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*China: challenges and opportunities for luxury brands after Covid-19.*

*Gucci case*

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## INTRODUCTION

China represents the driving market for luxury products and goods, having generated high profits for luxury brands over the past 10-20 years. Covid-19 pandemic hit most of countries, generating consequences that are expected to stay over years producing a significant change in consumes, preferences, needs and expectation of people.

China is one of the most impacted countries, that mainly faced with the problems and difficulties brought by the pandemic and the consequent restrictions, partially limiting the Chinese economic growth. The Chinese slow down involved most of sectors, including the luxury one, that until 2019 highly relied on China and Chinese consumers that became the second largest market for luxury goods, only behind USA, with increasing growth perspectives that configured it as the biggest market to exploit new opportunities.

Therefore, luxury brands are still forced to better understand the consequences of such phenomenon, trying to deal with changes produced by it.

The challenge for luxury brands is to look for new alternatives trying to recover ground in the Chinese market. The possibility of restoring the condition and numbers characterizing the sector in the pre-pandemic years is in doubt, as its effects and consequences have caused a change in Asian society that is bound to generate new trends that will give no room for a return to pre-2020 numbers so easily. The issue of the evolution of the Chinese market in the luxury sector is a highly topical one, with numerous studies and research being conducted in this regard aimed at understanding how much this reversal of China's trend may impact the business strategies of luxury brands.

In fact, the Chinese market has been the main segment for major brands in recent years, which have seen an exponential growth in the role of Chinese consumers in their profits. This assertion is supported by data on the presence of luxury brands in China and the numbers generated before the outbreak of the pandemic, which can then be compared to the post-pandemic numbers observing the consequences produced.

Basically, however, the Chinese market has been an ongoing challenge for luxury brands from the beginning, as it has peculiarities and social, political, and economic elements that are certainly different from Western countries, which constantly require special attention.

The aim is to analyze the effects produced by new Chinese consumer trends specifically on the marketing, distribution, and pricing strategies adopted by brands to strengthen and readjust their presence in the Chinese market. Moreover, such an attempt could serve as a push for the implementation of new digital technologies and new digital touchpoints that could be effective and useful outside the large Chinese market as well. Analyzing a concrete case of one of the most

successful luxury brands, as Gucci, can help to verify the concrete strategies that brands put in place to penetrate, compete, and win Chinese market. In addition, Gucci is going through an evolving phase of its history, after announcing the change in the directive director position. Indeed, at the end of 2022, the brand turned out to be ready to end a journey that began 7 years ago with the arrival of Alessandro Michele as creative guide of the Maison and to start a new cycle under the responsibility of a young and unknown to the public designer as Sabato De Sarno. Such change could generate consequences which still represent an open question that only future can resolve.

The first chapter reports a general description of luxury industry, going through the evolution from the traditional to a new interpretation of the “luxury” concept, the identification of specific elements that contribute luxury industry qualification, such as products’ values and characteristics, retail and CRM processes’ relevance and implementation of digital technologies necessary to the omnichannel approach adoption. Moreover, the Chapter I ends with the identification of main luxury markets and the comparison between Western and Eastern countries, highlighting the importance of a proper analysis and understanding of each country specificities.

In the second chapter, the analysis mainly focuses on Chinese market evolution and consequences post Covid-19, comparing the pre-pandemic purchasing preferences and behaviors (travel for shopping, Daigou) with those that followed 2020 crisis (repatriation, generational shift, social media acceleration). Moreover, the chapter continues with the analysis of new trends consequences on luxury brands’ business models, and how they have been forced to redesign them specifically through new digital tools that affected their marketing actions.

Finally in the third one exploits Gucci case as an empirical example of the assumptions described in the two previous chapters. Indeed, Gucci is one of the first international luxury brands penetrating China, being able to effectively catch Chinese consumers’ needs and meeting their expectations. Moreover, it emerges that the brand relies stronger than other brands on the Asian country, suffering harder the Chinese lockdowns and closures. After analyzing main actions that ensured Gucci success, and the negative consequences suffered by the Italian House due to Covid-19, the Chapter III ends with the positive expectation about Gucci future after the change in creative designer position, leaving some question still open, that only time could answer to.



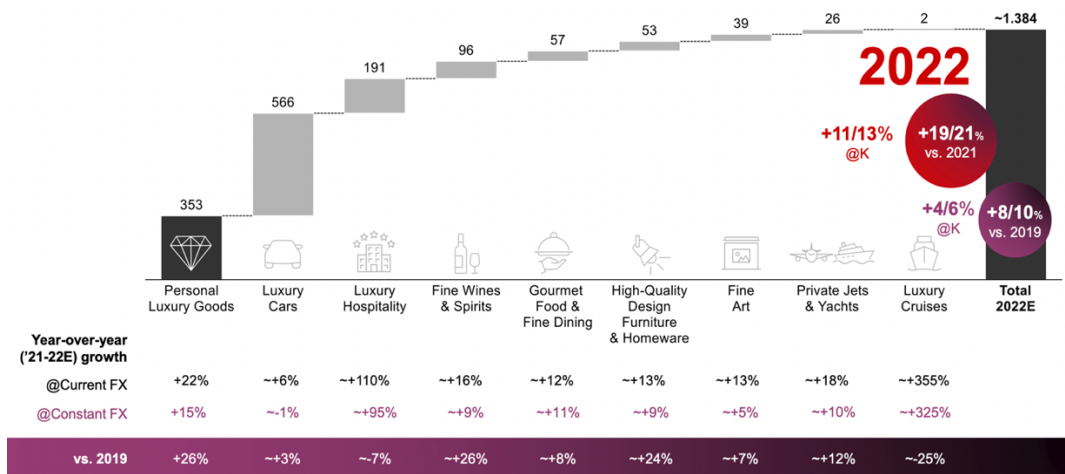
# CHAPTER I - Luxury Market Observations

## 1.1 Luxury industry analysis

Luxury industry qualifies itself for determined characteristics that contribute to create a unique and exclusive environment strongly anchored to a specific image that each brand intends to keep. At the same time, it is subject to external factors that involve a sector continuous evolution over different years, often signing a significant change within luxury organizations.

Particularly, the luxury industry has grown exponentially starting from 20<sup>th</sup> century, and despite the obstacles during the Covid-19 pandemic, it is still growing with positive perspectives for the future. According to *Bain – Altagamma Luxury Goods Worldwide Market Study* the global luxury market has fully recovered from the bending suffered with the pandemic crisis, also surpassing 2019 numbers. This recovering is linked to the spread of personal goods (apparel, jewelries, beauty, and makeup products ...), but also to all different experience-based products, that signed a shooting toward pre-pandemic values.

Figure 1. Global luxury markets (€B | 2022E)



Source: Bain Altagamma Luxury Goods Worldwide Market Study

Luxury companies have always been able to transform themselves, trying to adapt to new needs while keeping the solid values and elements that qualify the single brand, despite the fact that some empirical evidence shows some limits in terms of flexibility and reactivity.

Moreover, the luxury world lived a significant change from luxury “as a product”, to luxury “as an experience” that contributed to an improvement of Customer Experience, which has been enriched and innovated by brands. Indeed, during last years, luxury consumers have always looked for a unique

and inimitable experience when purchasing, with the only exception during Covid-19 where buyers overindulged on products shifting from experiential ones.

A company's success in this industry lays on a better performing and positioning compared to competitors by defining a clear idea in the minds of consumers who thus acquire a deep brand awareness.

In an always dynamic world where the competition is increasingly strong, the survival in the market depends on brands' ability to leverage the most of new external stimuli without, however, distorting their own values and philosophy. Indeed, staying in such an industry requires a strong identity, which, although it faces challenges represented by the continuous transformation of the market (evolution of products, processes, and consumers), must be solid and well-defined so that the brand is always recognizable and well-known.

### ***1.1.1 evolution of luxury industry: from the origins to the New Luxury***

“Luxury” term comes from Latin word “lux”, which means light, acquiring a meaning which is related to the smugness and pleasure of possessing something made of excellent quality and expensive, that is not necessarily useful<sup>1</sup>. But it can also be associated to “luxus” or “luxuria” words, that attribute a negative connotation to the concept, giving the sense of excess or bad habit. Around this concept there has been a long controversy over the interpretation of the phenomenon. As matter of fact, it was shared the idea that luxury answers to the desire for something that is not really needed just for “indulging in self-pleasure”<sup>2</sup>; reminding in this way, that the concept perception highly depends on individual elements, on culture, on country of origins, on family values... Therefore, although there have been numerous debates over the years trying to provide an unambiguous definition of the concept “luxury”, the reality is that this is impossible.

However, despite the various negative connotations that have characterized the perception of the luxury market for long time, it has undergone profound growth over the past three decades. Following these new trends, the concept of luxury has been subject to significant changes, leading to the rise of a paradox, between the old conception of this word, and the new evolved one.

Indeed, during the first years of nineteenth century, the luxury concept was still affected by an “aristocratic” vision of luxury products, with a focus on rare and raw materials adopted, and on products' high quality that resulted to be principally sold in the local market.

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<sup>1</sup> Cabigiosu, A. (2020, May 22). *An overview of the luxury fashion industry*. Digitalization in the Luxury Fashion Industry: Strategic Branding for Millennial Consumers. Retrieved March 14, 2023, from <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7355146>

<sup>2</sup> Ghosh, Angshuman, and Sanjeev Varshney. "Luxury Goods Consumption: A Conceptual Framework Based on Literature Review." *South Asian Journal of Management* 20.2 (2013).

However, with the industrial revolution and the coming of the modern society, the luxury concept and its perception started to be changed. Indeed, the attention was shifted toward the feeling and emotions that a luxury product can inspire, rising the relevance of the experience related to a product. Moreover, the principles of the new industrial paradigm started to also influence luxury industry, bringing the attention toward higher production volume and market expansion over geographical borders.

In this way, the luxury sector evolved, shifting from being something reserved for a limited number of privileged people, to something extended to new, larger class of costumers. Indeed, the market saw a significant increase in the number of consumers that has tripled in the past twenty years<sup>3</sup>. The expansion lived during the twentieth century, determined a new context for luxury brands' growth, that are now called to satisfy and respond to more complex and various needs, rising the relevance of communication tools adopted by a brand.

Therefore, the change has implied a paradox, considering that the traditional vision of luxury as something extremely exclusive for a limited number of people must coexist with new mass-luxury "mode".

However, the word "luxury" now evocates a hedonistic and personal intention aimed at inspiring and impacting on consumer's emotions and feelings. Therefore, in the modern era, luxury seems to be strictly connected to the pleasure and sensation that leads consumers' experience, involving his variety of senses. In this case, the focus is pointed on what the product represents and on what it can deliver to the new buyer, highlighting the centrality of a good's internal features.

The change brought by the external environment dynamics, determined the need for a new way through which luxury brands can understand external changes and therefore, can properly respond to new more sophisticated and attentive needs.

The growth lived by the sector has been driven by some main trends, that contributed to the definition of a new evolved luxury industry, increasingly focused on innovation, creativity, and brand strength, and not anymore only focused on recalling exclusivity and rarity sense in consumers.

Social democratization, that contributed to increasing the number of people that can effectively afford to purchase a luxury product; combined to the globalization process, have expanded the public which a brand can allocate and address its production to. Also, the strengthening of people's purchasing power combined to the increasing possibility to get information to build industry awareness, further drove the industry changes and growth.

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<sup>3</sup> Ko, Eunju, John P. Costello, and Charles R. Taylor. "What is a luxury brand? A new definition and review of the literature." *Journal of Business Research* 99 (2019): 405-413.

As for the origins as well as nowadays, luxury industry is one of the markets that mostly is defined by various but also specific elements, to perfectly intend and realize the concept of luxury. Hence the complexity for a brand is to succeed in managing the different elements and aspects in a consistent way, being able to maintain a position in the market.

The “New Luxury” provides more relevance to personal features, such as emotions and feelings, trying to deliver the best possible experience to the customer, while still relying on traditional pillars on which the luxury concept was build. However, luxury brands still must face with keep growing and new trends, that are significantly affecting the industry. The rise of secondhand market, to provide a longer useful life to luxury products, continuous collaborations between different brands to enlarge the customer base, customization processes or attention to sustainability issue are some aspects that should be evaluated by luxury brands in the modern world.

Furthermore, in a such complex and dynamic context, the always more digitalized world casts a deep challenge to luxury brands that are called to face with new emerging values, that are completely different from luxury ones.

A brand's ability to succeed in surviving in such a complex market lies on its ability to manage different external inputs, clearly defining its DNA<sup>4</sup> and properly manage its CODES<sup>5</sup>, whose combination determines the brand’s image perceived by customers.

### ***1.1.2 characteristics and values of luxury brands***

To define luxury, it is possible to adopt different perspectives that allow the conceptualization of this phenomenon. One of these perspectives focuses on product/brand characteristics.

Indeed, the luxury industry is extremely broad, including 9 different segments: Personal Products Goods, Fine Wine & Spirits but also Gourmet Food & Dining; Luxury cars and cruises including Luxury hospitality; Private Jets and finally, Luxury Fine Art and High-Quality Furniture. According to literature, it is possible to define different recurring elements that contribute to qualify a product, a service or in general an experience as luxurious one.

Considering the combination of elements such as name, identity as well as brand awareness, and intrinsic product characteristics in terms of design, quality, uniqueness, and creativity, it is possible to qualify a product as luxury. In some cases, assuming the opportunity to customize the product according to the individual needs of the customer, the exclusivity factor also falls within the definition

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<sup>4</sup> DNA includes a set of values and genes that drives any action and decision taken by a brand, that is never influenced by customer’s perception. Also intended as unique and unmistakable characteristic connected to the brand’s origins, that cannot be changed or altered by repositioning within the market.

<sup>5</sup> CODES are all external brands’ symbols that should be specific and not generic, whose coherent and conscious use is relevant for brand’s timeless success

of luxury. Further, high quality, through careful and in-depth research often of raw materials, combined with studied, often handcrafted processing of the product, justifies a price which is generally high. Indeed, expensiveness generally induces one to consider a product as not accessible to all and therefore exclusive, going to emphasize its potential uniqueness and rarity. Hence, the combination of the two aspects (quality and price) represents one of the main characteristics of a luxury good. Moreover, particularly in recent years, reliability and durability of the product contribute to increasing not only the customer's perception of it, which is enticed to pay even a high price in this way, but more importantly, they prompt the customer to develop a sense of trust and loyalty to the brand.

Second perspective adopted by the literature un defining typical luxury characteristics focuses on customer perception and characteristics.

Figure 2. Definition Measurement

Criteria	Items
Quality	1) This brand is of a high quality 2) This is a superior brand 3) This brand is highly sophisticated
Authenticity	1) The brand remains true to its espoused values 2) The brand reflects a timeless design. 3) Quality is central to the brand.
Prestigious image	1) This brand is a symbol of prestige 2) This is a premium brand 3) This is a high-end brand
Commands premium price	1) Even if the other brands are priced lower, I will still buy brand X 2) Even though brand X seems comparable to other brands I am willing to pay more 3) I am willing to pay a higher price for brand X than for other brands of product Y
Resonance	1) I consider myself loyal to this brand. 2) I really love this brand 3) This is a brand used by people like me 4) I am proud to have others know I use this brand

Source: "What is a luxury brand? A new definition and review of the literature."

In fact, several evaluation schemes have been developed to qualify a luxury brand, and all of them turn around five basic dimensions (Fig.2) such as: the high quality, the authentic value by providing emotional and functional benefits, the prestigious image build on craftsmanship, the premium price, and finally the deep connection with the consumer<sup>6</sup>.

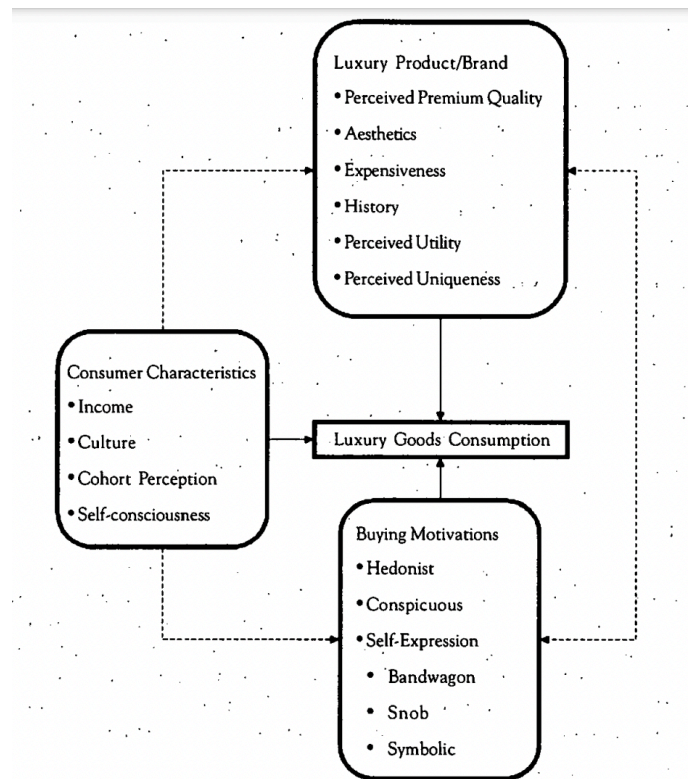
Indeed, according to the literature, although certainly the strategic tactics adopted by a company are relevant in influencing whether the customer will perceive the brand as luxurious, the definition of a brand as a "luxury brand" highly depends on consumers' perception of it.

Therefore, customer's perception has a certain relevance in ensuring a brand success within the market, highlighting in this way the consumer's centrality for a business.

<sup>6</sup> Ko, Eunju, John P. Costello, and Charles R. Taylor. "What is a luxury brand? A new definition and review of the literature." *Journal of Business Research* 99 (2019): 405-413.

Several studies have been conducted focusing on identifying other reasons that can influence the consumption of luxury goods, besides a business choice such as market segmentation, price, and marketing, adopted by a brand.

Figure 3. Integrated Conceptual Framework of Luxury Goods Consumption<sup>7</sup>



Source: Ghosh, Angshuman, and Sanjeev Varshney. "Luxury Goods Consumption: A Conceptual Framework Based on Literature Review."

Specifically, the first element that generally impacts on consumers' luxury goods' consumption is represented by luxury status and values (Consumer Characteristics). Particularly, some research showed that purchasing a luxury good is generally a way used to express the social status, and, in conjunction with personal and cultural values, a person can socially enhance his identity. However, also the various buying motivations can be explicative of diverse consumption choices. For example, a person can be moved by the hedonic pleasure of purchasing luxury brands, looking for uniqueness, enhancing self-confidence, or simply because of the pride that can be classified as hubristic or

<sup>7</sup> Ghosh, Angshuman, and Sanjeev Varshney. "Luxury Goods Consumption: A Conceptual Framework Based on Literature Review." *South Asian Journal of Management* 20.2 (2013).

authentic.<sup>8</sup> Additionally, there are also elements related to the individual's perception of the product's value, which may or may not motivate him to purchase. For example, a person can be influenced in his purchasing choice by a product country of origin and production, or by product's authenticity of the product or its perceived economic value.

However, especially in a world where the availability of information has reached unprecedented levels, thanks to the advent of social media, it is much easier to reach a vast number of consumers, crossing barriers and boundaries that are not only physical and geographic, but also cultural and social.

In this context, the brand's ability to make the best use of marketing tools that can help spread the visibility of its products, communicate its values and identity, and increase consumers' purchasing intention, is a crucial aspect. Communication and marketing are not easy as other industries; and this greater difficulty is explained by the fact that luxury consumers make their purchasing choices not for physiological needs. Indeed, they are mainly influenced by psychological factors.

Finally, given the importance of a brand in defining consistently its identity (through DNA and Codes) as well as in ensuring the reliability of its products, and assessed the importance of marketing strategies, it is possible to clearly visualize the complexity of luxury industry characteristics and values.

### ***1.1.3 the relevance of retail for luxury brands (omnichannel approach)***

Considering that most of luxury brands were born as retailers, focusing part of the analysis on the retail market can be effective to better understand luxury industry characteristics.

Retail, intended as physical stores where consumers get in touch and purchase physically products, plays a key role for luxury brands in defining customers experience and in general customer journey. Indeed, through physical stores it can be possible to establish a concrete relation with consumers, allowing them to get directly and physically in touch with brand.

The retail market includes different distribution models and channels, that can be direct or indirect, allowing consumers to make their purchase in the way they most prefer.

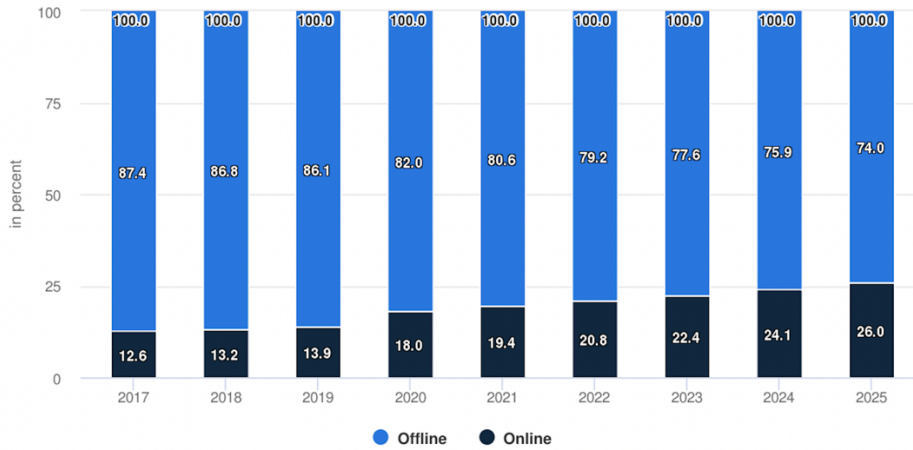
As known, the digital revolution brought to the rise of new online channels for luxury purchases, that highly contributed to the spread of the market. It seems to be incompatible with the values and

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<sup>8</sup> Ko, Eunju, John P. Costello, and Charles R. Taylor. "What is a luxury brand? A new definition and review of the literature." *Journal of Business Research* 99 (2019): 405-413.: "The first form, "hubristic" pride is associated with narcissism and negative outcomes such as aggression and hostility. The second form, "authentic pride" is a byproduct of hard work and success and can promote a number of positive outcomes."

tradition of luxury brands, but to properly respond to increasingly complex needs, also luxury companies must implement these new channels in their strategies.

Figure 4. Luxury Goods Online Revenue Share (Worldwide percent)<sup>9</sup>



Source: Statista

Despite the contrasts and incompatibilities between new digital values and traditional luxury values, also the global luxury goods industry is passing through a transformative phase caused by digital evolution and technological revolution, that rose the relevance of social media influence and significantly impacted over marketing strategies of key industry players.

Even if the retail market represents a qualifying characteristics of luxury companies, it is expected a growth of e-commerce platforms also for luxury products purchases. Indeed, many luxury brands adopted new online strategies and an omnichannel approach to effectively react to the crisis brought by Covid-19. Specifically, through online channels, luxury brands have been able to attract new customers segment in Asia, specifically in China, the first country to be impacted by the pandemic, and analysts expect that a similar trend could also be noted in other countries. Empirical evidence shows the increase in the online adoption also for luxury goods sales, becoming one of the most important emerging channels. As visible in the *Fig.4*, online sales have increased over past few years (from 2017 to 2022), and it is expected to grow further not compromising the largest percentage represented by in-store sales. Indeed, Covid-19 has increased the percentage of the market occupied by online sales, partly because of the significant restrictions imposed. On the heels of 2020, also 2021 and 2022 saw the rise of the online channel, leading analysts to predict continued growth for the coming years as well.

<sup>9</sup> Luxury Goods - Worldwide. (n.d.). Retrieved March 15, 2023, from <https://www.statista.com/outlook/cmo/luxury-goods/worldwide>



Hence, the Covid-19 pandemic started a period of long economic recession that also affected luxury goods industry, where products availability has been compromised by travel restrictions, long and spread lockdowns and supply chain constraints. Besides the necessary increase in the people spending capacity thanks to a general income improvement, online channels, which reveal to be effective for a better marketing and promotional campaign, can represent for luxury brands a useful tool to support market growth specifically during such dramatic period.

The blurred boundaries between physical monobrand stores and online channels are leading to the dawn of a new trans-humanism where the implementation of 3D images and VR technologies is occurs in the physical stores, intensifying and evolving the customer experience, emphasizing the increasing importance expected in the future for customer entertainment. Eventually, retail is still dominating the industry and it is joined by online channels constant growth. This trend would lead to a further blurring of the frontiers between physical monobrand stores and ecommerce, enforcing the omnichannel approach thanks to the support of new advanced technologies.

