher spending power and, consequently, it has led them to have the financial capacity to use their money for luxury goods. The main reason why they do it is because luxury is considered as a mean to demonstrate their personal achievements and elevate their position in society. Indeed, in recent years, Chinese consumers have been transformed and, moving away from the traditional values of saving and parsimony, they adopted a more materialistic and consumerist lifestyle, becoming the protagonists of the luxury industry and the principal driver in boosting the growth of the luxury expense. Even though Chinese economy is slowing down, as indeed the whole world since the 2008 crisis, the upper middle class is continuing to buy in luxury sector. In specific, between now and 2025 China's luxury expense will almost double, becoming about 40% of the global luxury spending. Most of Chinese consumers prefer to dedicate themselves to shopping while travelling, but over the years this situation might change because of the cut of luxury import taxes. As a consequence, the actual predilection for shopping abroad might switch on behalf of the domestic country, becoming 50% of the total purchases by 2025. Chinese consumers are varied and multiple, thus they have different purchase behaviours on the basis of different characteristics. A first distinction can be made according to generations, and consumers born in the post-1980s are the leaders in the luxury expense. The post-1990s consumers are dynamic and their life revolves around the digital world. These ones are new to luxury, so they are less devoted to brands since they don't

perceive the heritage component at the base of the traditional luxury market. They prefer to experiment new luxury experiences, and sometimes they buy luxury goods that are not in the circle of their preferred brands, just to follow trends. Another difference among generations regards the main reasons that bring consumers to buy luxury products. Brand is considered the most important element for each generation, but while younger consumers attribute to it a weight of 68% because they base their purchases also on other factors like fabric, design or production, the older generations base their purchases on the brand for 94%. Moreover, although their propensity towards digital, indeed 100% of them consult both offline and online sources, nine out of ten buyers prefer the in-store experience when purchasing a luxury product. Thus, companies active in the luxury industry, but not only, must consider the various facets that characterize the Chinese consumer. Coming from a diverse background, in terms of culture and customs, they might perceive the product in a totally different way from western consumers. Therefore, it is necessary a deep knowledge of their manners and an adequate awareness of what customers are sensitive to, either in terms of content or means. A successful strategy was the Dior's one, that merged its collection with local influences during the Shanghai fashion show, in order to create a unique exhibition in the eyes of Chinese consumers. Studies demonstrated that Chinese luxury customers have a preference towards foreign brands rather than their own household ones, indeed post-1965s and 1970s generation are not interested in purchasing Chinese high-end brands, but this is something that might be likely to change. As a matter of fact, one out of ten post-1990s consumers stated that they'd choose a Chinese luxury label. This phenomenon is intended to increase in the short run, since many Chinese brands are slowly acquiring prestige.

For thousands of years Made in China has been synonymous with craftsmanship and exceptional quality. The production of silk and ceramics, as well as the art of writing and printing, distinguished China making it a country full of heritage and know-how. Although traditional Oriental costumes with their fine ornaments have a long past, Chinese fashion, meant as a clothing style with a seasonal life cycle and as an aesthetic trend for business purposes, is a totally recent event. Before the mid-19th Century, Chinese used to embellish clothes with complex decorations, but they were worn only by emperors and they didn't change over time. Indeed, the Chinese fashion designer Guo Pei affirms that until 30 years ago they didn't even have a word in Mandarin for fashion, because such concept it didn't even exist in the language. China's fashion history developed hand in hand with politics. Only since

1912, after the foundation of the Republic of China, the country started being influenced by the West in the lifestyle and the clothing industry was launched for the first time. They were developed new clothing ideas, such as the qipao, which is a traditional dress made with silk and characterized by a long slit on the leg and patterned decorations, intended to highlight the beauty and elegance of oriental women. However, the scenario went through a transformation when the politics changed. In 1949, Chinese Communist leader Mao Zedong declared the creation of the People's Republic of China (PRC) and nationalized the entire clothing market by imposing citizens to wear a univocal style which would reflect the dictates of Communist China. Chinese fashion reopened to the world only in 1978, when the new President Deng Xiaoping liberalised the market, arising interest in the fashion world, which was already well established in Europe. China preferred to focus on volumes and low prices, becoming the "factory of the world". Today the priorities seem to be changed and China is always more oriented towards excellence. The Chinese fashion business is making considerable progress in gradually leaving the counterfeiter condition, to give space to an entirely original creativity. Even though the East has always been inspired and strictly connected to the West for a long period, now China is finding its way and trying to turn into a good rival for the world's top-level fashion brands. The goal is to move from the Chinese market leader in clothing production to the Chinese market leader in fashion production. Moreover, Xi Jinping's China Dream has fuelled a patriotic sentiment among Chinese consumers that contributes to the consumption of domestic products. Chinese artisans' savoir faire is becoming highly appreciated, especially by those rich people who want to distinguish themselves from the rest of the wealthy population who buys western luxury products. Chinese designers certainly do not forget their culture and heritage, recalling the past with decorations and colours that remind to the great classics of Chinese history. Some of them, however, seek to get away from the classics to be much closer to Occidental fashion. Christine Tsui is a Chinese fashion scholar who identified three generations of Chinese fashion designers. The Pioneers, whose designers were born around the 1960s, are characterized by scarce oestrum and limited creativity. The Practitioners, with which it begins a phase of profound change. For the first time it comes into existence the first China Fashion Week and the great classics are always more reinterpreted in accordance with the needs of the market, which is always more international. The Prospects, who raised in a profoundly changed economic and cultural environment. This is the most consistent phase in the research for China's own stylistic identity, that no longer relies on the

Western one or at least not as markedly as it has been so far. Many Chinese designers are therefore showing that they have a solid connection with their own culture, expressed in typical stylistic codes combined with contemporaneity, dynamism and modernity. This is to emphasize that Chinese fashion exists and it reinterprets its roots, being able to be in step with the times. Hermès International Group saw an opportunity in Chinese fashion becoming a new trend, and it understood precociously where the market was directed. Therefore, in 2007 the French brand founded a completely new brand called *Shang Xia*, distinct from Hermès, which combines modern and ancient Chinese culture, with the Hermès' philosophy touch. The brand's main purpose was to relaunch the Chinese manufacture, with the aim of being sold all over the world. The first boutique opened in Shanghai in 2010, followed by a second one in Beijing in 2012. In 2013 Shang Xia opened its first European store in Paris. Shang Xia, being part of a European group, had a privileged channel in expanding in the foreign market. But do the other Chinese luxury brands have the same capacity? In this regard, it was conducted an empiric research to understand how international consumers perceive Chinese high fashion brands.

CHAPTER FOUR: Empiric Research

In the previous chapters, it was examined the role of the Country of Origin as an extrinsic variable for the evaluation of a product and it was studied how it influences the latter's success in the market, dedicating a particular attention to the luxury industry. In specific, this analysis is not only intended to deepen the COE in the luxury market, but it is aimed at finding the intersections of different variables, some related to luxury and some to the COO, to study their effects on consumer's behavior. Then, the ultimate purpose of the research is to see if there are consistent differences among the two cases taken in consideration related to two different countries of origin, that are China and Italy. In this regard, they were chosen two luxury fashion brands, the Chinese brand *Shanghai Tang* and the Italian brand *Prada*. The intent is to analyze if and how much the "Made in" mark results in a difference of perception in consumer's mind among China and Italy, even when the product considered is the same one. The study is based on an empirical research, started with the administration of two surveys, one related to Shanghai Tang and one to Prada. In releasing the two questionnaires it was paid attention to send them to two different groups of respondents, one responding to the first survey and one to the second one, so at the end it was obtained a sample of 300 respondents,

150 for each survey. The surveys' structure was the same one. In both of the surveys they were asked the same questions and they were exposed three identical photos representing some fashion items taken from the Shanghai Tang's 2017 Limited-Edition Evening Dresses collection. The only different thing among the surveys was the brand's name attributed to the products, that in the case of Shanghai Tang it was the real one and in the case of Prada it was fictitious. Of course, the questions about the country of origin were related once to China and once to Italy, depending on the brand considered.

Figure 1 and Figure 2: Examples of pictures exposed in the surveys



What is intended to verify is that, even if the products shown in the surveys are the same ones, the perception of the variables related to the brand or the product are different and they can change according to their COO. The variables analyzed are Brand Awareness, Attitude Towards Brand, Quality Perception, Price Perception, Attractiveness and Purchase Intention. Then, it is studied what happens when putting such variables in relation with other factors, for instance with the provenience or the age of the respondent.