#### ***1.1.4 the evolution of CRM for luxury brands***

As already mentioned, specifically for luxury industry, one of the main determinants for the success of a company is the client's centrality. Not surprisingly, among the most relevant aspects that must be considered by companies there is the Customer Relationship Management (CRM). It is intended as the way through which a company organizes and manages all its business processes always focusing on a client, it also qualifies itself as a global strategic approach, through which a company detects, acquire, and maintain a relationship with its best clients. Thus, the CRM implies the integration of company's marketing, customer services, sales, and the entire supply chain, aimed at acquiring and retain selected customers.<sup>10</sup>

The advent of new social media, that makes the decision about the distribution channels to be adopted more complex; the increase of clients' volatility that are becoming less loyal to a single brand; and the limited percentage of a brand's best clients who represent only 1% of a brand's total customers and 10% of a brand's total revenues, stress the relevance of CRM practices.

The process configures as a cycle that starts from clients' identification, it continues with customers' targeting based on their spending and with the subsequent different interactions taken by the brand, and finally it customizes customer experience establishing a specific one-to-one relationship.

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<sup>10</sup> Edithe Oliveira Nogueira & Miriam Borchardt, The Effects of Customer Relationship Management (CRM) on E-Commerce Evolution: A Systematic Review, 36 *TECHNIUM Soc. Sci. J.* 433 (2022).

Therefore, the entire process lays on a proper knowledge management of the brand. Indeed, data gathering, and scheduling represent key aspect to ensure a proper customer relationship operation. Specifically, only through a conscious organizational culture, a brand can guarantee an effective management of information collected.

Thus, in this dynamic procedure aimed at creating a lasting and unique relation with the client, the salesperson's figure acquires a crucial role. He/she is responsible not only to welcome the client during his first stores experience trying to collect his/her preferences, but most importantly he/she is in charge of building and maintaining the connection with a view to future purchases. Obviously, it can be difficult for humans to organize, analyze and manage a large amount of data that are collected every day; so, the effective data management and tasks completion requires the support of modern information and communication tools<sup>11</sup> that are able to facilitate the organization and collection of data so that it easier to find.

However, the relevance of CRM as an approach to enhance in general business performance, was reached late in luxury industry compared to other sectors. Indeed, only from middle 90s, luxury brands started to shift their focus from product to customer.

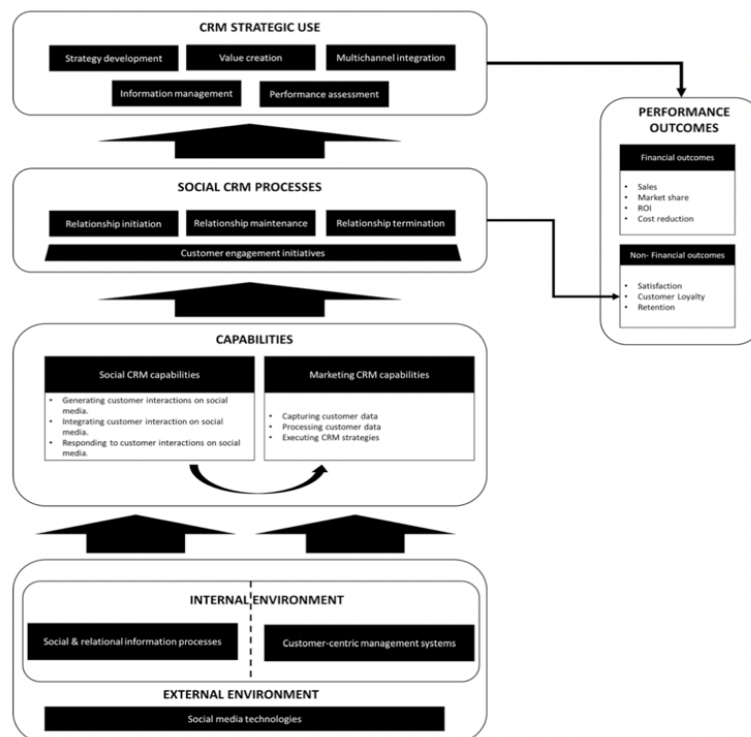
And, nowadays with the coming of social media, a new CRM approach is making its way. It is called Social CRM, which consists of the implementation and use of social media channels into CRM platforms. This new approach emerges with the aim to increase acquired and potential customers relationship and business outcomes, embracing the social dimension. Therefore, brands are moving their focus toward a social media sphere; in this case they can directly involve customers in business dynamics and choices building a solid relationship based on two-way interaction. Indeed, through SMEs brands engage consumers rather than simply communicate to them increasing customer advocacy, and at the same time, they can significantly implement their market data and information. SMEs generally consist of "simple technologies such as websites, e-mail, analytics tools and databases"<sup>12</sup> effective to enhance business traditional CRM activities and to improve their marketing orientation and customer focus.

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<sup>11</sup> Chatterjee, S., Ghosh, S. K., Chaudhuri, R., & Nguyen, B. (2019, June 6). Are CRM systems ready for AI integration? A conceptual framework of organizational readiness for effective AI-CRM Integration. *The Bottom Line*. Retrieved March 16, 2023

<sup>12</sup> Paul Harrigan & Morgan Miles (2014) From e-CRM to s-CRM. Critical factors underpinning the social CRM activities of SMEs, *Small Enterprise Research*, 21:1, 99-116, DOI: 10.1080/13215906.2014.11082079

Figure 5. Conceptual relationships across social CRM themes<sup>13</sup>



Source: Paul Harrigan & Morgan Miles. From e-CRM to s-CRM. Critical factors underpinning the social CRM activities of SMEs

The Fig.5 shows the complete relation between all the main themes for the Social CRM analysis that have been identified and discussed in many different academic research. Principally, the Social CRM analysis focus on the CRM impact over firm's performance. Indeed, a coherent and conscious use of the SMEs can provide not only economic and financial improvement such as sales growth, higher profitability, cost reduction ... but also non-financial and non-economic benefits in terms of customer satisfaction, customer loyalty and retention. Thus, Social CRM impacts also on the brand's capabilities in effectively managing customer relationships, improving the interactions with customers, but also the information sharing within the organization. Overall, a brand can adopt CRM strategic processes related to relationship initiation, relationship maintenance, and relationship termination to positively influence its outcomes.

Finally, reminding the main goal of CRM in establishing a long-lasting relationship with customers, it is possible to assess the effectiveness of both traditional and digital clienteling<sup>14</sup>. In general,

<sup>13</sup> Paul Harrigan & Morgan Miles (2014) From e-CRM to s-CRM. Critical factors underpinning the social CRM activities of SMEs, *Small Enterprise Research*, 21:1, 99-116, DOI: 10.1080/13215906.2014.11082079

<sup>14</sup> Geetika Jain, Justin Paul, Archana Shrivastava, Hyper-personalization, co-creation, digital clienteling and transformation, *Journal of Business Research*, Volume 124, 2021, Pages 12-23, ISSN 0148-2963: "Digital clienteling

clienteling consists of the direct relation between brand (specific salesperson) and customer, built on a careful understanding of the latter's preferences and habits, that can be supported in many cases by the implementation of new digital tools. Anyway, it signs the brand-consumer relation's shift from mere commercial to more personal one, where customer is involved in a co-creation process.

This section has highlighted the relevance of the role of the customer to a company's market success; in fact, the relevance of CRM lies in the fact that it can increase the quality of brand sales through better knowledge of customers, it can also increase sales revenue, strengthening customers' brand awareness and loyalty. In addition, the usefulness of CRM is also explained by the higher level of efficiency that can be achieved, thanks in part to the implementation of new technological and digital tools, which enable a brand to recognize, differentiate and retain its best customers, who are identified as one of the main sources of brand success.

## ***1.2 Luxury goods main markets***

The global luxury industry is expected to reach a market value equal to €1.4 trillion in sales revenue according to Bain & Company – Altagamma<sup>15</sup> and an increase of 21% compared to previous year. Indeed, despite the uncertain social and economic condition lived during last years, analysts forecast a further increase in 2022, and in general for the entire decade, up to 2030.

Focusing on luxury industry segments, the second largest one is represented by personal luxury goods, which includes accessories, watches, apparel, eyewear, and jewelry. The segment, besides the slowdown lived during Covid-19 with a decrease in the revenue equal to -15% compared to 2019, it has reached high numbers over the past years. In 2022 it surpassed the 2019 revenue and registered a growth equal to 22% compared to 2021.

According to some statistical forecasting<sup>16</sup>, the segment is expected to significantly grow also over the next years by a hypothetical 3.38% (at a constant exchange rates).

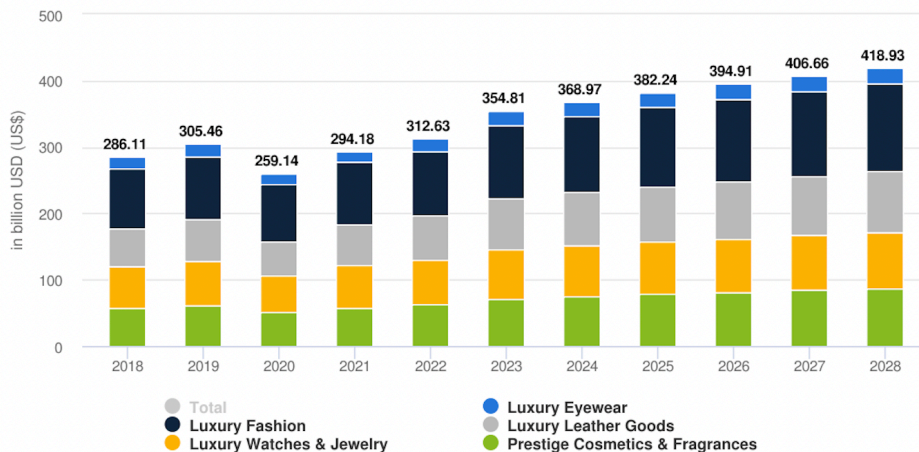
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*provides a unified resource of customer information on their preferences, behavior, and past purchase ... It also provides personalized in-store experience, ease of integration, unified data, and channel engagement that will help companies have better customer response and customer retention"*

<sup>15</sup> D'Arpizio, C., & Levato, F. (n.d.). Global Luxury Goods Market takes 2022 leap forward and remains poised for further growth despite economic turbulence. Bain. Retrieved March 21, 2023, from <https://www.bain.com/about/media-center/press-releases/2022/global-luxury-goods-market-takes-2022-leap-forward-and-remains-poised--for-further-growth-despite-economic-turbulence>

<sup>16</sup> Luxury Goods - Worldwide. (n.d.). Retrieved March 15, 2023, from <https://www.statista.com/outlook/cmo/luxury-goods/worldwide>.

Figure 6. Luxury Goods – Revenue by Segment, worldwide (billion USD \$)<sup>17</sup>



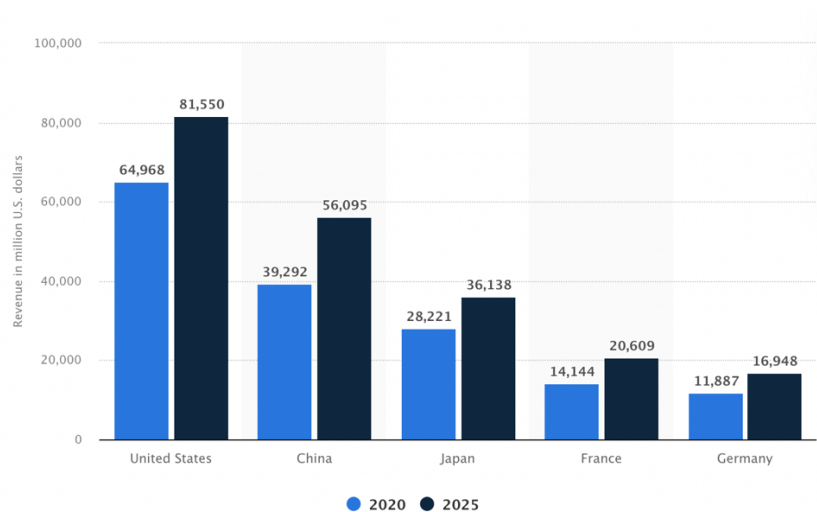
Source: Statista

It seems to be shared the idea that the luxury market is able to better face with economic turbulence and recession compared to previous case in 2008/2009, and the elements for this better response are related to the larger and more concentrated customer base for brands, to the increasing customer centricity and to a wider touchpoints' selection, effective to provide a better response to external factors. Additionally, another powerful factor is the generational shift, with the growing role played by “Gen Y” and “Gen Z”, which largely contributed to the market growth in 2022.

Bringing forward the analysis, it is possible to see which are the main geographical markets that generate the higher percentage of revenue within the industry. United States has been the market leader in this segment, then followed by China. According to a Statista report the leading luxury goods market is the US, that produced around 65 billion U.S dollars in 2020. The second largest market in terms of revenue generated, around 39 billion U.S dollar, is the Chinese one. They are followed by Japan, France, and Germany. As shown in the Fig. 7, for each of the previously mentioned geographic markets, analysts expect a growth in the next 5 years after the pandemic outbreak; an increase in revenues in 2025, compared to 2020, around 26% for the United States, around 43% for China, and around 28% for Japan. Therefore, the personal luxury goods segment's expectations for each geographic market are extremely positive. Then, most markets in both Europe, North America, and Asia are characterized by encouraging prospects managing to recover from the slump experienced during 2020.

<sup>17</sup> Luxury Goods - Worldwide. (n.d.). Retrieved March 15, 2023, from <https://www.statista.com/outlook/cmo/luxury-goods/worldwide>.

Figure 7. Revenue of the luxury goods market worldwide in 2020 and 2025, by country<sup>18</sup>



Source: Statista

Although, Europe still emerges as the main regional market for luxury goods, due to the localization of most of market key players in the region and the boost coming from tourists; and although, North America is characterized by the highest demand for luxury goods due to the large number of rich people, Middle East (India) and Asia (China and Japan) show the highest growth potential for the future. In fact, the two regions are in the midst of social evolution and transformation, with a general increase in individual wealth and purchasing power of the population, which cast the best prospects for the future growth of the luxury goods market.

### ***1.2.1 differences between western and eastern countries: focus on Chinese market (sober vs extravagant) (analysis of target evolution stage)***

From the data on luxury industry's main markets, the overcoming of geographical barriers has reached unprecedented levels, leading to the creation of a global extended market. In an international context, although the driving factor for the expansion of a luxury brand lies in its ability to preserve its identity and qualifying values, it is necessary to consider the clear specificities, not only cultural, but also social and political, that differentiate the various countries. In fact, the ability to operate in an increasingly broad and global environment requires a deep understanding of local dynamics and contexts, with relative adaptation to each.












<sup>18</sup> Statista. (August 3, 2021). Revenue of the luxury goods market worldwide in 2020 and 2025, by country (in million U.S. dollars) [Graph]. In Statista. Retrieved March 15, 2023, from <https://www.statista.com/forecasts/1255183/leading-markets-for-luxury-goods-industry-worldwide-based-on-revenue>

The countries of the West have common characteristics with each other that allow a homogenization of strategies and decisions, but at the same time it is not certain (indeed almost certain) that they can be adapted to East countries as well.

Particularly, since Covid, two distinct trends have developed enlarging the separation between East and West: while Western countries are experiencing a shift toward a more "sober" era, where the focus is on sustainability and environmental issues with a change in consumer expectation and behavior as well; in the East, the consideration of luxury as an expression of extravagant values continues to be appreciated, and the idea of the "extra is cool" is still exalted.

Under these assumptions the "one-size fits all" approach is not applicable. Indeed, when a company's target is global and international, branding strategies aimed at attracting and retaining loyal consumers, become complex to be defined and executed. It emerges the necessity of an understanding of target market evolution's stage<sup>19</sup>, before defining and executing the business strategy. Additionally, the attentive studying and understanding of specific values represents a relevant point to better define the brand's marketing actions and attract local consumers.

Figure 8. Spend per category per country and preference for overall spending on luxury goods within the next 12 months

	 Clothing, shoes, and accessories	 Watches and jewelry	 Skin care and cosmetics	 Experiences and travel	 Intention to spend more money over the next 12 months
 Germany	€1,200	€1,000	€1,000	€1,100	
 China	€5,900	€6,700	€4,700	€3,000	
 USA	€1,800	€2,000	€1,300	€1,800	

Source: Kearney Luxury Study 2021-2022

Differences between Eastern and Western countries found their empirical evidence also through the data visible in the Fig. 8. Indeed, according to the chart, Chinese consumers incurred about three times more spending than German and American consumers, and worth about 64% of total spending (except

<sup>19</sup>Intended as luxury stages that define the final choice to buy or not a specific luxury product. Indeed, luxury consumers generally go through different stages of evolution: subjugation (people need to earn money before buying a luxury product), start of money (people start to become rich and spend their money in luxury goods), show off (people use luxury purchases to show their social condition), fit in (people purchase product of a brand they feel to be linked and part of it) and way of life (people get used to luxury as part of their everyday life and the one-way-effect happens).



for the travel category on which Westerners spent more proportionally). This condition certainly reveals differences in the behavior and preferences of consumers in the luxury industry that are defined according to their country of origin.

### ***1.2.2 Focus on Asian market: before and after Covid-19***

Specifically, the Asian Mainland is a large market offering big opportunities for luxury brands that at the same time, considering the religious, cultural, and social specificities of each country, requires brand's deeper awareness and attention.

However, Asian continent is still in “recovery”<sup>20</sup> mode, trying to get up after the backlashes suffered because of the Covid-19. Indeed, the entire “region” has represented an attractive target for luxury brands especially during last years. East countries represent 70% of luxury consumers showing an increase in the amount spend over luxury goods in these past years. One key element characterizing Asian continent's countries, is the large and young population. In particular, 50% of population is under 25 years old, and 35% in under the 18 years old. Asian youngsters are more prone to spend their money compared to their Western counterpart, and for this reason luxury brands result to be so attracted by the mainland. China has given a significant boost to the entire continent's the luxury market in recent decades, driving the growth, and it was expected to become the world's biggest market for luxury goods by 2025. However, the pandemic and the severe lockdowns changed some conditions leading luxury brands to bet on other Asian countries such as Japan and South Korea. Indeed, Japan, before China, particularly attracted the attention of large European luxury brands, and still now the country recalls the brands' interest to increase their presence in the country also thanks to the fact that Japanese consumers seems to be extremely fascinated by luxury values, and therefore, spend large amount of money on luxury goods.

For example, Louis Vuitton started a collaboration with Yayoi Kusama<sup>21</sup>, and both decided to transform the stores across the world implementing Kusama's signature and elements. Moreover, at the beginning of 2023 the luxury giant also opened a pop-up store in Kusama's hometown to enforce the collaboration's effectiveness and credibility. Also, other luxury conglomerates are showing an attentive interest in the Japanese market, such as the Kering group, that including many relevant

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<sup>20</sup> Kashyap, T. (n.d.). Luxury Demography in 2021: East vs. West. Luxury demography in 2021: East vs. West. Retrieved March 21, 2023, from <https://www.luxuryfacts.com/index.php/sections/article/Luxury-Demography-in-2021-East-vs-West>

<sup>21</sup> “Japanese artist who was a self-described “obsessional artist,” known for her extensive use of polka dots and for her infinity installations. She employed painting, sculpture, performance art, and installations in a variety of styles, including Pop art and Minimalism”. Cole, R. (2023, March 18). Yayoi Kusama. Encyclopædia Britannica. Retrieved March 21, 2023, from <https://www.britannica.com/biography/Yayoi-Kusama>

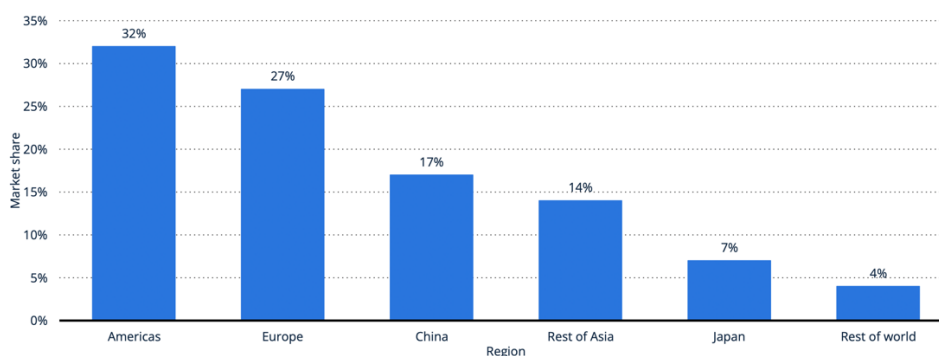


brands like Gucci, Saint Laurent, Bottega Veneta and many others, designed Tokyo as first option to open its headquarters.

Also, South Korea is setting new driving trends in the luxury market considering the 24% increase in the total personal luxury goods spending reached in 2022. The country represented a positive market for brands such as Moncler or Cartier, which in 2022 doubled the sales compared to pre-pandemic years. The reasons behind this new positive trend for luxury companies, is explained not only by the increase in Koreans' purchasing power but also by the widespread desire to show off and flaunt social position<sup>22</sup>.

Focusing on Asia-Pacific region the 2022 numbers show that Japan accounted for 7% of the global personal luxury goods following "the rest of Asia" which accounted for 17% of the aforementioned market, including other countries such as South Korea and India.

Figure 9. Share of the personal luxury goods market worldwide in 2022, by region



Source: Statista

Additionally, the Fig.9 also highlights the share of China's personal luxury goods market, which accounts for 14% of the global market, shaping up as the largest in the entire Asia Pacific region. Indeed, the zero-Covid policy slowdown in China during last weeks of 2022, combined with the new opportunity for Chinese people to travel, spread a slight optimism about the recovery of sales and earnings in the Chinese market, enforcing the expectation that China remains among the top luxury markets.

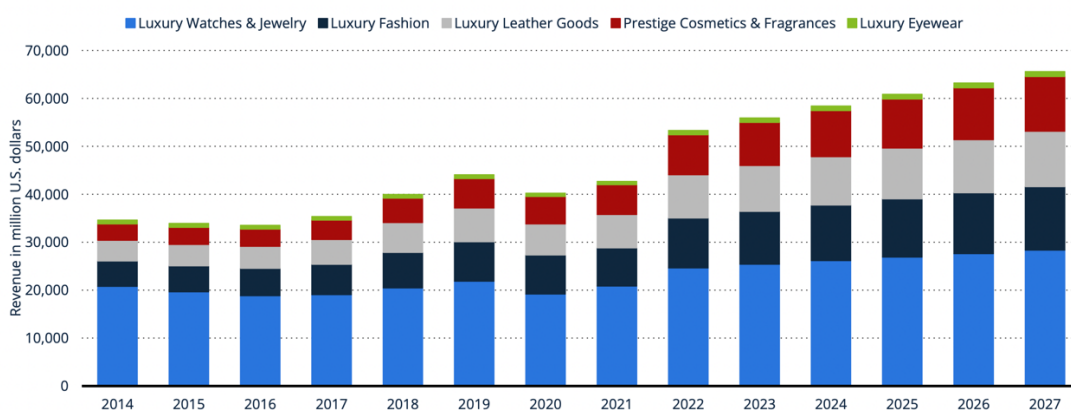
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<sup>22</sup> Shan, L. Y. (2023, January 20). South Koreans are the world's biggest spenders on luxury goods. CNBC. Retrieved March 21, 2023, from <https://www.cnbc.com/2023/01/13/south-koreans-are-the-worlds-biggest-spenders-on-luxury-goods.html>

### 1.2.3 Analysis of Chinese luxury market

China has represented a significant percentage of revenue for luxury brands over past years, indeed, if 70% of total luxury market revenue came from Asia, 50% of this revenue came from China. The fast democratization process of Chinese society during last years contributed to the country acceleration as one of the major luxury markets, configuring it as second largest personal luxury goods market worldwide in 2021<sup>23</sup>. China has always represented as source of opportunity for luxury brands, due to the social, economic, and political evolution that featured the country, offering a fertile ground for the growth of major brands. At the same time, the country holds significant challenges that need to be addressed for success in the market; in fact, it requires more careful research and analysis of the local context that needs to be implemented and integrated into the business in a consistent and effective way. The issue of integration is not so different from other countries and contexts, but currently, the difficulty related to China are since it is increasingly shaping itself as a "full ecosystem" that requires the elaboration and customization of marketing and general business strategies to attract, meet and satisfy Chinese consumers' specific needs.

Figure 10. Luxury goods market revenue in China 2014-2027, by segment<sup>24</sup>



Source: Statista

For example, according to the *Fig. 10*, the watches and jewelry is the main segment of personal luxury goods highlighting the Chinese consumers' preferences, followed by luxury fashion and luxury leather goods. Indeed, according to research on 1500 Chinese luxury consumers', more than 80%

<sup>23</sup> Yihan, M. (2022). (rep.). *Luxury Goods Market in China - statistics & facts*. . Statista. Retrieved from <https://www.statista.com/topics/1186/luxury-goods-market-in-china/#dossier-chapter4>

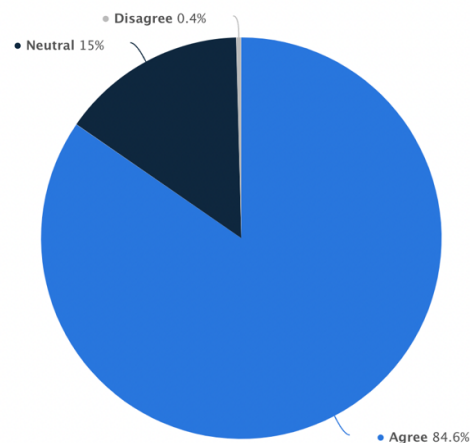
<sup>24</sup> Statista. (April 6, 2022). Revenue of the luxury goods market in China from 2014 to 2027, by segment (in million U.S. dollars) [Graph]. In Statista. Retrieved March 22, 2023, from <https://www.statista.com/statistics/1301172/china-personal-luxury-goods-market-revenue-segment/>

declared to have bought a luxury watch or jewelry at least once in their life. Additionally, according to another research on luxury goods consumption in China, between 2020 and 2021 a higher percentage of Chinese consumers about 69% purchased luxury clothes, resulting in a higher fraction compared to the watches and jewelry one.

In such context, that highly suffered from the limitation imposed by the government to contrast Covid-19 spread, the challenge for luxury brands is related not only to political decisions adopted by the country's central power, but also to the understanding of consumption behaviors' evolution, which is still in its early stages and is expected to change again. Therefore, luxury brands will have to strive to comprehend better and deeper the purchasing behavior dynamics.

In addition, in their attempt to understand changing trends trying to better adapt and respond to the needs of the local market; major luxury brands are facing a new threat coming from the growth of local fashion brands, especially in the fashion industry. These brands have managed to enter the Chinese market by attracting the younger generation through the adoption of increasingly modern strategies (Shanghai fashion week completely digital) and by leveraging feelings of patriotism and national identity.

Figure 11. "Share of consumers who prefer Chinese luxury brands over foreign ones in China 2022"<sup>25</sup>



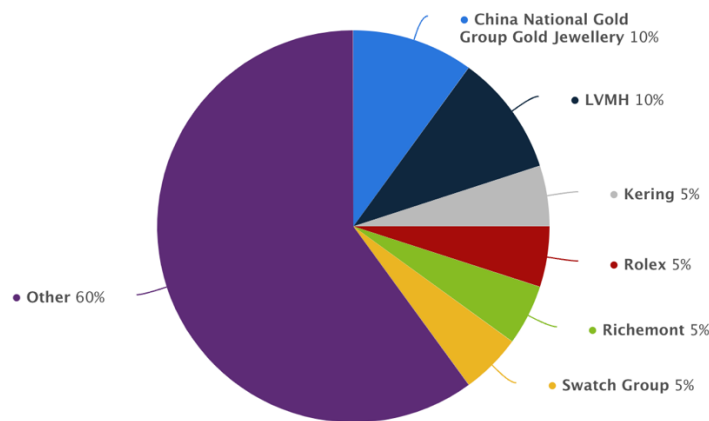
Source: Statista

As shown in the previous Fig.11, the results of a survey conducted among Chinese consumers show that at the same quality and price level, more than 80% of them would prefer to buy from a Chinese

<sup>25</sup> Daxue Consulting. (March 3, 2022). Share of consumers who prefer Chinese luxury brands over foreign ones for the same price and quality in China in 2022 [Graph]. In Statista. Retrieved March 22, 2023, from <https://www.statista.com/statistics/1298905/china-preference-of-chinese-luxury-brands/>

company rather than a foreign one. The main reason for this preference it explained by the fact that a Chinese brand would better embody Chinese designs and communicate values more credibly. Additionally, the *Fig.12*, points out the Chinese luxury goods market share distribution. Thus, the largest market share held by a single company in the Chinese personal luxury goods market in 2021 belonged to LVMH and China National Gold Group Gold Jewelry, which accounted for 10% each. The other main luxury brands, instead, accounted for 5% of Chinese market share each, showing low market concentration typical of the luxury industry.

*Figure 12. Breakdown of the luxury goods market in China in 2021, by brand*<sup>26</sup>



*Source: Statista*

Thus, the covid pandemic has certainly resulted in consequences that cannot be ignored and that may have started trends that will significantly change the dynamics of the luxury market also in the future. China as the first country to face the challenges related to covid, and among the last to succeed in mitigating its spread with prospects for the future still highly uncertain, represents a huge question mark for companies that are looking for answers to understand how to evolve their strategies and properly adapt to new market trends.

<sup>26</sup> Statista. (April 6, 2022). Breakdown of the luxury goods market in China in 2021, by brand [Graph]. In *Statista*. Retrieved March 22, 2023, from <https://www.statista.com/statistics/1301177/luxury-good-brand-market-share-in-china-by-brand/>

## CHAPTER II - China: Market Evolution and Consequences On Luxury Industry

### *2.1 Chinese consumption patterns before Covid-19, analysis of pre-pandemic consumers' behaviors and preferences*

China in recent years has lived an exponential growth of its economy so that it is one of the global largest economic and political powers, able to compete with the United States and other European countries. The country's openness toward the implementation of an increasingly free market, and its embrace toward a capitalist-oriented ideology, have facilitated the country's economic affirmation. The reduction of poverty with a significant increase in wealth even for the middle class is based on the opening to the rest of the world and on the reduction of restrictions and oppressive policies adopted by the central power.

In the wake of economic growth, Chinese consumers began to turn their attention to what the West had to offer. The eccentricity and peculiarity of the products offered by the big international luxury brands strongly attracted Chinese consumers who considered buying them a way to celebrate their social status and economic success, and as a form of self-reward.

Notably, as the early 2000s, the Chinese economy showed signs of significant growth that spread optimistic prospects for the future of the luxury market. In fact, according to a study conducted China Association of Branding Strategy<sup>27</sup> (CABS), about 13.5% of Chinese people (175 million) could have access to luxury goods, and around 10% of these turned out to be avid consumers for luxury brands, mainly purchasing watches, clothes, and jewelry. These prospects also predicted a further increase in the expected number of Chinese luxury consumers, given the depopulation of the countryside and the shift to cities where the supply and availability of luxury goods was better and greater.

At the beginning of China's rise as a potential new target market for luxury brands, profound differences in consumer buying attitudes were already evident. While in the already "mature" markets such as Europe and the U.S. consumers already moved their expectations and needs toward the experience rather than the materiality of purchase (in fact, a focus on luxury holidays was already emerging), in the emerging Chinese market, the focus was still on the physical product. For example, customers tend to seek for buying the model from the latest collection. This was true when considering primarily only one of the two categories of luxury goods consumers in China that have been identified in the past. The first included wealthy consumers who experienced luxury as part of everyday life, who sought personalized services and a direct relationship with the brand through in-

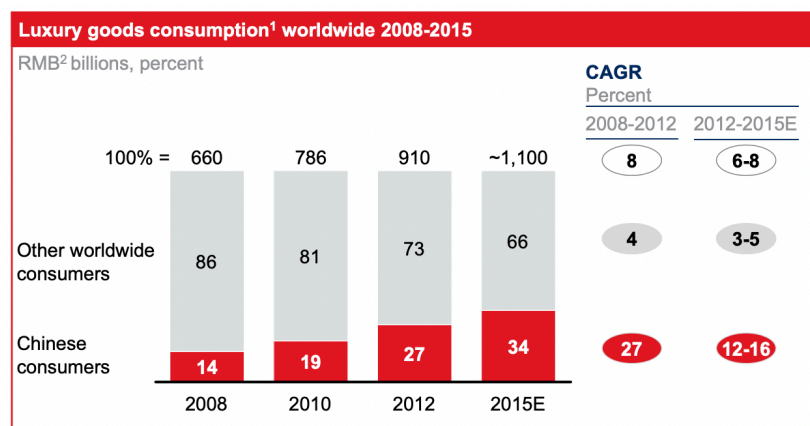
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<sup>27</sup> ERNST & YOUNG CHINA. (2005, September). China: The new lap of luxury - the Liberal Arts University in Hong Kong. Retrieved March 23, 2023, from <https://www.ln.edu.hk/mkt/staff/gcui/EY-Luxurygoods.pdf>

store visits without paying attention to price. Instead, the second included people who work as employees (usually for a foreign multinational corporation) who were willing to spend part of their salary to purchase a luxury good, carrying on the "spend now and worry later"<sup>28</sup> mentality.

In any case, China has turned out to be a country in constant and ongoing transformation, evolving at an astonishing speed. While at the beginning, it was clear that Chinese consumers were deeply attracted to luxury products designed with highly visible logos and symbols, over the course of few years, tastes and preferences of Chinese consumers have also matured significantly, preferring "low-key" goods.

Fig.1 Luxury Goods consumption (fashion, ready to wear, shoes, handbags, watches and jewelry) worldwide 2008-2015<sup>29</sup>



Source: McKinsey Insights China - Luxury Consumer Studies (2008, 2010, 2012); literature search; experts interviews; HSBC report; Company financial report

China has managed to establish itself in the luxury industry at an astonishing pace over the course of a very few years, emerging thanks to widespread and general optimism about the future. And as shown in Fig.1, China's growth trend has been confirmed over the years. Indeed, in early 2000s, Chinese consumers accounted for about 14% of global luxury goods consumption, which increased to 27% over 5 years (2012), generating even more positive estimates for subsequent years.

<sup>28</sup> Atsmon , Y., Ducarme , D., Magni , M., & Wu , C. (2012, December). *Luxury Without Borders: China's New Class of Shoppers Take on the World*. Retrieved March 23, 2023, from <https://s3-ap-northeast-1.amazonaws.com/mckinseychinavideos/PDF/the-mckinsey-chinese-luxury-consumer-survey-2012-12.pdf>

<sup>29</sup> Atsmon , Y., Ducarme , D., Magni , M., & Wu , C. (2012, December). *Luxury Without Borders: China's New Class of Shoppers Take on the World*. Retrieved March 23, 2023, from <https://s3-ap-northeast-1.amazonaws.com/mckinseychinavideos/PDF/the-mckinsey-chinese-luxury-consumer-survey-2012-12.pdf>

### ***2.1.1 main trends (travel for shopping, generational shift, Daigou phenomenon)***

The Chinese market has long been characterized by specific trends that have helped to make it one of the largest markets globally since the first moment of its rise.

When the Chinese government began to ease visa restrictions on Chinese travelers also releasing a list of “approved destinations”<sup>30</sup>, many Chinese began traveling to the West, between America, Europe and beyond, leading analysts to expect an increase to 100 million overseas travels by 2015.

The high expectations on the number of Chinese travelers represented an excellent opportunity for international luxury brands. In fact, Chinese travelers were very likely to buy and spend during their stays abroad. The reasons lied in the fact that through contact with local cultures they were able to enhance their brand awareness, accessing a much wider and more varied product offering than they could initially find in China. And particularly they were extremely attracted by Europe since it was perceived as a highly sophisticated and elegant target place, full of history and hedonist values, where they could feel and perceive a stronger product’s authenticity.

Particularly, during the early 2000s, the main consumption flows of luxury goods outside China were coming to Hong Kong. The proximity to China, and the signing of two economic partnerships between China and Hong Kong in 2004 that recognized the issuance of entry visas to Chinese consumers, combined with the reductions on cash amounts allowed in the country, helped to encourage flows generated by Chinese consumers, also revitalizing the market in Hong Kong.

The following figure, *Fig.2*, shows how China drove the global growth in luxury expenses between 2012 and 2018, specifically due to the increase in the upper-middle-class which made of people that earn between \$2,600 and \$3,900 per month per household<sup>31</sup> (McKinsey, 2019). A great percentage of them, about 70%, were used to spend their money in luxury goods purchases overseas when traveling abroad. And, according to McKinsey report this is direct consequence of the increasing foreign trips made by Chinese, and of the price differences between China and good’s countries of origin.

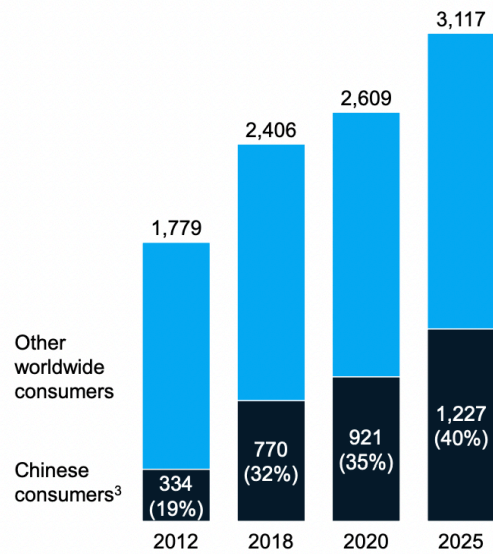
*Fig.2 Global personal luxury goods (Ready to wear, accessories, watches and jewelry, and beauty market evolution*

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<sup>30</sup> Jing Daily. (2014, June 2). *Chinese tourists still see shopping as top travel motivator*. Jing Daily. Retrieved March 28, 2023, from <https://jingdaily.com/chinese-tourists-still-see-shopping-as-top-travel-motivator>

<sup>31</sup> McKinsey & Company. (2019, April). *China Luxury Report 2019 How young Chinese consumers are reshaping global luxury*. Retrieved from <https://www.mckinsey.com/~/media/mckinsey/featured%20insights/china/how%20young%20chinese%20consumers%20are%20reshaping%20global%20luxury/mckinsey-china-luxury-report-2019-how-young-chinese-consumers-are-reshaping-global-luxury.ashx>





Source: *China Luxury Report 2019*; *China Luxury Report 2017*

Indeed, another important element that pushed the Chinese travel for shopping trend was represented by price differences. Prices abroad were extremely different compared to those of China mainland. In China, given the consumption taxes and high tariffs on imported products that the Chinese government imposed, prices for luxury goods could be about 20-30% higher than in Europe or Hong Kong. Therefore, the high price-consciousness of Chinese middle-class travelers, and the tariff-free prices of luxury goods in Europe represented a good incentive for Chinese consumers, to devote a significant percentage of their travel expenditure (an estimate of 30%)<sup>32</sup> to luxury retail purchases. Therefore, the reasons why the Chinese purchased luxury goods when traveling are different and various. Through research on the consumption of luxury goods made by the Chinese, it has emerged that many of these justify their purchase choices as driven by the sensations and emotions aroused by the shopping experience in European stores. In fact, many consumers said they were particularly enthusiastic as most of their expectations both in terms of price and variety of products have been amply exceeded. In addition, the professionalism and care of the customer's in-store experience is positively perceived, conveying a strong brand authenticity that contributes even more to strengthening the propensity of Chinese buyers to buy abroad. Another important reason is the financial one. Indeed, the price differences can be very high not only due to the taxes on imported luxury products which can be around 20-70% depending on the category, but also due to the rate of

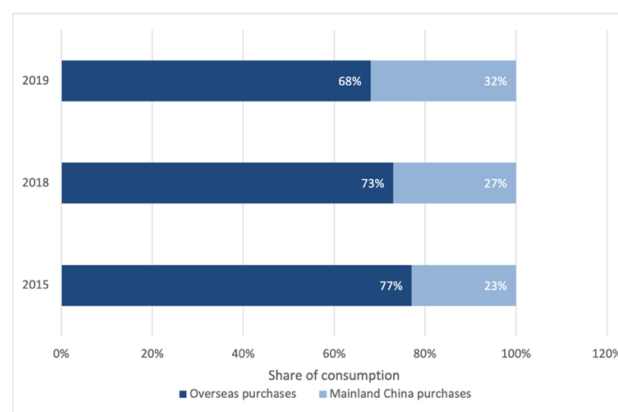
<sup>32</sup> Jing Daily. (2014, June 2). *Chinese tourists still see shopping as top travel motivator*. Jing Daily. Retrieved March 28, 2023, from <https://jingdaily.com/chinese-tourists-still-see-shopping-as-top-travel-motivator>



exchange. The increased price in China is certainly a disincentive for purchases on Chinese territory, especially when Chinese consumers travel and can buy at significantly lower prices.

The following figure shows that the Chinese domestic luxury consumption accounted only for 23% of all Chinese luxury consumption in 2015, as a consequence of the aforementioned dynamics. However, the percentage increased over years, arriving at a value of about 35% of whole luxury consumption in 2019, anticipating the trend that has characterized 2020 and following years, with new questionable consequences over the luxury industry.

Figure 3. Distribution of Chinese luxury consumption overseas and domestically from 2015 to 2020 with a forecast for 2021<sup>33</sup>



Source: Statista

However, the high prices differences caused by the strong Chinese taxation regime also brought to the rise of one of the biggest lucrative phenomena in China, *daigou*<sup>34</sup>. This word technically means “buy on behalf of”, and it is associated to a practice spread in China around 2011. It indicates a personal shopper, intended as a “professional figure” located abroad, that takes care of purchasing sought-after luxury goods in brands’ stores, selling them at a lower price through online channels, and finally, delivering them directly at buyer’s home address or at a pickup point. He works as an intermediary to favorite luxury goods purchasing in China, relying on the fact that luxury goods in China were sold at a price significantly higher compared to other countries, but also on the Chinese

<sup>33</sup> Bain & Company. (January 21, 2022). Distribution of Chinese luxury consumption overseas and domestically from 2015 to 2020 with a forecast for 2021 [Graph]. In *Statista*. Retrieved March 29, 2023, from <https://www.statista.com/statistics/977869/share-of-chinese-luxury-consumption-overseas-and-in-china/>

<sup>34</sup> Wong, F. K.-H. (2019, January 10). China's crackdown on Daigou merchants, new e-commerce policies. China Briefing News. Retrieved March 29, 2023, from <https://www.china-briefing.com/news/chinas-crackdown-daigou-cross-border-e-commerce-policies> : “it refers to a consumer-to-consumer (C2C) relationship of intermediaries who purchase overseas goods for Chinese consumers for a fee”

consumer aversion against counterfeit luxury goods and products, and their interest for safer and original ones.

Such a system was initially used purely by Chinese students studying abroad who sent luxury goods to their friends and family members who stayed in China, and the subsequent expansion of the phenomenon has been favored mainly by the evolution of technology and the spread of the e-commerce model, supported also by the growing relevance gained by social media. In addition, the growing prominence that this unregulated market has experienced in China is also justified by other reasons, that include the increase in demand for luxury goods due to the rise of the middle class, the differences in prices between goods imported into China (often increased by significant percentages) and those purchased through this system (which although implying tariffs are certainly lower), and finally the general distrust of Chinese consumers about the originality of imported products.

Although in 2020 it was estimated an economic value around more than 1 trillion USD (RMB 7.2 trillion) generated by this system sales, also expecting a further increase in following years, it is not easy to identify specific and accurate statistics and values given the informal nature of the phenomenon.

Daigou also involved initial advantages for international luxury brands that were able to reach Chinese consumers through indirect channels, without having to pay for marketing campaign to promote new launches. However, it revealed to be particularly disadvantageous for brands that cannot track customer behaviors and needs, distorting their demand's perception and customer's brand loyalty. Indeed, most of them now tried to improve customers' treatment to push them to buy physically at official stores highlighting that the real luxury purchase experience can be lived only in the store. Most importantly, some brands tried to put pressure over this new unofficial sales system, adjusting their goods prices reducing the price-difference with China.

Daigou was born in with an innocent perspective, but the word of mouth and internet advent, contributed to make it extremely profitable and highly lucrative at the edge of legality, leading the Chinese government to study and adopt new policies to limit it. To deter daigou system expansion, around 2015, the government decided for a tax importation reduction over 800 imported products<sup>35</sup>, among which they included different personal luxury goods (bags, apparel, sunglasses...). Also in 2019, it added to the list of duty-free goods, other 63 categories of products that can be purchased through e-commerce channels. In any case, all these initiatives adopted by the central power, supported the e-commerce platform development, but slightly limited the daigou phenomenon, that still find alternative measure to keep existing.

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<sup>35</sup> Caretto, G. (2016, March 29). Daigou, il nuovo modello di e-commerce. Startmag. Retrieved March 29, 2023, from <https://www.startmag.it/startup/daigou-modello-e-commerce/>

The attention and interest of Chinese consumers in Luxury goods has also led to the rise of a "parallel" market, where brands face the threat posed by counterfeit products that are sold by exploiting brand awareness. According to the Global Brand Counterfeiting Report, 2018, the global counterfeit goods market reached a value of USD 1.2 billion in 2017, resulting in an overall loss of USD 323 million, and for luxury brands in particular, the loss recorded in 2017 amounted to USD 30.3 billion.<sup>36</sup> China has been found to be the main market for counterfeit products, which are sold both in physical stores and online ones. Indeed, e-commerce platforms although they try to impose greater control systems to limit the sale of these products, they still must cope with the various ways that resellers adopt to circumvent the control systems. For example, in 2012, Giannini, Gucci's stylist from 2002 and creative director from 2005 to 2012, highlighted the growing struggling in recognizing fake items. Indeed, the quality of fake products also improved with the time, and if in the past it was simpler to spot a fake good, going further it became necessary to touch and smell it.

### ***2.1.2 Numbers and statistics until 2019***

The luxury market in China has begun to recover ground since 2017, after a couple of years with declining numbers, growing more and more at a fast pace, with the only slowdown suffered during 2020 in conjunction with the outbreak of the pandemic.

Luxury goods market in China registered 35.4 billion USD in 2017, with a positive growth until 2019, when the revenue generated by the market accounted for about 44.1 billion USD. The main portion of personal luxury goods market belongs to "Watches & Jewelry" segment, with revenue around 20 million USD in 2014, followed by Fashion, Leather Goods and Fragrances.

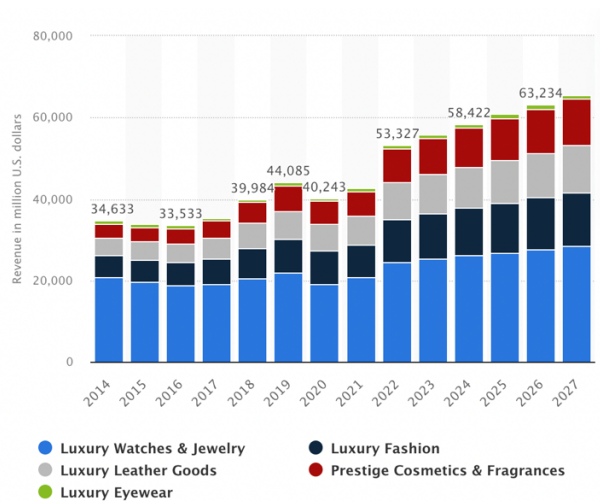
The luxury market in China, has always qualified as a market driven by the younger, enterprising generation influenced by new and exciting trends. In fact, the power of the Chinese luxury market lies precisely in the class of consumers who serve as the driving force. Technically, Gen Y, known as the post-1980s generation represents the main driving force. The strength of the post-1980s generation is represented by the fact that it includes those who lived through the height of China's economic boom that has come to be one of the global superpowers. In addition, such individuals are at the top of their careers with stable and secure earnings, providing them with a high opportunity to travel and be able to spend significant portions of their earnings on luxury goods. In fact, it was estimated that in 2018 Gen Y accounted for more than half of total luxury goods spending by China

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<sup>36</sup> Research and Markets. (2018, May 15). *Global Brand Counterfeiting Report 2018-2020: Luxury Brands incurred losses of \$30+ billion due to counterfeiting*. GlobeNewswire News Room. Retrieved March 29, 2023, from <https://www.globenewswire.com/news-release/2018/05/15/1502333/0/en/Global-Brand-Counterfeiting-Report-2018-2020-Luxury-Brands-incurred-Losses-of-30-Billion-Due-to-Counterfeiting.html>

(56% of Annual luxury spending in 2018). In the same vein also travels Gen Z, the post-1990s generation, which understood as the "single child generation"<sup>37</sup> often also supported by family, accounts for a significant, steadily growing percentage of luxury goods spending by China (23% of Annual luxury spending in 2018).