In order to obtain a result concerning a more extensive and realistic reality, the survey was sent worldwide. This way, it has been possible to have opinions deriving from many sides of the globe. As a matter of fact, a first analysis revealed that almost 40% of the respondents come from a different country other than Italy. Moreover, the sample is quite equally distributed among the gender (44% male and 56% female) and, regarding the social occupation, it is mainly composed of employees (48%) and students (48%). After a first descriptive analysis of the sample, the study proceeds with the analysis of the results, which was implemented through statistic models like the Logistic Regression Analysis, the Box Plot Analysis and through other means like Excel and Google Forms. Examples of tables and

graphs are given in *Figures 3, 4, 5*. The hypothesis demonstrated were 17 and they are exposed below.

H1: *The Country of Origin is taken as a quality signal.* On a scale of 1 to 5, both of the groups of respondents attributed to the question a score of 4. In other words, it means that people are very likely to be influenced by the Country of Origin when buying a product.

H2: *Brands Made in Italy have a better reputation than brands Made in China.* From the Box Plot Analysis it emerges that Italy got a median of 5 points out of 5. Comparing such result with the median of 2 points received by China, it means that Italian brands have a way better reputation than Chinese brands.

H3: *There is a positive correlation between the Country of Origin and the perceived quality of a product.* The variable related to the quality is very significant ($p < 0.01$), and it has a positive contribution (Estimate=2681). This means that the second country, that is Italy, is believed to produce products of better quality than the first country, that is China.

H4: *There is a positive correlation between the Country of Origin and the perceived attractiveness of the brand.* The attractiveness variable obtained more consensuses in regard to Prada. Indeed, its line leans towards the high values of the scale, which means that 5 is the most attributed score. Considering Shanghai Tang's line, instead, we can see that the most frequent values are 2, 3 and 4. This means that people would wear the Chinese brand's products with less probabilities than the Italian ones.

H5: *There is a positive correlation between the Country of Origin and the perceived price of a product.* The Logistic Regression Analysis exposes that there is a significance ($p < 0.1$) that gives a positive contribution (Estimate=2.130) in terms of price perception when you go from country one, that is China, to country two, that is Italy. In other words, it means that products made in Italy are considered as more expensive than products made in China. Such outcome can be obtained also from the Box Plot Analysis where, on a scale of 1 to 5, Italian products have a median of 4 and Chinese products have a median of 2.

H6: *There is a positive correlation between the Country of Origin and the Willingness to Pay.* From the Logistic Regression Analysis it is observable that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate=12124.0) in terms of Willingness to Buy when a good is believed to be Italian, rather than Chinese.

Such propensity to evaluate an Italian product with a higher price when comparing it with a Chinese one can be also noticed from the Box Plot Analysis. As a matter of fact, Shanghai Tang's median is 2 while Prada's median is 4.

H7: *There is a positive correlation between the Country of Origin and the Purchase Intention.*

The Logistic Regression Analysis reveals that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate=0.5828) in terms of Purchase Intention when a good is produced by Prada rather than Shanghai Tang. So, it results that an individual is more willing to buy a "Made in Italy" product instead of "Made in China".

H8: *There is a positive correlation between the trust in the Country of Origin and the Purchase Intention.*

The Logistic Regression Analysis exposes that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate=0.43949) in terms of trust in the COO when you go from country one, that is China, to country two, that is Italy. This means that products made in Italy are considered as more trustable than products made in China.

H9: *There is a positive correlation between the Country of Origin and the Brand Awareness.*

The Box Plot Analysis gives an illustration of the opposite results obtained. In specific, while for Italian brands there is a strong Brand Awareness, for Chinese brands it happens quite the contrary. The Logistic Regression Analysis reveals that there is a significance ($p < 0,05$) that gives a negative contribution (Estimate= -4.731) in terms of Brand Awareness when considering Chinese fashion brands rather than Italian fashion brands. It means that the latter benefit from a higher Brand Awareness. In particular, it resulted that less than 19% of respondents knows some Chinese fashion brands, against 99% that is aware of some Italian fashion labels.

H10: *There is a positive correlation between the Brand Awareness and the perceived quality of the brand.*

The Logistic Regression Analysis indicates that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate= -0.5146) in terms of materials' quality when the good is believed to be Prada, rather than Shanghai Tang. Therefore, Prada is perceived of better quality than Shanghai Tang.

H11: *There is a positive correlation between the Brand Awareness and the perceived attractiveness of the brand.*

The Logistic Regression Analysis proves that such variable is very significative ($p < 0.001$) when correlated with the Brand Awareness, and it has a negative contribution (Estimate=-0.4787). This means that, in this case, Prada's products would make the respondent feel cooler than the Shanghai Tang's ones.