Figure. 4 Revenue of the luxury goods market in China from 2014 to 2027, by segment (focus on pre-pandemic numbers)



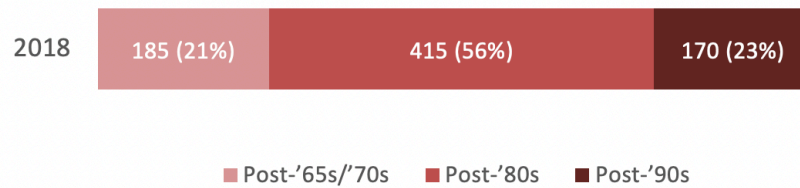
Source: Statista<sup>38</sup>

The rise of the new young generation certainly implies prospects for growth in the future that are certainly relevant, throwing excellent opportunities for international brands that can leverage young people, who are increasingly attracted to and interested in the world of luxury, with whom to establish a potentially stable and lasting relationship. But while these assumptions are theoretically correct, the reality shows significant difficulties. In fact, the new generations seem to be much less likely to buy in relation to affective, sentimental values toward the brand. They are influenced by other factors, including the communicative ability of the brand, with which they can most quickly and effectively approach the new demands and needs of consumers.

<sup>37</sup> One-child policy has been introduced since late 1970s by Chinese government to limit and reduce growth rate of China's enormous population. As a result, the fertility and birth rate of the country dropped Pletcher, Kenneth. "single child policy". *Encyclopedia Britannica*, 28 Mar. 2023, <https://www.britannica.com/topic/one-child-policy>. Accessed 4 April 2023.

<sup>38</sup> Statista. (April 6, 2022). Revenue of the luxury goods market in China from 2014 to 2027, by segment (in million U.S. dollars) [Graph]. In *Statista*. Retrieved March 23, 2023, from <https://www.statista.com/statistics/1301172/china-personal-luxury-goods-market-revenue-segment/>

Figure 5. Annual luxury spending by generation (Billion RMB %)

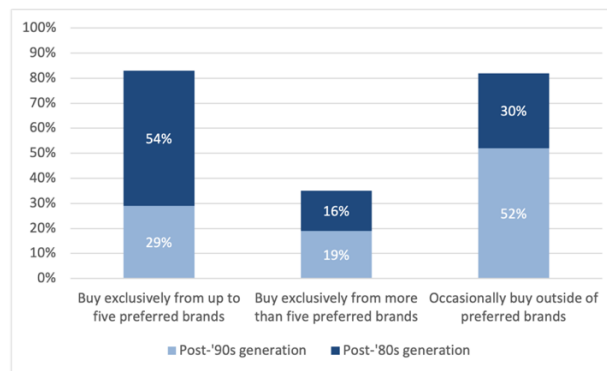


Source: China Luxury Report 2019

As shown in the following graph, Fig.6, build on McKinsey's analysis of brand loyalty of different generations of consumers in China; it emerges that more than 50% of the post-90s generation is inclined to buy products from different brands, showing themselves to be much more willing to experiment and less loyal to one brand.

Not surprisingly, the percentage of consumers in the post-80s generation who buy from a limited number of brands based on their preferences is about 54%, while that of the post-90s generation is significantly lower at 29%. Indeed, young consumers are more attracted by what is trendy and modern, rather than a specific brand's products.

Figure 6. Level of brand loyalty among luxury consumers in China 2019, by age group



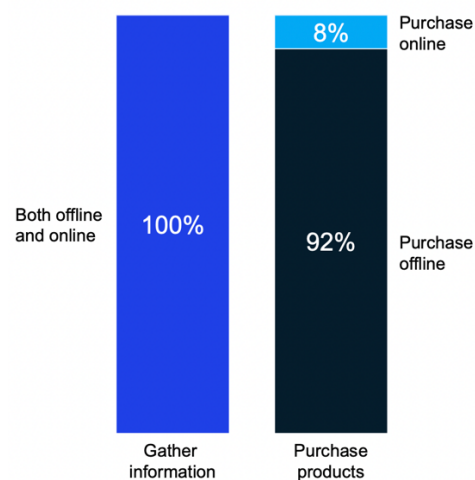
Source: Statista

Considering that the Chinese market, although it has grown exponentially in just a few years, it is still a young market for the luxury industry, which must interface with offerings from brands that are constantly evolving. In fact, given the inexperience of consumers with respect to this market, their attempt to increase their knowledge and awareness of the industry in question is predictable. In fact, the desire and attempt to obtain as much information as possible in order to increase one's knowledge of the market appears to be extremely widespread. Based on research conducted by McKinsey in 2019, any consumer chooses to inform themselves before proceeding to purchase a luxury good by

preferring both offline (most common one is word of mouth, but also in-person experience at stores) and online channels (official brand website, e-commerce platforms). Particularly, social media play a central role in discovery information, specifically thanks to product promotion made by celebrities and influencers, while traditional marketing campaign seems to be less effective over new class of consumers.

The situation is different for purchases; indeed, the main channel in 2019 was still the offline one. Therefore, Chinese consumers still preferred to purchase luxury products in-store, where they could live in-person experience that most enriches the customer purchase journey.

*Figure 7. Information and channel preference of Chinese luxury consumers*



*Source: China Luxury Report 2019*

### **2.1.3 Luxury brands marketing strategies before Covid-19: Gucci in China**

Each geographical market, with its specific structure involves customized strategies by luxury brand to penetrate and compete in the market. China, in particular, due to its different landscape compared to mature-structured market, has always pushed luxury brands to tailor their business strategies implementing specific actions and decisions. Indeed, most of luxury firms penetrating Chinese market, have adopted different approaches to work with Chinese local partners and enforce their brand presence in China compared to those adopted in old markets for luxury goods.

Luxury retailers aware of actual but also future potential of Chinese consumers, started to identify key successful strategies for China. Initially, they started to proceed with adjusting and cutting prices in China, aiming at increasing spending in the mainland and limiting purchases through unofficial channels. For example, in 2015 Chanel decided to adjust and harmonize<sup>39</sup> prices on three of its best-

known handbags. Indeed, starting from 8 April 2015<sup>40</sup>, Chanel increased the price of some handbags in Europe, and to lower it in China by 20%, aiming at fight against the spread of grey market and reducing the price difference between countries. Following Chanel price adjustment also Cartier announced to cut prices in China by 5%, as direct reaction to the increasing threats coming from grey market. Other luxury brands considered the price adjustment as a coherent way to support their business growth in China.

The price adjustment has gone further also in following years for example, in 2019 Louis Vuitton and Gucci decided to cut their products' prices by around 3%, as a direct reaction to VAT reduction applied by the Chinese government.

Additionally, another crucial element for a brand is building a strong online presence, to engage on large scale customers, by creating an interesting and attracting websites, where clients can have a first interaction with brand and its offer. Indeed, Chinese consumers are constantly seeking for information, and making it easily available to them represent a profitable choice. Online presence can be built in different ways, for example Armani created its own transactional website in China, where clients could purchase its different brand lines products online, including different payment methods, fast delivery services and a specific return policy. Another example is the Burberry, that besides opening its own transactional store also decided to launch its online store on Tmall, the Chinese largest online shopping platform, exploiting the platform's relevance and fame among Chinese.

Going on with the analysis of luxury brand business strategies to operate in the Chinese market, another key aspect is represented by the exploitation of social media power as a tool to enforce brand image. Indeed, social media can be used by luxury brands to build a stronger relation with clients, through a daily and dynamic interaction with them that can be involved in a concrete way in brand's dynamic. Moreover, social media represent a new stage to promote and spread products' collection, reaching, and engaging a larger customer group. Dior in 2015 created an account on Weibo where it promoted and posted its latest trends and events, or Michael Kors that in 2014 opened its WeChat account to promote a campaign where it broadcasted its fashion show also online.

However, luxury brands focused not only on leveraging new internet tool to spread and enhance their market presence, but also on enforcing their physical presence in the market by opening new stores and closing those that resulted to be underperforming.

Indeed, stores opening is an increasing trend among brands, while some of them decided to be cautious in new opening, some others used to be more brazen in their choice and actions. Brands such as Michael Kors opened 14 new stores in China in 2015 and almost the same numbers in the previous

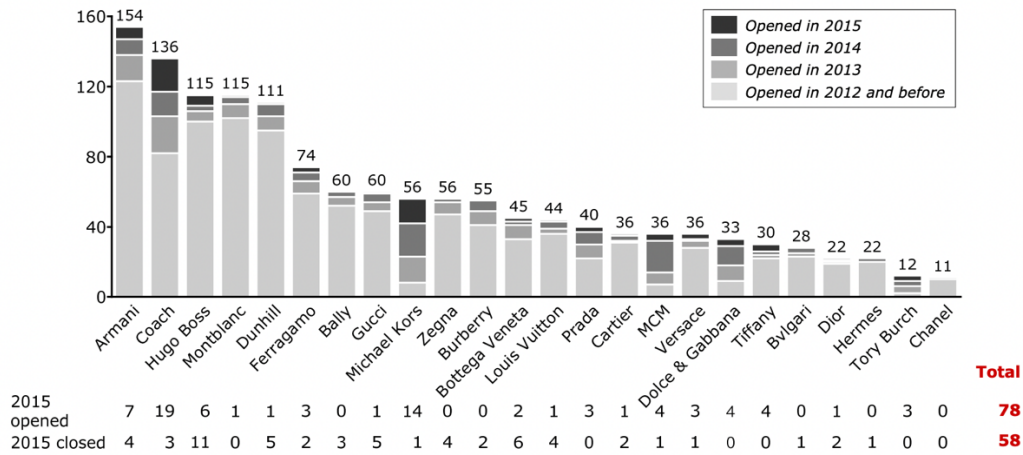
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<sup>40</sup> Booker, A. (2015, March 27). *Why luxury brands' China price cuts won't hurt overseas sales*. Jing Daily. Retrieved March 30, 2023, from <https://jingdaily.com/why-luxury-brands-china-price-cuts-wont-hurt-overseas-sales/>



year, or Dolce & Gabbana and Tiffany which inaugurated 4 new stores each in China in the same year.

Figure 8. Estimated number of retail store for selected brands by end of 2015<sup>41</sup>



Source: Bain & Company

Moreover, brands also tried to the performance of already existing stores. Indeed, although since their first appearance online channels have increasingly gained ground, many luxury consumers still preferred the more authentic and fascinating shopping in-store experience. Therefore, luxury brands have also tried to enhance the in-store experience, by implementing digital technologies. For example, Burberry adopted smart mirrors in its stores, where clients could visualize catwalk version<sup>42</sup> of the interested item, also introducing a new tool of Visual Search and Image Recognition that allowed salesperson to create a visual wardrobe and define the global transaction history of each VIP client. Additionally, brands have always been aware of China potentiality but also its complexity, so that the traditional marketing and advertising campaigns resulted to be less effective. Thus, although online channel positive perspective, retail stores still played a central relevant role, forcing luxury brands to still leverage the role of their storefronts trying to establish a deeper connection with consumers. Most of all, brands invested in lavish events and parties to promote new products' launches, also relying on the local press support.

<sup>41</sup> Bain & Company. (2016, January 20). *2015 China luxury market trends - bain.cn*. 2015 China Luxury Market Trends Can it rebound? Retrieved March 30, 2023, from <https://www.bain.cn/pdfs/201601210331128186.pdf> pag.12

<sup>42</sup> Apakidze, D. (2016, August 17). *The new luxury retail experience*. Wide Eyes Blog. Retrieved March 31, 2023, from <https://blog.wideeyes.ai/2016/08/17/luxury-brands-retail-innovation/>



A concrete example of an effective strategy for Chinese market penetration is Gucci. Indeed, Gucci is one of the most famous luxury brands in China, that thanks to its effective implementation strategy of Chinese values and culture has been able to win the market. The brand decided to set up a specific team, the Kering Greater China team,<sup>43</sup> in charge of reinforcing brand's visibility in China, improving relationship with local partners, trying to effectively react to new Chinese consumption needs. Moreover, the brand also tried to gain ground in the Chinese market, by releasing collection with a strong reference to Chinese history and religion. For example, in 2018 Gucci, under the guide of its creative director Alessandro Michele launched a capsule collection including 63 items (shoes, luggage, accessories, apparel and handbags) with dog illustration to celebrate the year of the dog according to the Chinese calendar. The collection was available in both online and physical stores and the company also proceeded to further promote the new products through specifically dedicated advertising campaigns.

*Gucci's Year of the Dog Capsule Collection, 2018*



*Photo credits: Courtesy of Gucci Photos by Petra Collins*

**2.2 Covid-19 break-out and implications for luxury brands in China**

Luxury industry has always been able to face external challenges with strong responsive attitude so that it is known to be a crisis tolerant industry. Covid-19 broke out unexpectedly, bringing consequences ever seen before. Each sphere of human life has been affected, for the first time in the post-war era people have been forced to limit their freedom and life, being subject to a closure and isolation from others. Particularly, luxury industry is driven by psychological factors and such restrictive conditions obviously impacted on luxury industry. For the first time some studies about

<sup>43</sup> Kering's corporate team in China built to adapt to the fast-changing business environment, and to support lon-term development in Greater China. Kering. (2018, September 4). from <https://www.kering.com/it/news/strenghtens-its-organization-in-greater-china-appoints-jinqing-cai-president-great-china>

the effect of isolation on luxury consumptions have been conducted, trying to understand the main effects on purchasing behaviors. Indeed, the results have showed that under such condition, consumers propensity to purchase luxury goods is higher, because of Bandwagon effect. When a person feels isolated, a person tends to look for comfort by affiliating with other groups of people following bandwagon trends<sup>44</sup>. Indeed, people could react and escape negative situations by trying to affiliate with others. This need for affiliation implies a higher willingness to purchase luxury goods since a person is used to associate a higher wellbeing and satisfaction when purchasing a luxury item under the isolating situations. This dynamic can be explained by the fact that purchasing a particularly appreciated product implies a sense of membership to a group that share and support same values and ideas, fighting against the stress and loneliness brought by forced isolation. Humans have a social nature, therefore, interactions and relationships with other similar are not a desire but a concrete need to survive. The feel to be noticed by others and to have a role in social dynamics, brought people to perceive their consumption behavior to express themselves to others. Therefore, when trying to affiliate to a group, overcoming the isolating condition, people are more prone to purchase products that can express their social status and improve their social connection. At the same time, during Covid-19 luxury brand should have faced the mitigating effect of anxiety derived by Covid-19 uncertainty and fear that moved the attention to primary needs, such as the safety and health, leaving the need for a luxury product to enhance social connectiveness as a secondary need. Indeed, a study<sup>45</sup> on the effect of Covid-19 on luxury consumption reported that *“COVID-19 anxiety moderates the effect of bandwagon luxury consumption behavior on intention to purchase luxury brands”* (Thapa, Guzman and Paswan, 2022). Indeed, under stressful period people tend to control their spending, trying to save money and accumulate resources to feel safer and more secure when facing struggling time. Obviously, the intensity of stress and anxiety brought by Covid-19 varied across different countries, according to restriction’s levels adopted by each government but also to specific cultural and social dynamics. China for example, is a group-oriented country where the family opinion and others’ perception play a relevant role in driving luxury purchases, highlighting the strong social influence over Chinese luxury consumption. Owning a luxury item, not only provide a pleasure sensation but also deliver psychological benefits since it represents a concrete element of belonging to a restricted group people who can afford it. Therefore, when the social influence on purchasing

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<sup>44</sup> Bandwagon effect implies the increase of consumers’ demand for a luxury goods when its popularity increases. Therefore, a luxury good’s individual demand increases, when its corresponding market demand increases, showing a positive correlation between individual and market demand.

<sup>45</sup> Thapa, S., Guzmán, F., & Paswan, A. K. (2022, March 3). How isolation leads to purchasing luxury brands: The moderating effects of covid-19 anxiety and social capital. *Journal of Product & Brand Management*. Retrieved April 3, 2023, from <https://www.emerald.com/insight/content/doi/10.1108/JPBM-05-2021-3500/full/html>

behavior is high, as in China, it can be easier to understand the different time needed to Chinese luxury market in reacting and recovering faster from an unexpected event, such as Covid-19. Therefore, it is possible to assess that Covid-19 changed luxury geography toward East countries, and China above all, which became highly attracting for high-end brands. However, economic, social and cultural changes brought by pandemic condition, produced new needs and expectation by consumers that luxury brands should consider succeeding in such complex markets as Chinese one.

### ***2.2.1 Covid-19 emerging trends: luxury new role, sustainability, digital acceleration, and Guó cháo***

With Covid-19 a new era started for luxury industry, which have been significantly impacted and reshaped by pandemic challenges and changes. Limitations brought by Covid determined a drop of global luxury sales between 25% and 40% in 2020 which have been gradually recovered in 2021 and 2022. The events following Covid-19, such as physical restrictions, lockdowns, cross-borders closure, suspended travels, brought people to rethink their priorities, values and consciousnesses, leading new opportunities and challenges for international luxury brands. Indeed, Covid-19 started to move the attention toward products perceived as timeless, whose value does not depend on following temporary and actual fashion trends. Good's customization and purchase's experience played a key role in incentivizing customers to select a brand rather than another, considering the new role of luxury in Chinese market, that shifted from being associated to "*miànzǐ*" concept that recall the honor and reputation, to a self-rewarding way to celebrate and recognize hard efforts faced by a person.

Moreover, people's growing interest over sustainability and environmental topics pushed brands to re-organize the entire value chain to pursue sustainable goals, not only in terms of sourcing safe materials but also in actively and concretely participating to local and international initiatives. For instance, Prada in July 2021, donating 1.5 million RMB to support the recovery of Henan regions after natural disasters that hit the places, deeply touched Chinese feelings.

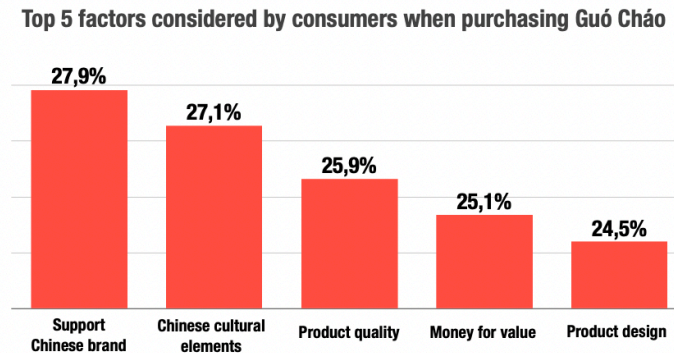
Additionally, due to physical restriction that forced people to stay at home and connect with the others only through social media, e-commerce sales boosted as a consequence of new shopping behaviors. Indeed, online shopping represented a way of people to overcome physical limitations, and e-commerce platforms played a key role in inspiring and communicating with consumers, supporting brands' sales, and enhancing the idea of a community around the brand also during such difficult situation. Therefore, it was expected a conscious acceleration in implementing digital channels with a higher brands' consciousness of their potentiality. Not only brand's website enhancement, but also partnership with most relevant e-commerce platforms helped brands to hold up sales and persuade consumers to go back in stores once they have opened again. Indeed, the implementation of digital channels toward an omnichannel approach represents a challenging long-term goal to enlarge a

brand's customer base and markets. And, considering that luxury costumers are used to high quality service when purchasing in store, brands were called to customize customers' digital experience ensuring almost the same service quality.

Introducing digital channels was also effective for a better tracking and analysis of market and demand trends by brands. Considering that after Covid-19 market volatility increased, luxury brands coped with uncertainties relying on an advanced data analysis system, through which they visualized current trends and delivered the right offer able to meet current expectations. In addition, during pandemic period luxury brands had also to identify and adopt a proper communication strategy to incentivize purchases considering the natural shift of consumers' attention to essential, every-day products. Indeed, during such period the most effective communication tool was represented by social media, that helped the brand to keep in touch with consumers. For example, luxury brands such as Louis Vuitton, Chanel, and Gucci used Facebook, Instagram, Twitter as main channels to communicate with consumers, and promote initiatives aimed at sensibilizing over health issues and concerns during pandemic situation.

Finally, another significant challenge was the spread of increasing nationalist footprint. Indeed, China, which has always been a country strongly rooted in its own culture and tradition, has seen an increase in patriotism over the course of the pandemic, that has particularly included younger generations. *Guó cháo*, which properly means "national wave," translates into a combination and blend of contemporary elements in line with the hottest trends, with elements typical of Chinese culture, to enhance local culture and appeal to consumers' desire to celebrate and reconnect with their roots. *Guó cháo* allows brands' exaltation of Chinese cultural elements, appealing to Chinese shoppers' sensitivity to cultural, religious, and historical themes. The nationalistic wave produced an increase of Chinese luxury fashion brands, which tried to challenge Western brands with their collection inspired by China heritage and craftsmanship, that recall traditional designs, styles, and elements. As reported by Hylink report, many consumers in China are inclined to pay a higher price for a Chinese *Guó cháo* brand. As shown in the *Fig.9* despite the product's design and quality, luxury Chinese consumers are mainly guided by their love for Chinese culture and their willingness to support a local brand when purchasing.

Figure 9. Top 5 factors considered by consumers when purchasing Guó Cháo



Source: Hylink Chinese Market Outlook November 2022

However, Chinese consumers now expect a deeper understanding of their culture from international luxury brands, and they are no longer satisfied by gross references to Chinese culture. Failing in properly understanding and recalling cultural and traditional references may produce consistent negative consequences that could become detrimental for a brand image. An example was Dior, which was accused by Chinese of cultural misappropriation due to its USD \$3,800 skirt, that according to them was inspired by an old Chinese cloth without being clearly declared by the brand. Therefore, the main priorities for luxury companies were about managing current and present dynamics and then overcome the Covid crisis, ensuring business survival for the future.

### **2.2.2 Covid-19 consequences for luxury brands in China: repatriation and tax-free purchases**

China has represented and still represents a relevant driving market for luxury companies; indeed, after removing zero-Covid policies in December 2022, luxury conglomerates registered an increase in their shares value, for example LVMH gained around 12% or Richemont that rose about 13%. China is still expected to become the biggest luxury market in 2025 further shaping the luxury industry also in the following years, thanks to the exponential growth of Chinese upper-middle class. However, some trends are driving the market dynamics with stronger potential implications for the entire industry.

In the past, Chinese consumers were used to purchase personal luxury goods when traveling abroad, taking advantage of currency and tax benefits, but with Covid-19 they were forced by majeure elements to satisfy their needs for luxury purchases in their own country.

According to experts this new habit is expected to root with consequences that would be potentially disrupting for luxury brands.

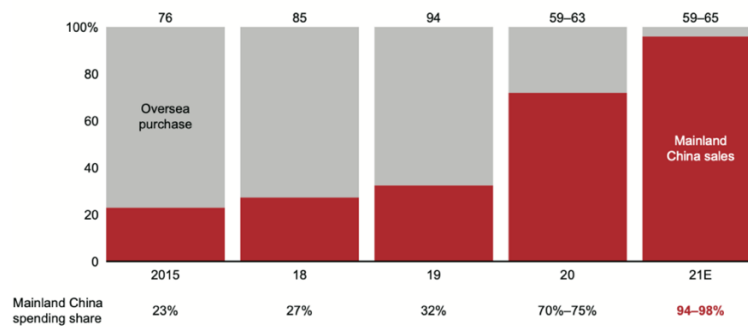
For the first time since 2008-2009 crisis, personal luxury market growing trend with a CAGR of 6% has been interrupted suffering a significant drop in 2020 equal to -23% at current exchange rate according to Bain-Altgamma Luxury Study. Watches and Apparel were the lowest performing categories during 2020, with a decrease of sales around 30%, followed by Beauty goods with a -20% caused by a closure of physical distribution points; Jewelry category supported by online acceleration especially in Asia-Pacific region, with a decrease equal to 15%, and Shoes, whose sales decreased accounted for -12% mainly related to formal and classic shoes.

In 2020 many of the most coveted countries by Asian consumers-imposed travel ban for Chinese tourists, with a significant decrease in sales volumes for destinations such as Italy, US, France UK ... The consequence of this borders' closure was represented by the low sales coming from tourism. Indeed, during pandemic travels were suspended and forbidden, tourism was blocked, and luxury brands suffered a significant decline in sales, specifically, from Chinese tourists. To make up this loss and cover the sales difference, luxury brands tried to incentivize local markets sales<sup>46</sup> looking for a way to replace the revenue lost from Chinese tourism suspension. For example, luxury brands registered a general decrease in spring season sales around 70% due to stores closure, and one of the challenges in this case was to understand how introducing the new 2020 autumn and winter collection and managing the largest number of unsold items without eroding the brand equity through an aggressive discount policy. However, this situation in conjunction with some trends started years before, such as import tariffs decrease, harmonization of prices and stronger regulation aimed at limiting the counterfeit market, further increase the repatriation of luxury sales to China. Indeed, as reported by Bain & Company, the spending share of Chinese consumers in Mainland have increased since 2015, when some of previous mentioned initiatives have been adopted, passing from 23% in 2015, to around 70%-75% in 2020. This trend keeps increasing and the spending share in Mainland was expected to reach 94%-98% in 2021 and in following years (*Fig.10*).

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<sup>46</sup> Willersdorf, S., Yang, V., Seara, J., Bianchi, F., Prénaud, A., Ricci, G., & Hazan, J. (n.d.). *A New Era and a new look for luxury - web-assets.bcg.com*. Retrieved April 3, 2023, from [https://web-assets.bcg.com/img-src/BCG-A-New-Era-and-a-New-Look-for-Luxury-Jun-2020\\_tcm9-252101.pdf](https://web-assets.bcg.com/img-src/BCG-A-New-Era-and-a-New-Look-for-Luxury-Jun-2020_tcm9-252101.pdf)

Figure 10. Geographic breakdown for Chinese luxury goods spending (% B Euro)<sup>47</sup>



Source: Bain & Company

Empirical evidence shows that in 2021 most of Chinese consumers, around 90%, brought luxury goods in domestic market, producing a decrease in overseas sales equal to 30 billion euro compared to previous year.<sup>48</sup>

Additionally, sales of luxury goods in China have also been boosted by the established luxury hub, Hainan, which, thanks to duty-free stores, saw an increase in sales during 2020 of about 120%, significantly contributing to the Chinese luxury goods market's growth. The travels restrictions in 2020, forced people to purchase in Hainan rather than in international luxury stores. Indeed, during Covid-19 Hainan duty-free stores saw an increase in sales that “represented almost 25% of sales in China official channels” (Lannes, Xing, 2021) excluding Daigou and other unregulated channels. Moreover, also Chinese government adopted some initiatives to incentivize people shopping in Hainan duty-free. Cosmetics, jewelry, and watches performed as top 3 best categories in terms of sales in 2021, according to Xinhua News, 2021<sup>49</sup>.

Indeed, in Hainan stores, products are sold at a price that can be 30% to 55% lower than the official one charged by brands in stores, as shown in the Fig.11 from Bain & Company report. In fact, the number of duty-free stores is growing, and this situation could lead to a potential increase in price competition in China. This hypothesis implies a non-negligible risk for luxury brands considering the significant impact this situation could have on companies' pricing policy, specifically on luxury brands' one, where price is a key and determining element for a brand's image and prestige.

<sup>47</sup> Lannes, B., & Xing, W. (n.d.). A year of contrasts for China's growing personal luxury market. Retrieved April 5, 2023, from <http://www.bain.com.cn/pdfs/202202100519184317.pdf>

<sup>48</sup> Hylink. (2022). (rep.). *Luxury & Fashion Industry in China Post-pandemic and recession trends*

<sup>49</sup> Hylink. (2022). (rep.). *Luxury & Fashion Industry in China Post-pandemic and recession trends*

Figure 11. Significant discounts vs domestic official listed price contributed to Hainan's growing penetration in luxury beauty<sup>50</sup>



Source: Bain & Company

However, Hainan still represents a good opportunity for brands in launching new collection and products in China. Indeed, despite the evolution of travel dynamics, the duty-free sector is expected to resist with additional supportive initiatives and policies, that make it as a concrete but still challenging investment that should be considered by luxury brands to expand their position in Chinese market.

### **2.3 Changes in Chinese consumption behaviors after Covid-19**

Another important factor impacting luxury market performance in China has been the luxury consumers' base growth, supported by the middle-class enlargement, that according to some Bain & Company data is expected to represent 65% of country's economy in 2027.

#### **2.3.1 Chinese consumers' new segmentation by age. silver economy and new generations**

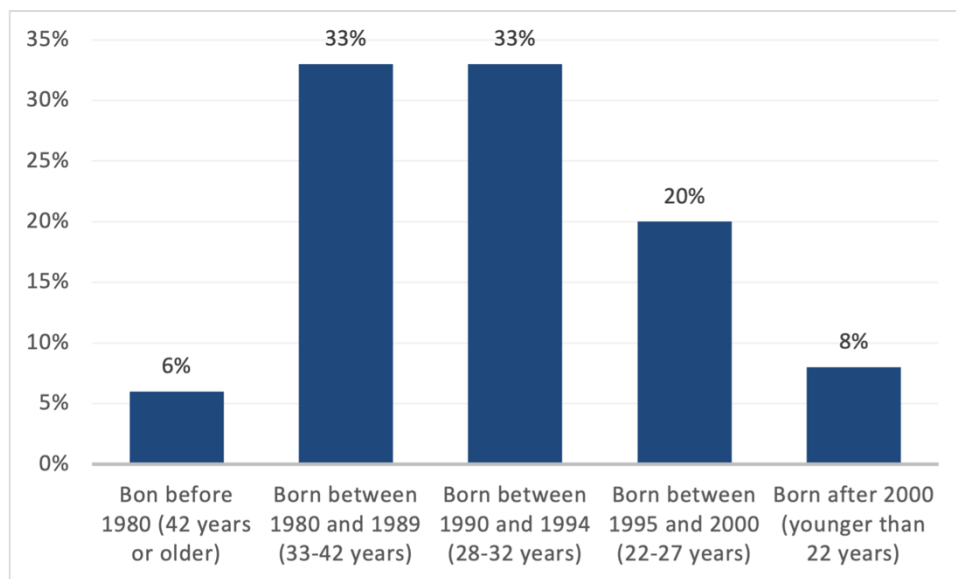
The analysis on Chinese consumers' characteristics can be conducted considering the age. Chinese mature consumers still represent a good target to be considered by brands, as they are extremely aware of new consumption trends and active on digital platforms. Indeed, for some luxury segments, for example beauty and cosmetics, over-55 consumers represent a great portion of sales. Some brands, such as Bulgari, Estée Lauder launched some advertising campaigns aimed particularly at this target audience, that increased its spending power and have more free time compared to younger generations that make them more inclined to luxury spending. However, younger generations, Millennials and Gen Z, configure as main segments for luxury brands. In particular, the numbers related to Gen Z segment are steadily growing, and forecasts identify the new generation as one of the main drivers

<sup>50</sup> Lannes, B., & Xing, W. (n.d.). A year of contrasts for China's growing personal luxury market. Retrieved April 5, 2023, from <http://www.bain.com.cn/pdfs/202202100519184317.pdf>



for the future of the luxury industry. Although it is a young generation (made of people born after 1995), the data show that they are already savvy luxury consumers. *Fig.12* shows the distribution in China of luxury consumers based on age, where on sample of 2600 luxury consumers, around 33% of respondents belongs to one of the two Millennials groups (for a total of 66%), and about 20% belongs to Gen Z segment, with future growth perspectives.

*Figure 12. Distribution of luxury consumers in China as of June 2022, by age group*



*Source: Statista*

Differences among consumers' segments lay on different expectations, attitudes and needs. Indeed, unlike old Chinese consumers who considered luxury items as a way to show-off and celebrate their social status, new consumers (Gen Z in particular) consider luxury as a way to self-reward themselves for the hard work and study made. Therefore, luxury purchases transformed their function for new consumers, becoming a self-reward tool. This leads to a break between old and new generation in the country, polarizing interests and expectations across different customers segments. Therefore, it is possible to assert that reasons behind a luxury purchase differ between old and new luxury consumers. New generations are more inspired by emotions and psychological elements, and maybe the pandemic accelerated this consumption evolution, signing a break point that forces brand to rapidly catch changes and internalize them without negatively affecting the heritage and image.

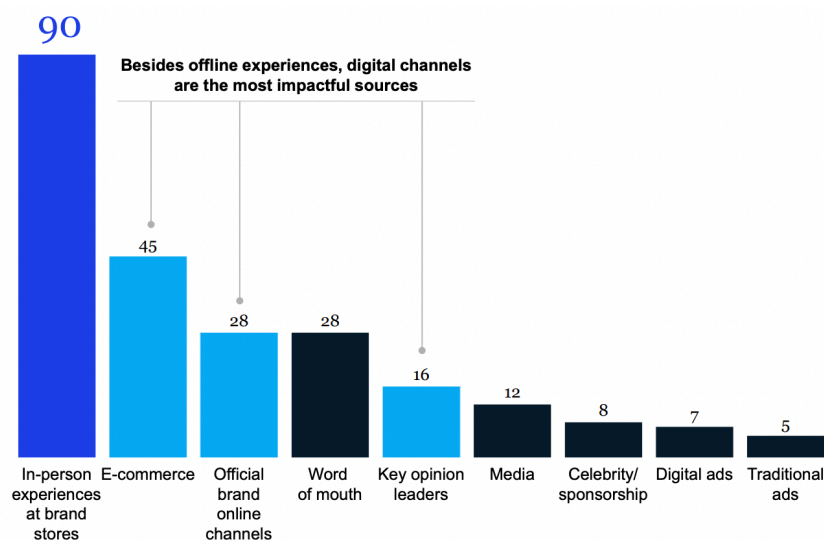
### ***2.3.2 Chinese consumers' preferences: digitalization and the rise of e-commerce platforms***

The advent of an increasingly young and dynamic consumer category can also be explained by the fact that it is a generation was born and raised in the digital era with the awareness of being able to

access quickly and easily to any information, discovering and interacting with the rest of the world without constraints or limits.

In the following figure emerges how Chinese consumers, even if they are strongly prone to make offline and in-store experiences which are still perceived as the main channel to base the purchase decision on, they recognize digital channels as the new main sources of information and engagement.

Figure 13. The most impactful sources of information that influence Chinese luxury purchase



Source: McKinsey China Luxury Report 2019

It is no coincidence that the growing number of Gen Z consumers for luxury brands goes hand in hand with the growth of online sales and distribution channels and that purchases of luxury goods through online channels worth about 35% of Generation Z's total purchases.

Nowadays, China is the country with the highest Internet penetration rate equal to 70% and around 1 billion of Internet users, with the biggest online market in the world (valued USD \$2.64 trillion) in 2021 according to Hylink report (2022). Digital natives in China accounts for 200 million, and this numbers explain the social media centrality in China, where digital platforms represent the most effective and relevant communication channels. The effectiveness of social media platforms as WeChat, Tmall<sup>51</sup>, RED Mall<sup>52</sup>... is linked to the fact that they can both satisfy demand and offer sides.

Indeed, for brands. social media platforms represent a rapid communication tool, to promote their products and collection, and build a modern connection and relation with consumers. These platforms

<sup>51</sup> Alibaba's e-commerce platform, where 70% of total sales are about luxury goods

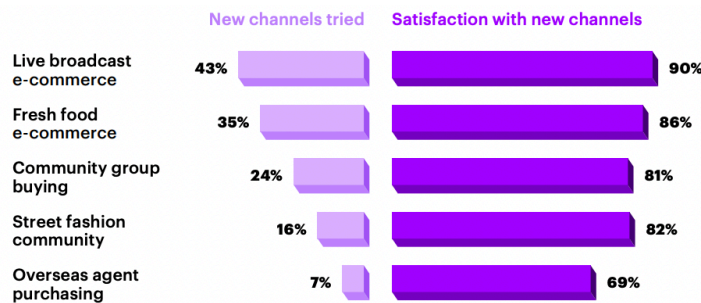
<sup>52</sup> The most trusted cosmetic and beauty e-commerce platform in China, where around 30 luxury brands in the beauty and make-up segment joined to sell their products

can offer to brands many options that can be leveraged to boost sales, or simply to spread brand awareness and exalt brand image. For example, they can be used to sell products as in the case of WeChat stores, displaying a product image, composition, design, message and making information more accessible to consumers. Additionally, social media can help brands to enhance consumer relation, incentivizing interaction on online platforms, where consumers can interact with brand, through shares, comments, likes... and exploiting algorithm-driven displays of content... Still, brands can use online places to promote live-streaming events and shows to let consumers to better know the brand and its offerings, actively asking questions and requiring information.

On the consumer side, they can get information faster and easier, discovering new trends and making the final purchase decision. The relevance of social media platform is undoubtable, specifically in China where the great majority of population inevitably approached e-commerce and online channels as reaction to hard restrictive actions adopted by the government.

Covid-19 accelerated luxury brands' digitalization path, considering that online places became for many people the only way to escape from crude lockdowns reality. Therefore, digital platforms allow brands to capture immediately the changing needs and react rapidly to meet new expectations.

Figure 14. People have both high enthusiasm and satisfaction when it comes to trying new channels



Source: Accenture Report 2022

As reported in Accenture Chinese Consumer Insights 2022, the income and wellness increase of Chinese consumers led to a higher shopping frequency compared to previous years supported by using new distribution channels. Indeed, according to this report, 90% of survey's respondents "have tried at least one new channel in the past year" (Accenture, 2022), showing great enthusiasm and satisfaction.

### ***2.3.3 The role of KOLs and influencer marketing***

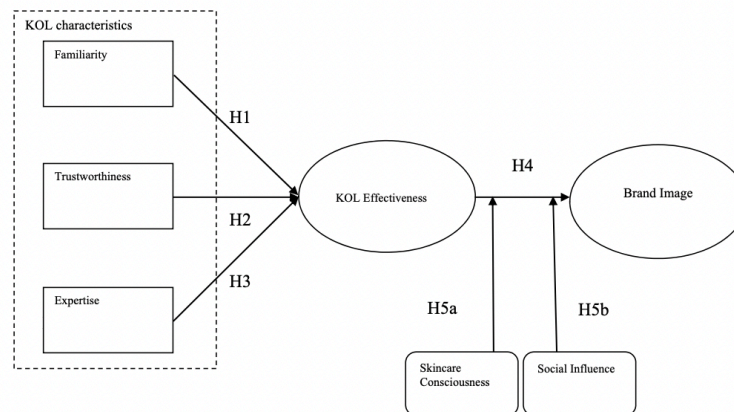
Chinese luxury consumers use online channels and digital platforms as main channels for information and engagement, before adopting a certain spending choice. Indeed, besides the offline and in-person experience centrality, digital channels are increasingly covering a crucial role in influencing luxury customers. Indeed, KOLs among the new digital sources, are covering important role for a brand strategy in China where young generations of luxury consumers result to be strongly influenced by them. KOLs (Key Opinion Leaders) represent a new effective marketing tool for luxury brands, that in conjunction with spread of digital platforms can highly impact on consumers decisions. Indeed, they are intended as experts in a certain field holding an uncontested knowledge on a specific topic. KOLs work as brand ambassadors in charge of promoting a specific product to their targeted audience, attracting people attention and incentivize them in purchasing a certain good. In any case, the relevance and effectiveness of such figures is supported by the fact that people are more influenced by personal recommendation<sup>53</sup> rather than general ads and having a person. For luxury brands the choice to recur to KOLs is guided by the idea of pursuing a sales increase while adopting a less risky penetration strategy of the Chinese market.

Moreover, in many cases, a KOL holds more followers on her/his social media account compared to a brand's official account, and this aspect pushes companies to consider such collaboration as a good option to spread deeper brand awareness, effectively promote products and finally increase sales. Therefore, KOLs become active part of a luxury brand's marketing plan, that can produce moderate effect on a brand image that configures as one of the main drivers to induce a certain purchase behavior in a consumer. As shown in the *Fig.14*, the KOL effectiveness depends on specific personal characteristics that are positively correlated to it, which determine the subject's ability to influence the consumer's perception of a brand and therefore his future spending choices.

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<sup>53</sup> Zhu, S., & Wang, X. (2020). (rep.). *Investigating KOLs' Influence on Luxury Brands' Advertising Strategies in China* (Vol. 3, Ser. 10.6918/IJOSSER.202009\_3(9).0015, pp. 100–102). International Journal of Social Science and Education Research. Retrieved from <http://www.ijosser.org/download/IJOSSER-3-9-100-111.pdf>.

Figure 15. Theoretical framework



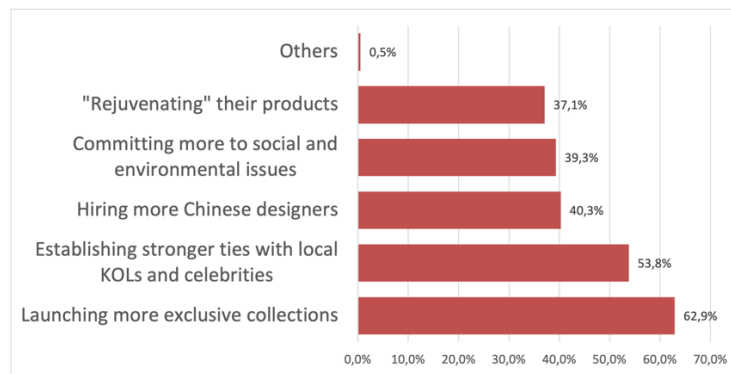
Source: Xiong, Cho, MY Law & Lam (2021)

However, even if there are many examples of successful collaboration between a luxury brand and a Chinese celebrity, the potential failure is not excluded. Indeed, a successful partnership lays on the collaboration coherence and trust. China has become one of the most active markets for KOLs marketing, where most of them have been able to create their personal accounts and channels to work with, and to play a significant part in the Chinese luxury market economy. Indeed, in China KOLs represent a relevant touchpoint for luxury brands to reach consumers and combining KOLs marketing choices with other online/digital initiatives, for example mini-programs or mini-games, luxury brands can accelerate the conversion rate. According to Tencent and BCG China Digital Luxury Study 2021, in China around 68% of luxury consumption are influenced by celebrities/KOLs. Moreover, key opinion leaders' management in China can be assimilated to a concrete investment. In such case, international luxury brands invest their resources by hiring experienced figures who can represent their ideas in the marketplace, aiming at increasing sales revenue.

As showed in the Fig.16, building a relationship and a link with local celebrities and key opinion leaders qualifies itself as one of the principal actions that a luxury brands could adopt to capture interests and attention of Chinese consumers.

Influencer marketing in China configures as new supporting tool for luxury brands to boost sales and particularly to personalize products. Differently from Western influencers that principally works as brand promoters and ambassadors, influencers and celebrities in China play a much greater role, representing a direct sales channel for brands, that support live-stream event management, new collection promotion, potential new consumers' engagement.

Figure 16. Leading actions that foreign luxury brands could adapt to attract Chinese shoppers in China in 2022



Source: Statista

## ***2.4 Impact of the new trends on luxury brands: how they have been forced to change/redesign their business models?***

China has always provided great opportunities for luxury retailers' expansion along with significant challenges resulting generally from its geographical and cultural distance from brands' countries of origin. Challenges for luxury retailers in China are particularly consequence of the country's dimension, that implies huge differences to be considered among various Chinese regions. Moreover, the low brand awareness of Chinese consumers, and the country's strict "censorships of international social media" (Liu, Perry, Moore, Warnaby, 2016) obstacle brands' operational freedom in China. Indeed, since the beginning, luxury brands have been called to adapt their marketing strategies, localizing and tailoring communication actions to the country's specific needs. Even if luxury brands tend to adopt a global strategy, replicating the country of origin's retail organization across other different geographies and centralizing management process to improve control building a strong brand image, they have been forced to mix the global approach with a multinational one, to succeed in their international expansion. Indeed, to rapidly expand internationally a proper adaptation to local demand is required. In general, communication strategies adopted by brand in such case should incorporate local and regional values, by recalling a country's patterns, designs, myths, language ... As for China, considering the country's complexity luxury brand's marketing strategies may imply lavish flagship store events, shows and other occasions where also Chinese celebrities are invited as brand ambassadors, increasing consumers' brand awareness and loyalty. Moreover, considering Chinese digital evolution many brands were also forced to move online their promotion and engagement activities, putting online channels at the center of their operating model.

As China vast population and geographical extension, various tiers<sup>54</sup> are classified according to income level, population size, consumer's priorities, infrastructure ... Therefore, regional disparities imply different consumption propensity across city tiers and require luxury brands to define specific advertising programs for each of them. For example, in the case of first<sup>55</sup> tier cities such as Shanghai and Beijing, to effectively communicate brand image and spread brand awareness, the most effective luxury strategy for brands can be building sizable flagship stores where the brand can project its brand development in a long-term perspective considering these cities as other mature markets to grow in. For cities such as Hangzhou and Chengdu, included in the second<sup>56</sup> tier, brands besides building flagship stores, tend to take stronger communication actions such as promoting store events and or inviting celebrities to support higher consumption levels. Finally, exclusive luxury brands show no great interest for third<sup>57</sup> tier underdeveloped cities considering obstacles for proper retail infrastructure and customer-service capabilities in such cities.

Considering that more than 80% of Chinese population is under 45 years old, the level of internet purchase and consumption is extremely high, and the most effective way for brands to reach them is to implement online platforms in their business models, modernizing and adapting them without distorting brand's value and image. E-commerce in China is driven by giant platforms such as Tmall (Alibaba) and JD, which are subject to constant updates to better meet evolved needs of Chinese population. Considering the e-commerce convenience for Chinese consumers, it is unavoidable that also luxury brands, with their long and rooted heritage, should adapt to catch a significant portion of Chinese luxury goods' demand.

#### ***2.4.1 Marketing strategies in Chinese luxury industry: e-commerce platforms (Tmall)***

Given the big opportunities linked to Chinese market, many brands are investing in specific localization strategies such as the "Chanel China Movement"<sup>58</sup>, through which Chanel has been able to build its good reputation in China acquiring increasing confidence in Chinese market.

In challenging period of Covid-19, luxury brands had to exploit new marketing opportunities coming from digital technologies, that also reflected new consumption patterns and preferences of Chinese, allowing brands to get effectively in touch with them. Indeed, many exclusive international luxury

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<sup>54</sup> Tier system is a growing popular unofficial classification of Chinese territory, that according to some economic and social characteristics implies a different classification of Chinese cities.

<sup>55</sup> GDP over USD \$300 billion with a population greater than 15 million

<sup>56</sup> GDP of USD between \$69-299 billion and a population between 3-15 million inhabitants

<sup>57</sup> GDP of USD between \$18-67 billion and population between 150.000-3 million inhabitants

<sup>58</sup> Liu, X. (2022). Research on the digital transformation of luxury brands in China. *Proceedings of the 2022 7th International Conference on Social Sciences and Economic Development (ICSSED 2022)*, 652.

<https://doi.org/10.2991/aebmr.k.220405.167>

brands, such as Gucci, LV, Prada before Covid-19 crisis, started their new transformation path toward digitalization to get success, particularly in China.

Luxury industry evolution toward new “digitalized” models in China, lays the foundation for new advanced and evolved marketing strategies where both online and offline channels are mixed to help brands in successfully achieving their goals. Indeed, implementing new digital technologies, such as NFTs, AR/VR, Artificial Intelligence, gaming and metaverse, and also enhancing in-store purchasing experience can contribute to the creation of an unprecedented customer’s engagement level.

For example, some brands have already implemented the blockchain system in their business model, that thanks to an accurate tracing process of a product’s origin and delivery, it allows brands to enhance business performance, reduce costs and improve traceability of products.

Moreover, there are some effective tactics adopted by brands in China during past years, that implied enhancement of offline and online channels above all, by building a strong presence over new e-commerce platforms and trying to enhance physical presence opening new store and improving the already existing ones.

One of the most relevant one is Tmall.com, Alibaba’s B2C (business-to-consumer) platform launched in 2008, where consumers can purchase products of over 100 different brands. Since 2017 some luxury brands have had the opportunity to show their products on Cloud Luxury City<sup>59</sup>, a Tmall Luxury Pavilion’s platform. Here, consumers can exploit VR and AR try-ons technology, 3D interactions and other online services, to virtually interact with the brand, living a refreshing and unique experience; and at the same time, luxury brands are able to deliver and offer services to consumers that ,until recently, accompanied only the physical, in-store shopping experience.

Such e-commerce platform (Tmall) provides benefits that can be easily verified. Brands can leverage more sophisticated data analytics systems and enjoy logistical and marketing support provided by Alibaba data system, exercising a higher control over brand’s image, price, advertising and merchandising strategy.

Moreover, , e-commerce platforms facilitate customers’ information process, being able to better understand product’s characteristics before buying it. In general, it is possible to state that, one of most relevant advantages of e-commerce platforms is that brand’s customer base enlarges, allowing a larger number of people to access to luxury items still engaged with a qualitative experience.