H12: *There is a positive correlation between the Brand Awareness and the perceived price of the brand's products.* The Logistic Regression Analysis shows that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate = -10357.0) in terms of price perception when a good is believed to be Prada or Shanghai Tang. In this matter, when the dress is attributed to Prada it is evaluated as more expensive than if it is attributed to Shanghai Tang. Therefore, similarly to the case where the price was correlated to the COO (H5), also the Brand Awareness highly influences the price perception of a product.

H13: *The quality perception changes when moving the production process to the other country (China or Italy).* The Logistic Regression Analysis reveals that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate = -0.6864) in terms of quality perception when moving the production process from Italy to China. Thus, the quality perception changes, and more specifically, products made in Italy are considered of better quality than the ones made in China.

H14: *The price perception changes when moving the production process to the other country (China or Italy).* From the Logistic Regression Analysis it is observable that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate = -13286.0) in terms of price perception when a good is produced in China rather than in Italy. Considering the Box Plot Analysis, Italy received an agreement of 4, while China obtained a median of 1. Also in this case, the price perception changes, and more specifically, products made in Italy are considered as more expensive than the ones made in China.

H15: *The Purchase Intention changes when moving the production process to the other country (China or Italy).* The Box Plot Analysis finds out that, even in this case, there is a situation where the switch of the COO to Italy affects positively the Purchase Intention of the respondents, even though the score of the medians differs only of 1 point (3 versus 2).

H16: *The Country of Origin Effect has a different impact depending on the provenience of the respondent.* A first Logistic Regression Analysis reveals that there is a significance ($p < 0.05$) that gives a negative contribution (Estimate = -100061.0) in terms of Brand Awareness when talking about Chinese brands or Italian brands. In specific, it resulted that, even though Shanghai Tang Awareness is limited, Italians are more aware than non-Italians. A second Logistic Regression Analysis reveals that there is a significance ($p < 0.01$) that gives a positive contribution (Estimate = 0.5053) in terms of perceived degree of development when talking about China. That means that non-Italians consider China as more developed than the Italians

do. A third Logistic Regression Analysis illustrates that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate= 0.9908) in terms of perceived degree of development when talking about Italy. That means that non-Italians consider Italy as more developed than the Italians do. A fourth Logistic Regression Analysis demonstrates that there is a high significance ($p < 0.001$) that gives a negative contribution (Estimate= -0.7581) in terms of perceived degree of prestige when talking about Italy. That means that Italians consider Italian products as more prestigious than non-Italians do.

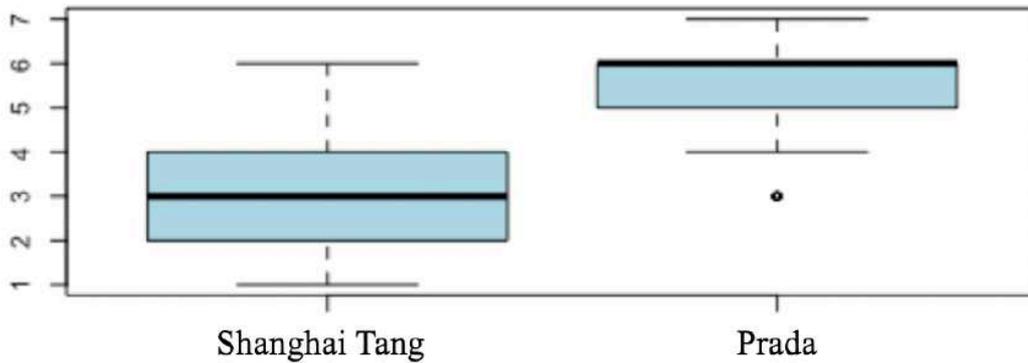
H17: *The Country of Origin Effect has a different impact depending on the age of the respondent.* A first Logistic Regression Analysis reveals that there is a high significance ($p < 0.001$) that gives a positive contribution (Estimate= 0.6116) in terms of materials' quality perception when evaluated by an individual over or under 25 years old. In specific, it resulted that, the under 25 cluster thinks that Shanghai Tang's products have a better quality than the over 25 cluster does. A second Logistic Regression Analysis reveals that there is a significance ($p < 0.05$) that gives a negative contribution (Estimate= -0.4684) in terms of Purchase Intention when considered an individual over or under 25 years old. In specific, it resulted that, the over 25 cluster are more willing to buy a Prada item than the under 25 cluster does. Moreover, from the Box Plot representations it appears that the younger audience is more willing to buy Shanghai Tang's products rather than the over 25. Such phenomenon could find an explanation in the fact that maybe younger consumers are less affected by the negative image of China that used to characterize the country until recent times. Having grown up during the time of Chinese economic development, young people might be more influenced by the image of a China which is actually the second greatest power in the world. Examples of analysis models:

Figure 3: Logistic Regression Analysis related to the Country of Origin

	Estimate	Std. Error	z value	Pr(> z)	
(Intercept)	-9.717	4.697	-2.069	0,04	*
Products made in China are prestigious / Product made in Italy are prestigious	2.681	1.025	2.616	0,01	**
Products made in China are expensive / Products made in Italy are expensive	2.130	1.125	1.894	0,06	.
How much do you think that the long dress in the picture costs?	2.625	1.129	2.324	0,02	*
I would buy <i>Shanghai Tang</i> 's products / I would buy Prada's products	0.5828	0.1065	5.472	0,00	***
Do you know some Chinese fashion brands? / Do you know some Italian fashion brands?	-4.731	2.194	-2.156	0,03	*

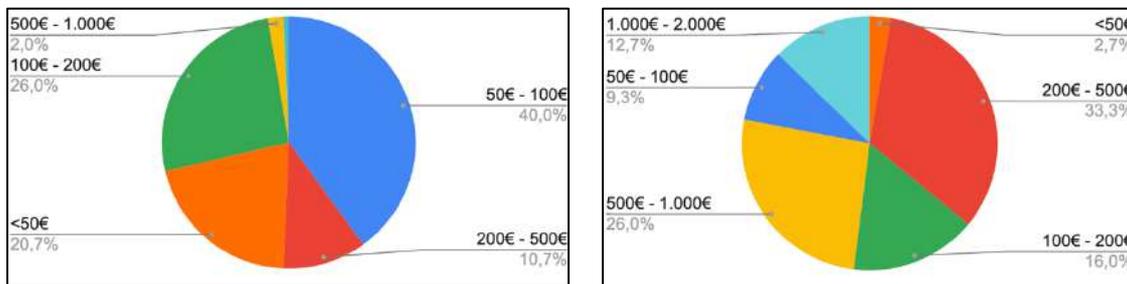
Source: Table generated with R

Figure 4: Box Plot Analysis related to “How much do you think that the long dress in the picture costs?”



Source: Table generated with R

Figure 5: Pie Chart about the Willingness to pay (Shanghai Tang versus Prada)



Source: Graphs generated with Excel

In conclusion, throughout this study it was demonstrated that the COE affects, even unconsciously, consumer's behaviour. Without realizing it, individuals create associations in their minds, categorizing the information acquired and creating biases. The "Made In" mark stimulates an associative process, transferring to the brand or to the product the characteristics attributed to the country, as well as any feeling or memory related to it. We saw that, while for Western fashion brands the COO is a positive variable, because associated with prestige, style and elegance, for Chinese fashion brands it represents a limiting factor. The reason why Chinese fashion brands are not successful abroad is precisely because of the image that their country of origin had for decades. Because of its past as the “word’s workshop”, focused on big volumes and low prices, its products still carry the reputation of bad quality and unqualified goods. Considered the factors that make China be perceived as a not reliable country, Chinese fashion brands, in order to expand their market at international level, should focus on those variables that in the present research were found to be not significant when compared to Italy. For instance, the variable “China is a developed country” obtained the same score than “Italy is a developed country”. In this regard, Chinese brands should aim to valorize the fact that China nowadays became the second largest economy in the world, and

consequently it acquired many competences also in this field. Or more, when considering the attractiveness, both of the respondents of Shanghai Tang and Prada's surveys stated that the products exposed in the picture fit their style in the same extent. Nevertheless, when considering other factors like quality, prestige and price, international consumer's perception about Chinese fashion products extremely change, because of their negative attitude towards the country of origin. Therefore, Chinese brands should implement specific strategies focused on their strengths, aimed at valorizing the substantial qualities of the second economic power in the world, transforming the notorious *Made in China* mark in *Made by China*. Their main purpose should be to regain the reputation of country full of heritage and know-how, distinguished for the prestigious craftsmanship and exceptional quality that characterized China in past times.