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<sup>59</sup> A digital shopping channel specifically created for luxury brands, that is opened 24-hour and actually hosts more than 30 luxury brands



*Digital images of the different brands on Cloud Luxury City*



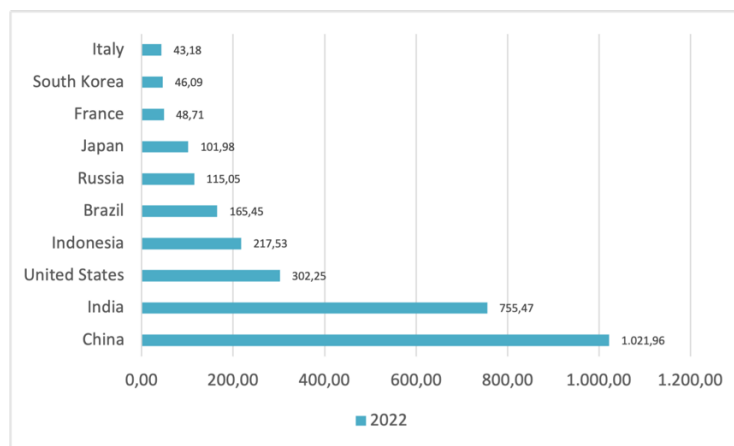
*Source: Jing Daily. Photo from 淘宝设计 official account*

By the way, reminding exclusivity as one of main luxury product's characteristics, the implementation of e-commerce platforms does not imply the automatic accessibility for a customer. Indeed, as previously mentioned, many brands use live streaming shows as a new commercial tool to support their products' promotion. These new forms of commercial events can be opened to large public, "one-to-few" events, where consumer can join the event only on invitation, and finally, "one to one" where a customer participating to a personalized session can interact with the brand or its designer, combining in this way the main relevant elements of both digital and in-store. An example was the September 2022 live-streaming fashion show held on Tmall Luxury Pavilion, to celebrate the platform 5<sup>th</sup> birthday. Some brands such as Burberry and Max Mara joined the event presenting new collections through a virtual catwalk taken by brand's mascots. Another example is The Dior China Fashion show, which was presented through brand's WeChat account. After the show Dior account promoted new collection's advertisements that were directly connected to brand's website, supporting sales, and facilitating shopping experience. Therefore, thanks to e-commerce it is easier for luxury brands to plan and organize promotion events, reserving the choice to eventually make products easily accessible to more clients. In conclusion, the Tmall.com platform offers a new evolved marketplace for luxury brands, that are now able to mix different channels opportunities offered by Chinese environment, following the path toward a balance between new digital tools and traditional ones, without threatening the brand's values and image.

### 2.4.2 Digital marketing strategies in Chinese luxury industry: social media (WeChat Mini program) and omnichannel marketing

Additionally, China is the country with the highest number of social media users in 2022, equal to 1.02 billion (Fig.16) expected to further increase in following five years reaching a hypothetical 1.21 billion users in 2027 according to Statista study on social media in China. Therefore, the social media embracement as new concrete marketing tool represents an unquestionable choice for brands to pursue success in China.

Figure 16. Number of social network users in selected countries in 2022



Source: Statista report 2023

But even in this field, brands encounter some challenges and obstacle along their path toward success. Indeed, China is known to be a particularly hostile country toward Western social media, to the extent of limiting the diffusion within the country. Chinese government itself adopted measures to block the spreading of social media such as Facebook, Twitter, Instagram... promoting and supporting local Asian social media as substitutes, such as WeChat, Tencent QQ, Weibo and TikTok. However, these social Chinese social network have been attracted over years an increasing number of users, from 758.9 million in 2018 to 1.02 billion in 2022<sup>60</sup>, with a CAGR equal to 6%, making China the biggest market for social media, with more than 74% of population using them. Purposes for social media usage are various and different, and according to *Statista report on social media in China*<sup>61</sup>, the time

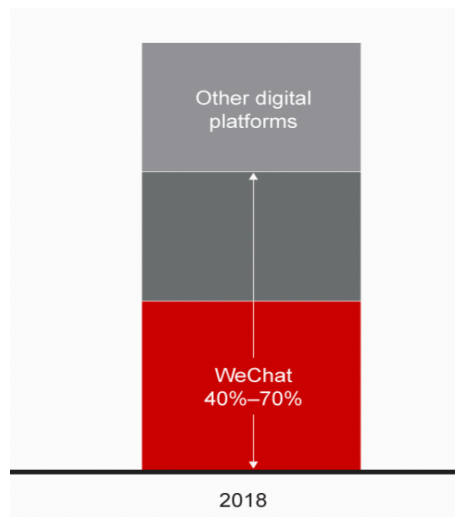
<sup>60</sup> Statista. (June 15, 2022). Number of social media users in China from 2018 to 2022 with a forecast until 2027 (in millions) [Graph]. In Statista. Retrieved April 17, 2023, from <https://www.statista.com/statistics/277586/number-of-social-network-users-in-china/>

<sup>61</sup> iiMedia Research. (July 5, 2021). Most used functions on social media in China as of June 2021 [Graph]. In Statista. Retrieved April 17, 2023, from <https://www.statista.com/statistics/277763/mobile-user-activities-of-social-networks-in-china/>

spend on them generally includes watching livestreams for about 34% of respondent, exploring new webpages for 32.5% of them, and playing interactive games for 28% of respondents.

The most active users in China are registered for WeChat, that remains the most popular social network in china with over 1 billion users in 2022. It is a platform offering wide range of functions and services to customers integrating large number of features. Communication and content sharing, payments and online shopping are some of the features included in WeChat, enhancing the experience offered to users and potential clients for a brand. Indeed, according to Bain & Company analysis conducted in 2019, top 40 luxury brands since 2015 have started to increase their investment on digital and social media platforms, with a big percentage, between 40-70% devoted to WeChat.

*Figure 17. Digital marketing spending split*



*Source: Bain & Company 2019 report*

WeChat has been qualified as “app within an app” once it included the Mini programs for Chinese market. WeChat mini program are different apps included in WeChat platform that offer additional services to users, which are useful for e-commerce, work & business, daily service, financial services, education & learning ... These apps represent a new resource for luxury brands to design their own campaigns, interact with consumers and sell their products; on the other side, users can seek out all relevant information about a brand, also exploiting new features such as virtual store tour, coupons, or online shopping. There are innovative and different ways to access a Mini Program, scanning Mini Program QR code, through official WeChat account menu, group sharing, embedded articles<sup>62</sup>.

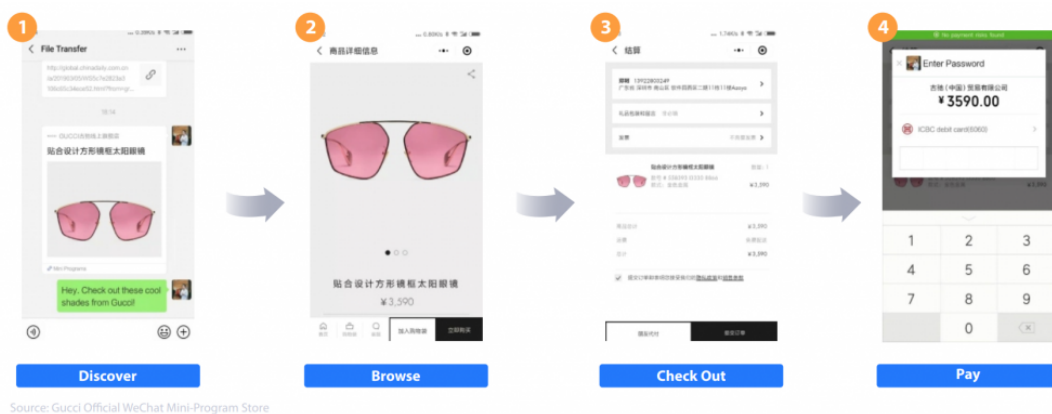
<sup>62</sup> Graziani, T. (2021, November 11). What are WeChat mini-programs? A simple introduction. WalktheChat. Retrieved April 18, 2023, from <https://walkthechat.com/wechat-mini-programs-simple-introduction/>

Moreover, these imply also. downsides considering that they work only within WeChat platforms and cannot send push notification to users.

However, data show a growth trend of Mini Programs, that lead to forecast a potential replacement of native apps, in favor of WeChat Mini programs in China.

Luxury brands can cater their clients exploiting WeChat programs in different ways. For example, YSL developed its Member Club, where users can share selfies showing YSL products, getting reward point that can be used to get discounts. Additionally, in case a user is interested in buying product from the photo, he can purchase it *directly within WeChat* (Zheng, 2019). Another example is Dior e-cards. The brand offered through WeChat the opportunity to select various gift cards for each occasion, that client/user can customize according to his specific needs. Instead, Gucci allows its clients to search and shop directly on WeChat without leaving the platform, serving the client in each stage of his online purchase process.

### *Gucci's WeChat Mini Program*



*Source: Jing Daily (Zeng, 2019)*

The strength of new digital tools is unquestionable to succeed in almost each industry, but in luxury one, in-store experiences are irreplaceable considering the strong tradition and heritage behind physical retail purchase.

Therefore, the integration and mix of online and offline configures as future relevant trend characterizing luxury industry, that push brand toward omnichannel approach. The integration of online and offline channels around client allows brands to satisfy new evolved Chinese expectations. Omnichannels approach allows brand to support customers in their decision-making process considering that, according to McKinsey around 75%-80% of Chinese consult multiple online and

offline touchpoints before buying<sup>63</sup>. Moreover, this approach also enhances consumer engagement, allowing brands to get easily and frequently in touch with consumers, attracting them with new and various services. The result is in-store digitalization of luxury businesses able to provide customers with *a fully integrated digital-physical experience* (McKinsey 2021). Finally, it is relevant for luxury brands to identify the role of each channel it is intended to adopt, classifying them considering its own goals, such as greater consumer's engagement, boost of sales...

### **2.4.3 Global pricing strategies**

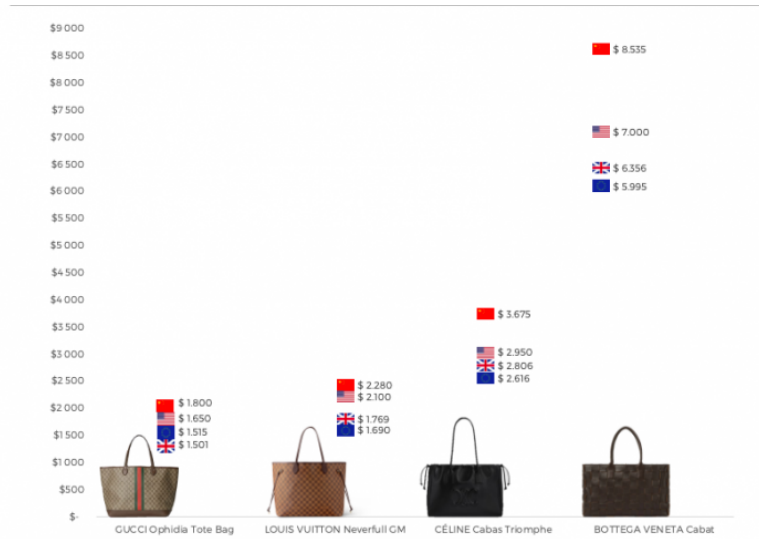
Price in luxury industry is an extremely sensitive factor that luxury brands must manage. Luxury goods' demand works differently, indeed, in contrast with other market the price increase of a luxury good in the long-term usually involves an increase of its corresponded demand. Price in luxury reflects the brand's image and consequently its positioning in the market, and luxury consumers generally are not discouraged by high price. Indeed, a luxury good's price is not direct expression of its' utilitarian value, but mostly of its symbolic value determined by emotions and feelings that is able to arouse in consumers. Anyway, raising prices has been a luxury strategy frequently used by brands with the aim to improve brand value, producing consequences in terms of sales and profit. Therefore, the price increase applied during Covid-19 cannot be interpreted as brands' new response to pandemic. Indeed, most of luxury companies increased their prices also during such critic period, showing the real magnetism of luxury goods. Indeed, for luxury brand the price increase configured as the one of the most effective reaction to crisis. As reported in IJCF report (2020), according to Bof & McKinsey (2020) Prada increased almost 10% its products price, but also Celine decided for a price increase of some handbags around 14.6%. Additionally, during 2020 Gucci increased the price of its handbag in UK and China between 5% and 9%, trying to also compensate and reduce the price gap between Western countries and China. The results were not so effective since the Gucci handbag price in China resulted to be *still 23% to 28% higher than in Italy* (Xie, Youn, 2020).

As mentioned previously in China luxury goods' price have always been significantly higher compared to other countries one, due to high importation taxes and tariffs imposed by Chinese government. Indeed, prices for some brands' products between Europe and China still significantly differ.

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<sup>63</sup> ROPO (Research Online Purchase Offline) trend

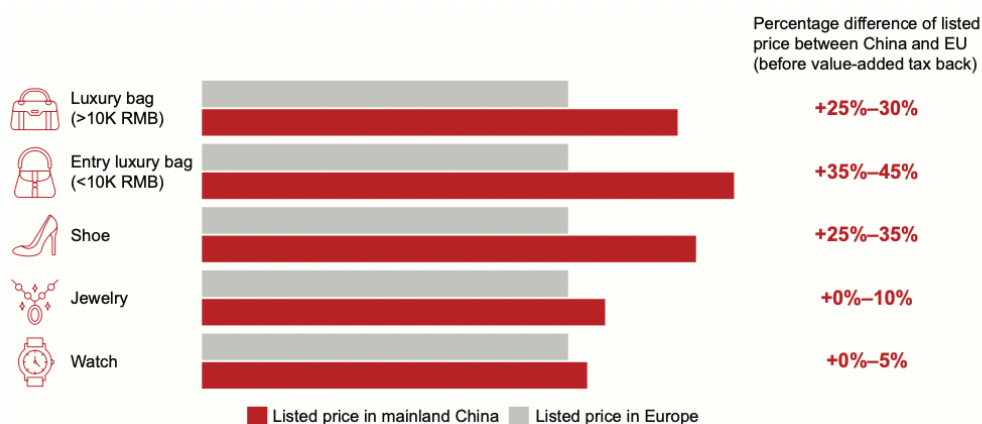
## Designer Bags Price Structure



Source: Lectra from Retviews

As in the case of Céline Cabas Triomphe bag that in China is sold with a price premium of 41% more than the European one. The price was one of the main factors to induce Chinese luxury consumers to purchase oversea, pushing brands to adopt new strategies to globally harmonize their products' prices. Before Covid-19, luxury brands started to adopt some harmonization strategies to compensate the price gap, but when the pandemic outbreak with consequent closure of Chinese borders, few brands decided to maintain global harmonized pricing strategy, ensuring survival during closure period. Therefore, the difference in luxury goods' price persists of an average between 25%-45% for leather goods, 25%-35% for shoes, 25%-30% for bags... (Fig.18)

Figure 18. Price gap between Chinese and European label price as of December 21, 2022



Source: Bain & Company 2023 from China official website; France official website; Switzerland official website

However, even if until 2019 most of the Chinese luxury purchase were done abroad, Covid-19 and travels restrictions changed this trend shifting luxury shopping toward domestic market, more specifically toward Hainan the tax-free island, that actually accounts for 13% of Chinese luxury domestic spending compared to 6% of pre-pandemic period. This condition started a trend that is bound to change luxury industry dynamics. Even in crisis periods, globally increasing prices in luxury industry could reveal to be a beneficial strategy both in the short-term, exhorting consumers to purchase before the price further increase, and in the long-term, increasing company's profit and making-up losses registered during critical periods such as the pandemic one.

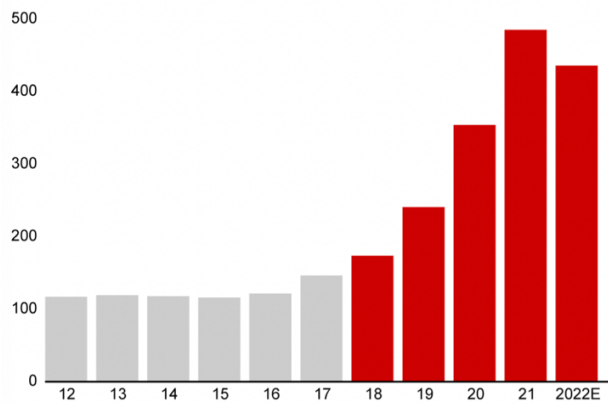
### ***2.5 Expectation for the future, new alternatives for brand's expansion***

Covid-19 consequences have started a trend that is bound to further change luxury industry dynamics. Coronavirus pandemic has trembled traditional operating strategies of luxury brands, producing changes, some of which are expected to become permanent, signing a new road to be followed. Considering that during Covid-19 many countries imposed strict rules and requirements to travelers from China before entering the country, many Chinese consumers started to prefer short-haul trips over long-haul holidays, shifting their attention toward geographically and culturally closer countries such as, Hainan, Hong Kong, Macau and other Southeastern Asian countries. They have been followed this direction for past few years, leading to a change in the previous "internationally travel for shopping" trend with a significant impact on luxury brands. In China shopping behaviors and tastes diverge from Europe and generally other Western countries, and it is expected a widening of such differences in future. Digitalization, local values and attitudes toward brands and luxury goods, qualify as main drivers for the enlargement of differences between nations. Therefore, international luxury brands and western retailers must spend more effort to re-attract Chinese consumers overseas and also support local markets, successfully meeting new and higher expectations, and preferences. Indeed, they have supported huge investments in past years to enhance customer experience and enlarge offered services trying to better adapt to new higher expectation and awareness of Chinese consumers. Hence, brands are called to compensate differences, delivering superb quality of service and experience in each country.

According to Bain China Luxury Report 2023, after five years of continuous and exponential growth, Chinese luxury market in 2022 contracted around 10% (CAGR 2021/2022 (-10%)).



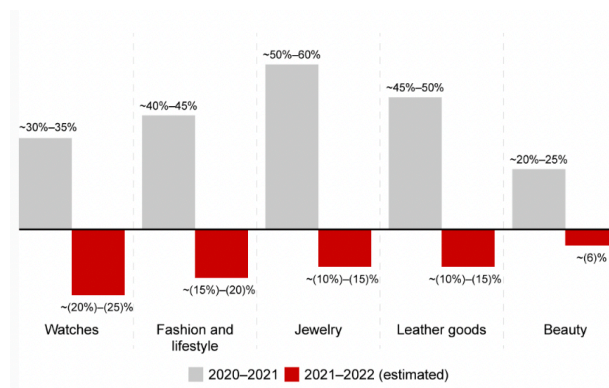
Figure 19. Mainland China personal luxury sales (billion RMB)



Source: Bain & Co, China Luxury Report 2023

Probably the contraction has been a natural consequence of new stringent lockdowns imposed in the second trimmest of 2022 by Chinese government pursuing the zero-covid policy. Indeed, new closures limited again Chinese shopping mall traffic, undermined consumer’s purchasing power due to spread of unemployment and consequently his willingness and propensity to buy. Most of luxury segments suffered from this contraction, but according to Bain, segments with better implementation of online channels and digital tools have been able to partially mitigate and lever the decline in offline sales

Figure 20. Mainland China personal luxury market growth by category



Source: Bain & Co, China Luxury Report 2023

There are opened question concerning the future evolution of Chinese market, and its role in luxury industry dynamics. Analysts and consultants are sure about the fact that numbers won’t go back to pre-pandemic statistics, where Chinese people purchased 70% of luxury goods abroad. However, going further, with a mitigation of Covid-19 crisis it seems to be likely a balance between trends.



Indeed, once Chinese start to travel again with the more or less the same pre-pandemic period frequency, it is likely that luxury purchase abroad will resume, since Asian people still love shopping and buying when travelling. However, it is likely that travel for luxury shopping trend won't account the same percentage of pre-Covid. Therefore, it is expected a more balanced situation for Chinese personal luxury good sales, about to 50-50 between domestic and abroad purchases. Considering the uncertain expectation for Chinese market luxury brands are now questioning about new expansion opportunities they could exploit and leverage soon.

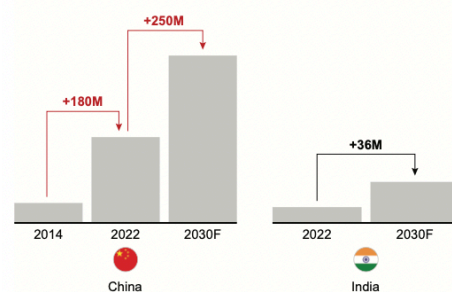
### ***2.5.1 What about India as the “new China” for luxury brands expansion?***

For the first time after since 1961, Chinese population decreased in 2022. Indeed, according to official authorities of Beijing, at the end of 2022 Chinese population was equal to 1.41 billion people, with a decrease equal to 850 million people compared to previous year. This situation represented a new historical data, leading ONU to expect India to become the most populated country in 2023 surpassing China, as Indicated in *The World Population Prospects 2022*.

Actually, India hosts about 36% of world's richest people, and the number of ultra-rich people increased 11% (Bain & Company 2023) in past 10 years, making it the third country for number of billionaires, after USA and China. This trend leads to assume that the increase in the number of rich people will have a positive impact on luxury goods consumption. Indeed, luxury brands already benefited from the rise of Indian super-wealthy population that partially drove the luxury industry growth in the country.

Because of good expectation, India is increasingly becoming an attractive market for luxury brands, also considering that it generated more than USD 7.5 billion in 2022. Thus, it emerges for its growth opportunities that luxury industry could exploit, being able to expand to around 3.5 times today's size by 2030 (Bain & Co 2022). The expansion will be driven by the spreading interest among Indian, especially young (Gen Z), customers towards luxury goods. Additionally, as shown in the following figure (*Fig.21*), according to Bain & Co analysis, India is expected to increase its mid- and high-income population around 36 million in 2030, representing a good target for luxury brands' expansion in Middle East. Finally, India Luxury Goods market is expected to grow annually by 1.39% in following 5 years. (Statista)

Figure 21. The most promising markets for luxury goods: China and India

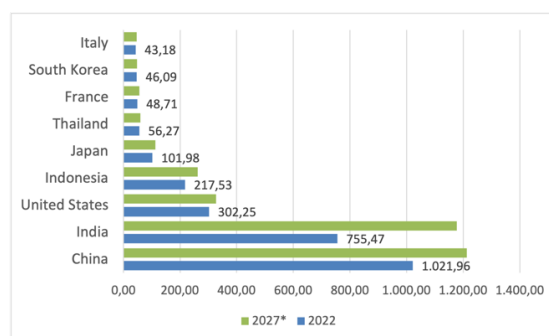


Source: Bain & Co, China Luxury Report 2023

Moreover, Bain & Company in 2023 report, expects that the country will reach USD 200 billion by 2030, supported by potential increase in middle-class purchasing power and consequently in country's demand, and by the spread of digital and e-commerce platforms. India is now the second country for number of social network users in 2022, after China, revealing consumers' good predisposition toward new advanced and digital technologies (Fig.22)

India territory can also be unofficially classified in different tier cities according to consumer behaviors, digital and infrastructural opportunities... And in this case the great challenge for brands is to understand the country specificity and to capture market characteristics and people expectations. For both China and India, top tier cities such as Beijing, Shanghai, Hong Kong, Delhi, and Mumbai have been main target for luxury brands for years. The spread of Covid-19 along with big cities saturation, induced many people to change their shopping habits, adopting a *work-from-home model*<sup>64</sup> and consequently a predisposition toward online shopping that raised the relevance of tier-2 and tier-3 smaller cities.

Figure 22. Number of social network users in selected countries in 2022 and 2027



Source: Statista

<sup>64</sup> Statista. (2022). (rep.). Luxury Goods – In-depth Market Insights & Data Analysis page.85. Retrieved from <https://www.statista.com/study/61582/in-depth-report-luxury-goods/>

However, some high-end brands such as Balenciaga in 2022 started a partnership with Indian biggest retailer “Reliance” to open its new mono-brand store in India introducing its products in such exciting young market for luxury goods. Just before, always in late 2022, also Valentino announced its first physical store opening in New Delhi, announcing its intention to open another big flagship store in Mumbai. Further, Galleries Lafayette is planning to open its new flagship stores in Mumbai by 2024, and New Delhi by 2025, where it will include more than 200 luxury brands in the same building.

It becomes clear that India has a significant growth potential among all other emerging Southeast Asian and African countries, but it still requires an infrastructure development to facilitate brands’ local expansion. Indeed, the availability of space to build and open physical retail stores is one of the main challenges for luxury brands in India.

However, Indian government announced its growth projection for country’s economy that is expected to reach USD 5 trillion by 2026-2027, pushing international companies to turn their attention to the India’s dynamics. The opportunities are concrete but as for China, also India configures as a complex market that brands must take time and effort to better understand it and penetrate it. Indeed, it requires a deep knowledge and understanding of culture, tradition, religion, social dynamics, consumption preferences to be conquered successfully, earning consumers’ attention and respect. The forecasts about India’s growth may lead analysts to think about India as new main market for luxury brands that will offer almost same growth and stimulating condition as China. But the tentative of some brands to assimilate their potential expansion in India to that seen in China, repeating same strategies in India, can be a mistake. Finally, it is assumed that there will never be “another China” for luxury industry, and India requires specific tailored actions that follows a deeper understanding of its characteristics to take off.

### ***2.5.2 Analysis of Indian purchasing preferences***

The positive trend that has signed Indian economy growth, led Indians to become more confident about their future, looking for an improved quality of life. The spread of education and wealth induced Indians to point their attention toward high-quality luxury goods, increasing the corresponding demand. As other countries, also Indian luxury consumers’ tastes are continuously evolving, toward a higher awareness of luxury not as a depiction of social status and ostentation but more as an expression of self and intrinsic values of an individual. In such emerging market where people live fast-changing trends, shopping habits changes with implications for all markets. People have become easier influenceable, due to spread of social media, influencers, and other promotion channels, that contribute to make them non-rational consumers. A significant percentage of Indian consumers are

maturing improving their expectation favoring value and experiences over just brand name. The improvement of people wealth consequently pushed toward an increasing need for exclusive and personalized services and goods. Indeed, Indian consumers understand the relevance of craftsmanship and look for quality of products and have high expectation for the experience that accompanies the purchase both online and offline. Brands are also in this case called to create and deliver a distinctive experience at every touchpoint of customer shopping path. They are trying to enhance their offer, evolving their services during all phases of purchase journey, and delivering an experience that compliance with global benchmark.

There are many elements that luxury brands should consider when indagating Indian market and developing their penetrating strategy. For example, some data<sup>65</sup> shows that male consumers in India tend to spend more on international luxury brands on average than women. But, among the top-performing categories in India that attract more interest from women, handbags and shoes are the best ones, as according to surveys, they can be easily matched with typical local clothes. Another aspect that should be considered is specificity. Indeed, as for China, the launch of India-specific collection and marketing campaigns reveal to be effective to exalt local style, designs and tradition, touching consumers' sensitivity. Moreover, celebrities' and local influencers' engagement represents another key driver for luxury brands to enhance the affinity with the market and to improve consumer's interest.

Even if in big cities it emerges that Indians prefer to shop in-store, the e-commerce coming is concrete, with an increasing predisposition of consumers located in small and suburban cities to shop online. Therefore, despite being in first stages of digitalization, also Indians appear to be attracted by new technologies, so that brands are again called to integrate online tools such as metaverse, gamification, VR techs ... to improve the interactions with consumers.

Hence, considering India and China, despite the same growth drivers, such as the huge income increase of Chinese and Indians during past years, and the rise of middle-class purchasing power, the two countries are following different paths defined by their specific socio-cultural<sup>66</sup> roots.

Therefore, despite some analogies that can be found, India's luxury market has still relative dimensions that preclude the hypothesis that it could reach the same number as China in the next few

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<sup>65</sup> Gupta, A. (2022, August 8). *Opinion: India is an incredible opportunity for luxury brands. here's what they should know*. Luxury Society - Shaping the Future of Luxury. Retrieved April 26, 2023, from <https://www.luxurysociety.com/en/articles/2022/08/india-is-an-incredible-opportunity-for-luxury-brands-heres-what-they-should-know>

<sup>66</sup> "India has always had wealthy elites ... that consume luxury products throughout its consumption history." while "China's 20th-century communist ideology is in direct disagreement with luxury consumption" (Adina-Laura Achim, 2021)

years, or even replace it as the second largest luxury market globally. The projection remains positive, but the growth expectations are still relatively modest.

Finally, in May 2023, Gucci announced the first Indian global ambassador, Alia Bhatt, that represent a symbolic choice made by the brand to celebrate House's 25 years in the country, drawing her fans enthusiasm and joy expressed on social media.

## CHAPTER III - Gucci Case

### *3.1 History of the brand*

Gucci is one of the most famous and appreciated *Maison* in the world, inspiring the luxury market since its origin, and it is part of Kering Group giant conglomerate. Founded in 1921 in Florence (Italy) by Guccio Gucci, it has always been representative of Italian craftsmanship, with great attention to detail, visionary design, and highest quality. Gucci was born by mainly producing leather goods, particularly luggage and other travel items, but due to a League of Nations embargo against Italy in 1935-1936 that limited leather supply, the brand was forced to expand its production implementing different materials. The implementation of other resources determined the expansion of product lines with the launch of first line of handbag. In 1938 Gucci opened a second store on Via Condotti, in Rome. After Second World War, when the leather goods production resumed and Guccio Gucci decided to split the company between his three sons Aldo, Rodolfo, and Vasco. Shortly thereafter releasing the *Bamboo handbag*<sup>67</sup> with a cutting-edge design making it an object of desire over years, Gucci started its rise in the international luxury market. Hallowed by Ingrid Bergman Gucci Bamboo handbag began its long road, being subjected to reissues also by using different materials that have helped make it a witness of time and still one of the most iconic pieces for the brand.

#### *Gucci Bamboo 1947*



*Source: Gucci website*

Gucci's international expansion continued with the opening of many stores in most important cities, such as Milan in 1951, New York in 1953, when only 15 days after Guccio Gucci died. More stores were opened in 60s and 70s, such as those in London and Palm Beach in 1961, Paris in 1963, Tokyo

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<sup>67</sup> The brand still produces new creative and innovative versions of Gucci Bamboo 1947, ensuring the craftsmanship that has characterized the bag since its origins.

in 1972 ... In 1981 Gucci held its first ready-to-wear show in Florence signing the beginning of a series of changes for the brand, that signed its history. In the early 1980 Gucci family was in a struggle over who should exercise control over the company, leading to a fight that ended with the victory of Rodolfo's son Maurizio, who pushed his cousins and uncle Aldo out from the company. During these years a holding company, Investcorp, acquired almost half of Gucci shares, and in 1995 Maurizio sold all of his remaining shares, and he was murdered in early 1995.

However, one of the biggest changes for Gucci happened in 1990 when Tom Ford joined the House. He started as the responsible for the ready-to-wear collection and in 1994 he was appointed as Gucci's creative director. Tom Ford arrival signed the brand revitalization with many products that reached a significant commercial success (as *The Jackie Bag* example). In late 1990, Pinault Printemps Redoute (or PPR), renamed Kering in 2013 started to acquire Gucci's stocks becoming the major stakeholder. Due to contrast with PPR, Ford and the then CEO Del Sole left the company in 2004. Frida Giannini became the new Creative Director, relaunching "Flora" pattern for Gucci products and providing new success for the House. However, in 2015 Giannini left the company and was substituted by an unknown accessories designer who already worked for Gucci, Alessandro Michele shocking many people within the industry. Michele's first womenswear collection was an immediate success, forging the luxury House with a vision that is well known to everyone today. Gucci is now trying to keep up with modern trends, renovating its beauty and make-up line, launching its unisex fragrance, promising to reduce company's environmental impact<sup>68</sup>... Michele in 2020 highlighted the brand's intention to embrace *seasonless fashion*<sup>69</sup>(Marzovilla, 2022), reducing the number of fashion shows from five to two each year. In January 2023 Gucci announced the new Creative Director Sabato De Sarno who will present his first collection in September 2023, opening new questions about Gucci's near future. The Gucci *Maison* long history can be traced through the evolution of its logo over years, that has always been used as celebration of brand's founder and his family. The founding family history and dynamics also contributed to the brand charm over years, a story full of twists and doubts that have drawn the attention of many, putting the House under the spotlight.

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<sup>68</sup> In 2017 Gucci outlined its sustainability plan for the following 10 years on the Gucci Equilibrium platform

### *Vintage Gucci's logos through years*



*Source: OneOffVintage*

Always keeping up with trends adopting a modern perspective that is still redefining luxury industry, Gucci's colorful, poetic, and creative vision has always been able to receive acclaims, drawing the attention of the younger generations. According to the latest analysis conducted by Brand Finance, in 2023, Gucci is the first Italian brand for value with €17 billion (+10%) generated exploiting its image and reputation. However, the arrival of a new Creative Direction always signs the beginning of a new phase. Even if Gucci already went through similar situations, it is normal to question about the future, also considering that luxury industry dynamics significantly changed in last years.

### **3.2 Penetration strategy for China**

Gucci has started its expansion in China building its network in Asia since 1997, by opening 2 stores in Beijing and Shanghai under the guide of Tom Ford. In next years, being aware that China was becoming a market to indulge over, Gucci kept opening monobrand stores in other different Chinese cities such as Guangzhou e Shenzhen, owning more than 126 stores in Mainland China in 2022. Gucci pushed by Giannini's style and design more oriented toward mass-market saw an increase in global sales that did not last for long. Following short-term goals enlarging entry-level products labeled with Gucci's logo, Gucci risked eroding brand value and its position in the market. To react to this decline, also worsened by economic growth slowdown and Chinese government anti-corruption policies in 2012, the brand decided to change its strategy focusing on improving existing products and slowing down in opening new stores, to enhance brand value. The transformation within the brand became the principal strategy for Gucci under Michele's leadership. Indeed, as one of the oldest brands entering China it was necessary to seek for innovation to succeed in such dynamic and evolving market where consumers are attracted by innovative ideas and products. Finally, Gucci's success in a challenging market as China, is related to product branding and marketing. The attention to all aspect related to the product, such as design, raw materials selection, production, packaging, and its



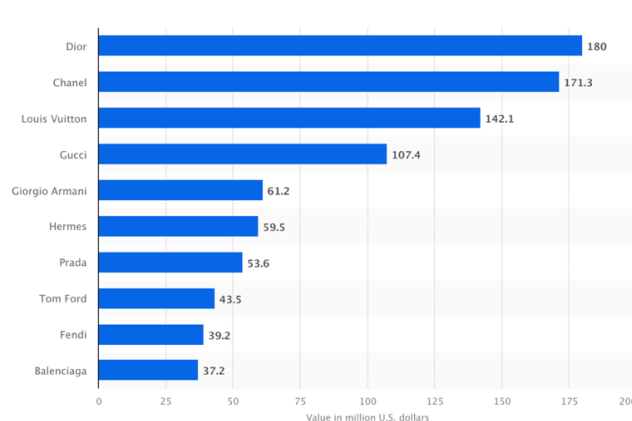
delivery to customer, allows a constant product evolution that make the brand as an industry fashion driver. Therefore, Gucci's penetration has been supported by the deep analysis and understanding of local market, being able to capture new needs and adapt to them by implementing new patterns, colors and design that can attract young flavor. Moreover, the long-lasting value generated by Gucci is also related to the marketing strategy tailored to the special Chinese context that according to some statistics accounts for 10 million yuan every year.

### 3.2.1 Positioning in China and Covid-19 consequences

Gucci has been one of first brands investing and entering the Chinese market, living a rapid expansion that make it an extremely successful company. It was able to immediately penetrate and compete in the Chinese market opening many physical stores in major Chinese cities. However, the Chinese expansion has been supported by digital implementation and partnership with e-commerce platform such as Tmall, and effectively targeting and enlarging its customers base exploiting social media such as WeChat, Weibo... In 2017 opened its first Chinese official website and brand's page on Weibo. In 2020 Gucci announced the opening of two official brand stores on Tmall Luxury Pavillon the first one dedicated to apparel and accessories, the second one destined to beauty products.

Even if Gucci is one of the oldest luxury companies operating in China, it still qualifies as the fourth leading fashion luxury brands in China with 107.4 USD of value generated in the last 2021 quarter, even if it has been surpassed by Louis Vuitton.

Figure 1. Leading fashion luxury brands in China in 4th quarter 2021, based on Media Impact Value\*(in million U.S. dollars)

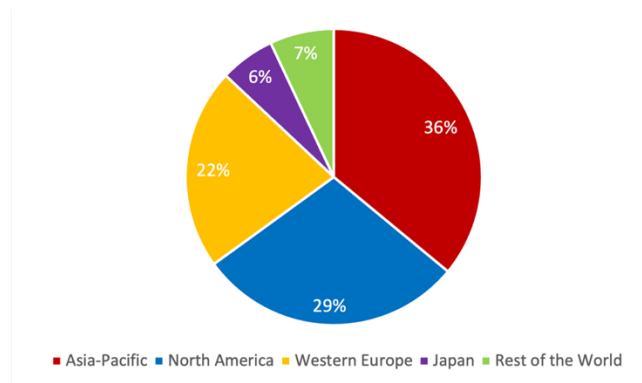


Source: Statista Report - Luxury Marketing in China 2022

According to empirical facts, in late 2021 and beginning 2022, Gucci suffered more than other competitors due to new lockdowns and restrictions imposed by Chinese government. For example,

in January 2022, Kering shares dropped 26% while the decline registered by LVMH, with a more diversified portfolio and then more resilient to economic downturns, accounted for 16%. This situation highlights Gucci's higher exposure to Chinese evolving trends and economic dynamics. Indeed, according to Barclays<sup>70</sup> Chinese market represents 35% of Gucci's annual sales compared to 27% of LVMH and 26% of Hermes.

Figure 2. Global revenue share of Gucci in 2022, by region



Source: Statista

After exponential growth registered between 2015-2019, Gucci has lost ground in the Chinese market compared to other international luxury brands such as LV, Hermes, Chanel... Indeed, the Italian luxury House reduced marketing investments during Covid-19 while other rivals, Louis Vuitton, and Dior, decided to pursue an opposite strategy pushing ahead investments in China. For example, LVMH conglomerate (that includes LV and Dior brands) registered a sales increase around 10% at the end of 2022 as consequence of investment decision. Moreover, according to Kering official statements, Gucci sales revenue in 2022 amounted to €10.5 billion, but in the 4<sup>th</sup> quarter of 2022, the brand revenue was down 14% compared to the 2021 same period. Moreover, in Gucci's directly operated stores, sales decreased around 15% mainly affected by China unexpected new lockdowns. Therefore, Kering Group suffered during last times not only due to the scandal that involved Balenciaga, but also for the loss generated by Chinese market slowdown after new Covid-19 cases peak that led to new closures and lockdown. China poor performance did not excessively worried investors whose attention focused on positive future expectations, that foresee China's growth and recovery after Covid-19. However, even if China future expectation are comforting with an expected mitigation of Covid-19 consequences thanks to the opening of travel opportunities and resume of offline sales; the time needed is not short and the high reliance of Gucci on China (Asia-Pacific

<sup>70</sup> British international bank

region) is still risky. Therefore, despite the huge opportunities that the brand can exploit, maintaining and improving market positioning is still challenging, and require a strong strategy plan and marketing actions for China.

### ***3.3 Marketing strategies***

Gucci has changed its marketing strategies along different stages of its history. A turning point was in 2015 when Alessandro Michele was appointed as creative director and started brand's renovating path by making the design more in line with preferences of young people, that started to become a new target for the brand. Even though Michele's contribution significantly subverted brand's traditional aspiration of offering high-end products and serving a strict privileged number of people, the commercial results get after 2015 highlights that new generation is becoming the main actor to boost and support luxury sales. Therefore, starting from the consciousness of young people role for luxury sales, Gucci's has been able to better classify its target base and adopt marketing actions to win the markets of young. In addition to product design innovation, Gucci started to implement internet tools establishing a strong online sales network that could compensate the losses registered during Covid-19 and improve sales in the future. Indeed, unexpected events following the pandemic, produced consequences that are still visible today, but Gucci's ability to mitigate them during Covid-19 was linked to the implementation of online marketing strategies. Physical limitation and restriction undermined in-store purchases and shopping, forcing to shift the attention toward digital platforms. In particular, the brand decided to open its official online retail store in Alibaba Tmall<sup>71</sup>, and JD.com implementing its B2C retailing business. Further, during few past years, Gucci created its brand's official accounts on WeChat and Weibo, trying to leverage such appreciated platforms by Chinese to enhance brand's visibility laying on new contact and communication forms with consumers. The luxury House, aware that Internet has become of the most direct communication channels, used it to display new collection, to host virtual events and to incentivize customers' involvement.

Therefore, luxury brands tend to react to Chinese luxury industry democratization and rise of social media function by innovating and changing their marketing and communication strategies. Despite various difficulties, Gucci through aware understanding of Chinese market evolution, adopted marketing actions that supported its rapid expansion in China, and make it able to maintain and cover a central position in the Chinese luxury industry. Gucci's success is built on frequent launches of new

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<sup>71</sup> Despite the aversion toward digital platforms, due to counterfeiting incitement the brand has been forced to partner with them, considering the strength of e-commerce in China. Even if new digital expansion required higher investments, it also provides opportunities to the brand that in such way is able to enlarge its customer base referring to a larger and younger customer base.

designed products that matched evolving needs, and it is also supported by the implementation of digital tools that contribute to the adoption of a multi-channel approach to detect changing needs, and by innovative and tailored advertising strategies that allow to attract customers' preferences.

Three main steps can be identified to understand Gucci's clever social media use to engage Chinese consumers. First, collaborations with local companies to effectively communicate brand's identity, working through a flexible team able to work and confront with Chinese specialized actors. Second step is to develop a tailored strategy plan, where local specificities are implemented coherently according to brand's DNA, defining proper actions to be taken in the market. An example in China's case, was the implementation of digital tools to offer online activities, that allows brand to enhance customer's engagement and register evolving feedbacks from each of them. Indeed, the last stage of Gucci's successful strategy is represented by the strategy integration and follow up taking into consideration followers/customers responses.

Despite the route toward digital and technological revolution, Gucci still consider investments in physical stores as a key action to keep the brand's value and image. For example, the decision to open many of its retail store in high-end shopping malls in China represents an effective marketing strategy that allows the brand to be associated with such luxury facilities while enhancing its image in the minds of consumers. Gucci remains an empirical example for the importance of a new balance between offline and online channels to survive and impose in luxury industry.

However, among Gucci's key marketing strategies that led Gucci toward success, launches of WeChat mini programs, collaboration with local KOLs and finally ability to effectively ensure cultural inclusiveness are the most relevant ones.

### ***3.3.1 Cultural inclusiveness and equity promotion***

Diversity, inclusion, and equality are at the core of Gucci's values that identify them as key elements to ensure creativity and innovation with a constant look towards the future. Gucci has always been able to manifest its inclusiveness and authenticity in the most diverse forms and modes. In fact, some of the brand's most iconic campaigns and collaborations perfectly encapsulate these values, providing a concrete image of what is stated daily by brand representatives. An example is "Roman Rhapsody" Gucci's Cruise18 new campaign where it involved 24 people with different personalities, ethnicity, and status to celebrate different cultures and eccentric personalities and also show true Roman society. Gucci involved Sonia Zhou, a Chinese immigrant in Rome where she run with her family a restaurant. This decision celebrated values of inclusiveness and eccentricity in line with those of the brand, drawing attention and interest from Chinese citizens on major digital platforms and beyond.

*Gucci's "Roman Rhapsody": Sonia Zhou*



*Source: acrimonia*

Moreover, Gucci has also launched many initiatives to promote cultural diversity and inclusion within the organization. In 2019, Gucci's CEO Marco Bizzarri trying to react to a racism scandal that hit the brand collaborated with Dapper Dan pursuing the inclusion and equality goals. Ensuring a fair recruitment and interviews, promoting inclusion and diversity programs that stimulate company's internal mobility, offering for example to some around 18,000 employees the opportunity to work at the headquarters, the launch of partnerships with fashion schools located in different cities such as New York, New Delhi, Beijing, Seoul, Tokyo, Beirut and Dubai are just some of the initiatives taken by Gucci to ensure cultural inclusion and diversity celebration. In addition, in 2019, Gucci hired five designers with different cultural backgrounds, giving them the opportunity to work at Gucci's headquarters in Rome, supported by mentors in their integration journey.

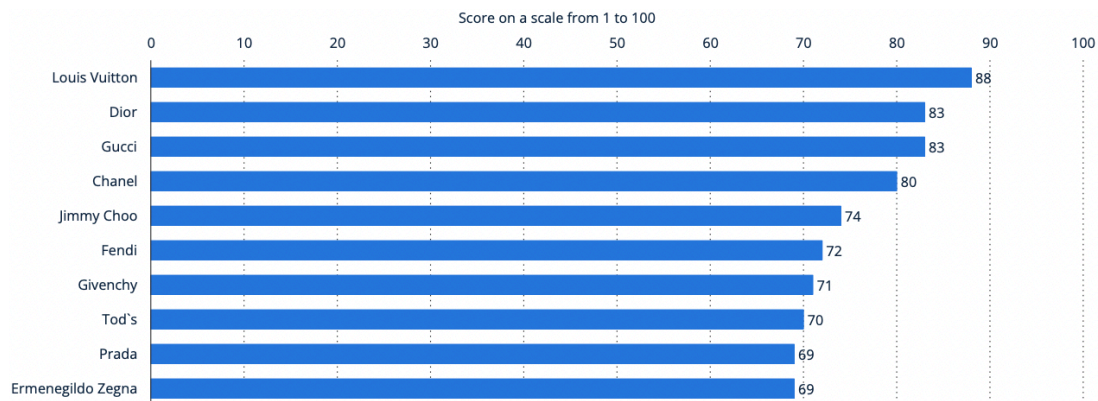
At corporate level, Gucci is promoting social impact initiatives such as the *Changemakers* established in 2019, aimed at promoting industry inclusion and diversity across organizations and cities. This is linked to a benefic fund aimed at supporting underrepresented communities in the fashion and luxury industry, providing them many different resources as those for people training and education, but also the financial ones.

### 3.3.2 WeChat Mini Programs

Besides enforcing online stores and brand's website, Gucci also launched two different WeChat mini programs trying to improve customer experience and relationship with brand, offering a new tool to its staff to directly interact with them.

As shown in *Figure 3*, Gucci holds second highest index score on most famous Chinese social media, highlighting the effectiveness of its new online marketing strategies.

*Figure 3. Most popular luxury brands on WeChat and Weibo 2022 (index score)*



Source: Statista

To attract larger number of Chinese consumers, and enhance brand loyalty, Gucci implemented *Gucci Beauty Self-expression mini-program* and *Gift Card mini-program*. The first one offers an entertainment service where consumers can upload photos and selfies to the brand's program page, which can be transformed into icons or emoji featuring logos, designs and colors reminiscent Gucci's ones.

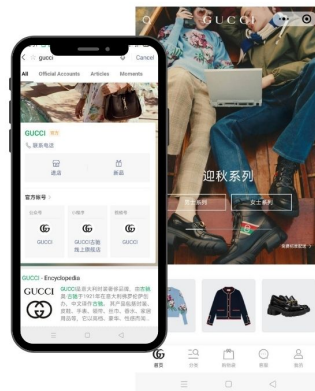
#### *Gucci Beauty Self-expression mini program*



Source: DigitalCrew

The second Gucci's mini program consists of a fast, convenient, and direct service offered to consumers. Indeed, through the brand's official page, customers can purchase the products they wish to gift, attaching their favorite phrases and words to the virtual gift card that will be sent to the recipient. Gifts can be requested online and picked up at one of the brand's official stores. The simplicity and speed of the process make it possible to capture the modernity of Gucci, which can respond and adapt to the consumption habits and needs of the new generations.

### *Gift Card mini-program*



Source: GMA

### **3.3.3 KOLs collaborations**

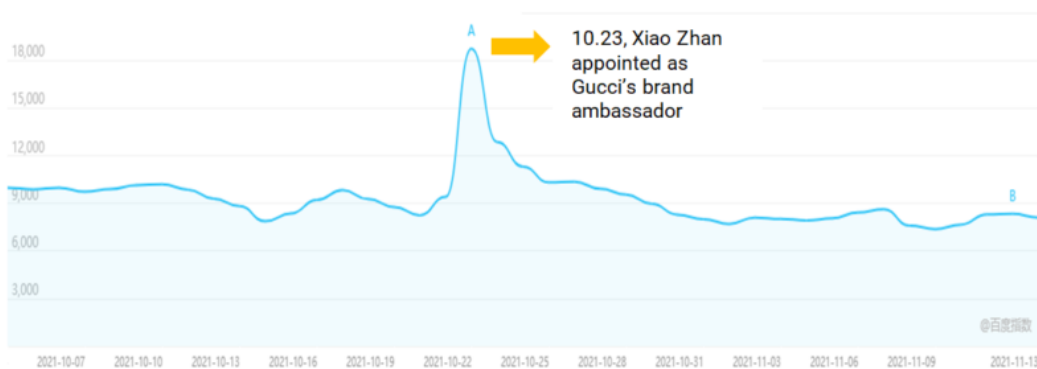
Gucci's success in Chinese luxury market can be considered consequence of its strong social media presence, build not only by locating its online stores on Tmall platform but also by exploiting the power of Chinese KOLs and celebrities. Reminding that almost half of Chinese luxury consumers are influenced in their purchasing decision by KOLs' opinion, Gucci still leverage the potentiality of such figures able to affect consumers' shopping decisions. KOLs have been and still are crucial for Gucci's advertising strategy in China, determining a significant impact over brand's success. With the passing of time and increasing experience in Chinese market, the brand's accuracy, and attention in partnering with KOLs increased, leading the brand to choose people that coherently share and embody Gucci's value and vision. Since 2008 Gucci has started its collaboration with Chinese celebrities. Indeed, after the Olympic Games held in China in 2008, Gucci announced Huang Xiaoming as the testimonial of the "Gucci Olympic Limited Edition" sports line. In 2013, Gucci also announced the first Chinese ambassador for its entire range of product, the famous actress Li Bingbing exploiting her visibility and fame in the country. With the improving importance acquired by social media, Gucci has started to invite and collaborate with young stars, with many followers on



their social media accounts leveraging online visibility and a larger customer base. For example, in 2020 Gucci collaborated with Chinese singer and actor Lu Han, very popular and appreciated by Gen Z, with more than 63 million followers on Weibo, whose posts in collaboration with Gucci reached immediately popularity between Weibo users.

The most recent Gucci's global ambassador is Xiao Zhan, a member of the Chinese boy group X Nine. The announcement of collaboration with Zhan in October 2021, immediately pushed Gucci to the top of discussion topics involving Chinese, generating high excitement that boosted Gucci's popularity as shown in *Fig.4*.

*Figure 4. Baidu Search Index for "Gucci"*



*Source: daxueconsulting*

### *Gucci's global ambassador Xiao Zhan*



*Source: Gucci website*



Zhan's appointment as brand ambassador turned out to be a very effective decision made by the brand, which selected an affirmed individual in the K-pop world, a fast-growing (including international) industry with a large following in Asia, who also encompasses a style in line with Gucci's design and characteristics. Additionally, Gucci has organized an exhibition to be held in different cities around the world, starting from the Shanghai West Bund Art Center where it opened on April 28 and will remain until the end of June. The "Gucci Cosmos" exhibition celebrates all the most iconic models produced by the Florentine house to mark the brand's 102-year history. Shortly before the exhibition opened in the Chinese city, the brand also sponsored Global Ambassador Zhan's visit to the Gucci Collection House in Florence, the brand's hometown. Here it was possible for him to explore Gucci Archive under the guide of Maria Luisa Frisa, discovering some of the brand's most iconic creations, (from the Gucci Bamboo 1947 to the Jackie 1961 and others). The ad campaign includes three different episodes, in the second one the ambassador is going to visit Gucci ArtLab to observe the creation processes behind signature designs. The first episode got millions like from Chinese consumers on social media. Moreover, to celebrate the Gucci Bamboo Bag exposed in the Gucci Cosmos that is taking place in Shanghai until June 2023, Gucci has also engaged the Chinese actress and model, Liu Wen for a new Gucci Bamboo Bag campaign shot by David Sims. This ad has been launched by the brand to celebrate woman power and elegance, and her intimate relationship with an object that retains its appeal over time. Through iconic design and workmanship that makes each Gucci Bamboo Bag piece exclusive and unique, and through them the brand wants to emphasize the uniqueness of every human being.

*Liu Wen for new Gucci Bamboo Bag campaign, 2023*



*Source: Gucci website*

### ***3.4 Coping with Counterfeiting and new digital journey***

Gucci is one of the most copied and counterfeited brands in the world, with many of its iconic products being replicated. China in such context is the greatest counterfeits market for luxury goods, with the giant company Alibaba<sup>72</sup> included in the list of most notorious market for counterfeit products. Indeed, in July 2015 Kering Group, Gucci's owner, started a legal action against Alibaba accused of allowing the sale of counterfeit bags and watches bearing Gucci's logo. Alibaba to protect its reputation considering many agreements signed with different luxury brands, increased legal actions against vendors trying to enforce control over counterfeits and ensure quality. The giant Chinese, as reported from the Financial Times, in 2016 also declared to have removed more than twice violating insertions from the platform compared to previous year.

Additionally, a particular case involved Gucci in 2016, when the House was forced to bring further the fight against counterfeit products by sending letters to Chinese shopping owners, who were selling papers that recalled Gucci's bags burnt by people during a relative's funeral<sup>73</sup>. Indeed, even if the brand is sensitive to Chinese tradition, in such case the trademark damage is high. Therefore, the actions taken were aimed at protecting Gucci's intellectual property and image, by preventing people from thinking that those are licensed items. The counterfeits threats for luxury brands as Gucci, is relevant, determining not only a negative impact over a brand's sales and profit, but also a harm to image. In 2017, Gucci America Inc. won an important lawsuit against 89 websites operating out China that were accused of selling Gucci's fakes, bringing \$9 million to the brand. According to OECD (Organization for Economic Co-operation and Development), in 2019 the counterfeit goods' market accounted for \$464 billion and increased in the two years 2020-2021 as consequence of e-commerce boom and Covid-19. Indeed, platforms such as Meta (Facebook and Instagram) revealed to be principal channels for fakes products' distribution, with more than 56 million of "pirate" accounts, 65% of which located in China, 14% in Russia and 7,5% in Turkey. Cooperation with brands is the most effective ways to mitigate such phenomenon. Indeed, most counterfeited brands, such as Prada, Chanel, Gucci, and Louis Vuitton declared to succeed in having hundreds of thousands of social media posts deleted in 2021 thanks to deep collaboration with digital platforms. Focusing on Gucci, the fight against counterfeiting through collaboration with social media platforms (Facebook) brought in 2020 to the cancellation of 4 million fake ads from various online platforms, the seizure of 4.1

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<sup>72</sup> Alibaba is an e-commerce platform where products are mainly sold by third parties and small online shops, making difficult to control and limit the spread of such products. The giant company is trying to better track down fakes goods by implementing new technologies such as AI.

<sup>73</sup> A Chinese tradition that characterizes the annual celebration of *Qingming Jie*, where people burn replicas of famous goods in China to help and support deceased relatives during their afterlife journey.

million counterfeit products offline, and the disabling of 45.000 websites, accounts, and social media pages (Caiazzo 2021).

Besides the legal actions and the collaboration with social media, it is still difficult to mitigate the risk represented by fake products for both buyers and sellers, especially in the case online transaction. Digital evolution represents an opportunity for luxury companies to bring further their fight against fake goods. Indeed, luxury brands have started to recur to new advanced technologies, such as blockchain and NFTs aiming at improving their control strategy efficiency. Particularly, in March 2023, Gucci announced its collaboration with Yuga Labs<sup>74</sup>, pursuing its journey toward new technologies and systems. Indeed, NFTs are no-duplicable cryptocurrencies that using blockchain technology allow to guarantee product authenticity and ownership. This is only the latest collaboration that signs Gucci's journey into NFTs sector. Indeed, in February 2022 Gucci entered in The Sandbox metaverse where it built virtual land using \$SAND token. In March 2022, Gucci launched its 'Gucci Grail' collection as consequence of the agreement signed with the digital fashion start-up 10KTF<sup>75</sup>.

In February 2022, Gucci also launched the SuperGucci, NFT collection in collaboration with Superplastic, where Gucci's motifs are combined with SuperPlastic digital characters Janky & Guggimon. This collection includes 250 NFTs that should be released on three different occasions. The collaboration also implies that each initial digital piece will be sold accompanied by an exclusive ceramic sculpture made by Gucci's Italian artisans.

### *SuperGucci collection*



*Source: Ledger Insights 2022*

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<sup>74</sup> creators of the famous NFT Bored Ape Yacht Club collections and currently owners of CryptoPunks and Meebits. (Dung, T, 2023)

<sup>75</sup> Digital fashion start-up acquired by Yuga Labs

The collaboration between luxury and technology (blockchain and NFTs) is expected to intensify in the future, configuring as the main system able to prevent counterfeiting, supporting sales<sup>76</sup> thanks to lower digital costs involved.

### 3.5 Gucci sustainability effort

Sustainability is a keep growing trend significantly signing many industries, also the luxury one. The attention toward environmental topics, the protection of animal rights and reduction of waste represent key elements that all companies are called to internalize by changing their strategy. Gucci is a driver in sustainability journey, declaring the intention to reduce its environmental impact, promoting sustainable practices and programs that involve all production stages, from raw materials procurement to final distribution. It is one of the first brands not to use animal fur in its creations, aimed at base its strategy on circular economy perspectives. According to official Gucci's statements, the brand has been carbon neutral since 2018 in all its activities and along the entire supply chain. Indeed, it can reduce its carbon emission and to compensate residual emissions through programs and initiatives aimed at protecting biodiversity all around the world. Gucci has also made concrete its commitment to sustainable evolution through the Gucci Equilibrium, a portal opened in 2018 and created to witness and explain the brand's sustainability choices, programs, and goals.

#### *Goals to generate positive change: people and planet*



Source: *Gucci Equilibrium Impact Report*

Through direct links that bring to official reports on environmental results achieved, the company aims to communicate transparently about its actions and achievements, that assess best practices adopted by the brand. Gucci aims at generating positive effects not only for the planet protecting

<sup>76</sup> Is expected a 10% increase in brands' revenue and a 25% improvement in brands' profit by 2030 , thanks to metaverse and NFTs technology implementation (Ledger Insight, 2022)

biodiversity and reducing footprint, but also for people, identifying critical aspects that disturb employees, industry, and organizations.

Gucci annually releases EP&L (Environmental Profit & Loss) which is a report on the brand's environmental impact. This allows the brand to deeply understand the footprint generated along the entire supply chain. It also makes possible to identifying risks and opportunities by defining programs, best practices to generate positive effects, declining in a decision-making tool to define targeted programs. According to the brand the first step in the environmental pathway concerns the raw materials supply, preferring when possible organic materials, paper and wood, and other recycled alternatives. In its speeding-up toward eco-friendliness Gucci already in 2018 started *Gucci-up* project, that highlights company's intention to reuse leftover materials safeguarding natural resource and avoiding wastes. The aim is to give a new and higher value to resources that traditionally have been considered as trash. In particular since 2015 the brand has collected leather waste produced along its entire supply chain, recycling them by donating to no-profit organizations. In 2021, as result of two years of research and development, Gucci has been able to adopt a new eco-sustainable and plant-based material called *Demetra*<sup>77</sup>, which represents the perfect combination between the brand's vision and quality standard, and the need for innovating and transforming.

#### *Gucci Basket shoes in Demetra*



*Source: Gucci website*

Moreover, the path toward sustainable transformation also involved physical stores. The brand exploited new technologies to support the use of renewable energies also in its retail stores. The brand pursues light efficiency by adopting LED lighting that are lasting-longer compared to traditional lights; and effective energy monitoring through Building Management System (BMS) which is a new control system that allows the heating, cooling and ventilation monitoring. Gucci is also fostering the waste reduction by avoiding plastic and waste collection implementing practices to sustainably

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<sup>77</sup> This material is made of 70% of plant raw materials and other renewable sources



recycle and manage waste. Gucci has been awarded with LEED<sup>78</sup> (Leadership in Energy and Environmental Design) in 2009, being recognized as an example of sustainable company. In 2020, 93% of Gucci stores energy consumption came from renewable energy, and the brand holds now 100% eco-friendly and sustainable stores in 41 cities across different countries, from China to Canada, Latin America to Japan.

Moreover, when in 2022 the brand launched its capsule collection “Gucci Tiger” to celebrate the Chinese new Tiger year, the references to the tiger as symbol of strength and courage in Chinese culture, are not casual. Indeed, since February 2020, Gucci has promoted and supported an initiative called *The Lion Share Found*, aimed at protecting animals’ biodiversity promoting initiatives and practices against climate changes. Particularly in occasion of “Gucci Tiger” collection, for the first time the House introduced completely eco-friendly watches made of animal-free and bio raw materials. The collection mixes Gucci floral and pastel color designs and the tiger motif, giving image to the idea that 2022 is a year of growth and rebirth.

#### *“Gucci Tiger” collection 2022*



Source: Gucci website

### ***3.6 New Creative Director: between excitement and uncertainty***

On November 23, 2023, Gucci announced the farewell of Alessandro Michele to the role of brand’s creative director, and the appointment of the young and unknown designer Sabato De Sarno as his successor. With Neapolitan origins and experience in a pret-a-porter at Prada in 2005, Dolce and

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<sup>78</sup> In 2022 around 110 Gucci’s stores have been awarded with LEED certification, but the brand aims to extend such prize to all its 380 directly managed stores by 2025.

Gabbana, and finally Valentino in 2009 where he was appointed fashion director for both men's and women's collections, De Sarno will debut his first collection for Gucci in September 2023 at Milan Women's Fashion Week. He will report directly to Gucci's CEO Bizzarri and he will hold "*the responsibility for defining and expressing the House's creative vision across the women's, men's, leather goods, accessories and lifestyle collections*" (Kering Annual results 2022)

Many celebrities greeted the news of Gucci and Alessandro Michele's separation with regret. He has been a Gucci's icon since 2015, bringing the brand where it is, at the top of luxury industry, thanks to its creativity and innovative vision always coherent and respectful of brand's codes.

In any case, luxury experts tend to assess the possible consequences of such a change with caution, but in general expectations and trust on Kering strategic and organizational choices aimed at lifting the brand are high. In fact, following the news, Kering stock price rose, showing a tenuous confidence that the arrival of the new designer could significantly boost the brand's sales. This theory is supported by Gucci's empirical results reached in the past, when Michele's arrival in 2015 determined an exponential growth of brand's sales, that have started to slow down only in 2020 with pandemic break out. Another shared consideration that can explain positive expectations is related to a possible consumer's tire of Michele's disruptive creativity. Soon after the news, Bernstein<sup>79</sup> analysts declared that the beginning of new chapter started by De Sarno appointment as Gucci designer, is a great news that can generate a positive impact. Indeed, they support the idea that the main reason that has signed Gucci underperforming path followed during past years is consumers' tiredness. Alessandro Michele transformed and changed the brand, giving at the time the needed boost to revamp the brand, that naturally reached its saturation point over time. Today consumers are increasingly demanding, and those who first enthusiastically embraced Michele's creations, i.e the Chinese, are also the first to desire and seek something new.

The problem in finding certain answers about Gucci next future under the new designer creation is linked to an aspect that has been characterizing luxury industry. The entire fashion system spins unsustainably fast, shortening the eras that mark the different life stages of a single brand. Needs keep changing and continuously evolve, the time to understand, interiorize and satisfy new expectations decreases, and for creative directors become difficult to express their vision and creativity in a calm and refined way, pushing them under a deep and stressful condition where the main goal pointed by CEOs, is to sell always more. Indeed, CEOs sales requirements contrast designers' needs to have

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<sup>79</sup> Alliance Bernstein LP, one of the largest independent investment managers that provides investment management and research services worldwide.

more time to think and elaborate their idea, which is the main element to attract client's attention and incentivize his spending, and this involves an internal conflict. The problem lays not only on the fact that brands and designer changed over time, but also on the fact that consumer evolved and transformed, becoming more pretentious, difficult to meet with ever-changing expectations that require constant innovation by brands. Covid-19 accelerated the transition and change, raising the pace of both consumption and brand responsiveness.

Alessandro Michele can be qualified as a monothematic designer, who endlessly revises, reworks and investigates the same idea. But the world now runs fast, consumer demands are constantly moving, change is continuous and what was new until a short time before becomes already seen shortly after. Therefore, the mark left by Alessandro Michele who revolutionized the entire system of both Gucci's men's and women's codes is unquestionable, but the necessity of constant change leads to the need to close a brilliant era in order to begin a new one, under the banner of excitement and uncertainty.



## CONCLUSION

The outbreak of Covid-19 boosted changes, accelerating new trends that are expected to significantly affect the luxury industry. China, despite the first country to face the pandemic, still qualifies as the most relevant geographical market for luxury brands that have been called to support new investment to adapt their businesses to new evolved expectations. After initial difficulties in dealing with the unexpected situation, the market recovered fast driven by new consumers' needs and behaviors. However, trends accelerated by the pandemic permanently changed the industry, which is now experiencing the advent of a new, young, and increasingly pretentious generation of consumers whose expectations are also forcing brands to accelerate toward digital transformation. Digital values do not perfectly match luxury ones, leading to a trade-off that brands must properly manage to ensure success in the present and in the future.

As for China, 2020 signed a relevant move. Strict lockdowns, import tariffs decrease, price harmonization strategies and stronger regulation boosted the repatriation of luxury sales to China. Before pandemic, most of Chinese luxury purchases took place abroad (travel for shopping trend) due to many factors such as lower price, better experience, more authenticity ... but travel ban, and other physical limitations forced Chinese to shift toward domestic shopping. Chinese luxury sales repatriation significantly changed the most luxury brands balance. Higher sales in China Mainland, brought brands to redefine their strategies in the Asian country, enforcing physical presence (opening new stores), and consolidating their networks with local partners and social media. Covid-19 crisis mitigation with the opening of borders between countries, determined a travel resume with consequent return of overseas purchases by the Chinese. Indeed, it is likely that luxury purchase abroad will partially resume without reaching the same percentage of pre-Covid. Analysts expect a 50-50 (abroad and domestic) for Chinese personal luxury good sales. Considering the uncertain expectation for Chinese market luxury brands are now questioning about new expansion opportunities they could exploit and leverage soon.

Gucci is an example of a successful brand able to penetrate the Chinese market attracting consumers' attention, but whose heavy reliance on China proved to be a strong discriminating factor. Indeed, the Chinese slowdown in 2020, has greatly affected the brand's sales, that decreased more than other companies. However, the ability to understand the new needs on the part of the Chinese reinforced during the pandemic crisis ensured the mitigation of consequences that could certainly have been worse. Indeed, proper tailored marketing strategies supported by new digital tools such as social media (WeChat, Facebook, Instagram) and e-commerce platforms (Tmall and JD.com), sustainable and inclusive initiatives allowed Gucci to mitigate losses generated by forced lockdown and Covid-

19 anxiety. Moreover, it is spread the conscious about the fact that luxury industry dynamics speeded up since consumers' demand changes fast. Luxury buyers constantly look for something that is innovative, getting tired faster compared to the past. This situation requires a prompt and rapid response by brands that sometimes involves a needed change at the top, such as the one announced by Gucci in November 2022 regarding the farewell of Alessandro Michele after "only" 7 years at the creative helm of the brand.

Although Gucci has suffered a major backlash because of the pandemic, mainly due to declining sales in China which is its main target market, analysts are confident about the department of Alessandro Michele. The choice made by Kering group to go for an unknown designer, as it already did with Michele 7 years before, could reveal a nice move. Indeed, the change of pace for Gucci is what the conglomerate is looking for, and De Sarno is expected to start a new chapter to revitalize brand's aesthetic and set new trends for luxury and fashion industry.

However, the change in creative director position, will not necessarily generate immediate changes, indeed experts say that it will take more time to De Sarno to define his mark on the brand. Therefore, questions remain opened, excitement faces with doubts and uncertainty that only time can solve. What is clear is that Gucci has a long experience, and strong basis to begin a new stage of its history. Understanding and rapidly reacting to a world that constantly changes is a key aspect to impose a survive within luxury market.

Therefore, what turns out to be a challenge does not necessarily have to act as an obstacle; in fact, China in recent years, seems to be able to be a country that is a forerunner of trends that will later be welcomed and spread in the West as well. This peculiarity could lead to think of China as a terrain for a responsive evolution of a brand, through an increasing path toward digital that can then be exploited and implemented in other markets other than Asian ones.

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*China: challenges and opportunities for luxury brands after Covid-19.*

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## INTRODUCTION

China represents a driving market for luxury industry, but Covid-19 limited the Chinese economic growth and generated consequences that are expected to stay over years impacting on people consumes, preferences, needs and expectations. The Chinese slow down also involved the luxury industry, that until 2019 strongly relied on China and Chinese consumers, forcing luxury brands to better understand the consequences of such phenomenon and deal with changes produced by it. The challenge for luxury brands is to look for new alternatives trying to recover ground in the Chinese market, and it is questionable the possibility of restoring the condition and numbers characterizing the sector in the pre-pandemic years. The following analysis aims at comparing pre-pandemic and post-pandemic dynamics and identifying the effects produced by new Chinese consumer trends on brands' business models and how the luxury industry balance has changed. Then, the Gucci case allows to verify concretely and empirically the general assumptions, since it is one of the most successful international brands competing in the Chinese market. In addition, Gucci is going through an evolving phase of its history, after announcing the change in the directive director position that opened questions about the brand future success in such evolving industry.

### CHAPTER I - Luxury Market Observations

#### 1.1 Luxury industry analysis

The luxury industry has seen growth from the 20th century, and despite the obstacles of the Covid-19 pandemic, it continues to grow with positive prospects for the future. According to Bain – Altagamma Luxury Goods Worldwide Market Study the global luxury market has fully recovered from the bending suffered with the pandemic crisis, also surpassing 2019 statistics. Only during Covid-19 buyers overindulged on products shifting from the experiential ones. Such industry requires a solid and well-defined identity that should be maintained also in critical situations.

##### *1.1.1 Evolution of luxury industry: from the origins to the New Luxury*

"Luxury" word recalls the pleasure of possessing something made of excellent quality and expensive not necessarily useful, and still gives the sense of excess or bad habit, involving a long controversy over the interpretation of the phenomenon that highlights the relevance of individual perception. Therefore, the try to provide an unambiguous definition of the concept "luxury" is questionable. Hit by the new industrial paradigm principles, luxury idea shifted from being something reserved for a limited number of privileged people, to something extended to new, larger class of costumers that has tripled in the past twenty years<sup>80</sup>, bringing to the "New Luxury" idea which provides higher relevance to personal elements (feelings and emotions), trying to coherently combine old and new expectations.

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<sup>80</sup> Ko, Eunju, John P. Costello, and Charles R. Taylor (2019)

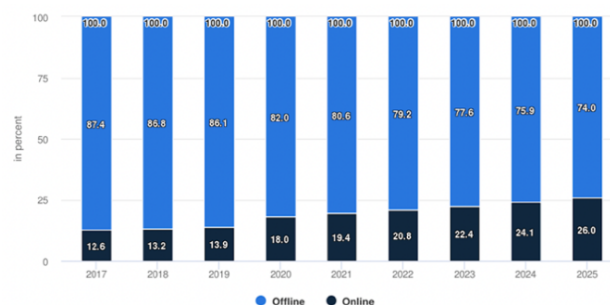
### 1.1.2 Characteristics and values of luxury brands

Different recurring elements contribute to qualify luxury goods/experiences highlighting their complexity. Five dimensions can be identified: high quality, authentic value, prestigious image, premium price, and finally the deep connection with the consumer (Ko, Eunju, John P. Costello, and Charles R. Taylor, 2019). Although the relevance of a brand's strategic tactics, the definition of a brand as a "luxury brand" highly depends on consumers' perception that is influenced by: consumer characteristics (culture, income, self-consciousness), luxury brand/product (unique, rare, authenticity) and buying motivation (hedonic pleasure) (Ghosh, Angshuman, and Varshney 2019).

### 1.1.3 The relevance of retail for luxury brands (omnichannel approach) and CRM

Retail intended as physical stores plays a key role for luxury brands in defining customers journey and establishing a concrete relation with them. Despite incompatibilities between luxury and digital values, many brands started to expand on e-commerce platforms defining their new online strategies as needed reaction to Covid-19 crisis. Online sales have increased over past few years (from 2017 to 2022), and it is expected to grow further not compromising the largest percentage represented by in-store sales. The implementation of digital tools blurred boundaries with physical stores, enforcing and supporting the adoption of an omnichannel approach, where consumers are at the center, and they have been provided by all services and elements to ensure the best shopping experience.

Figure 1 - Luxury Goods Online Revenue Share (Worldwide percent)<sup>81</sup>



Source: Statista

Consumer's centrality in luxury industry highlights the relevance of CRM, a global strategic approach through which a company detects, acquire, and maintain a relationship with its best clients, organizing and managing all business processes with a focus on client. The increase of clients' volatility the limited percentage of a brand's best clients (only 1% of a brand's total customers but 10% of a brand's total revenues) stress the relevance of CRM practices. It lays on a proper data and information knowledge management aimed at enhancing business performance in terms of both financial and non-financial benefits. CRM has been impacted by social media bringing to the rise of Social CRM, that

<sup>81</sup> Luxury Goods - Worldwide. (n.d.). Retrieved March 15, 2023, from <https://www.statista.com/outlook/cmo/luxury-goods/worldwide>

involves the implementation and use of social media channels (websites, e-mail, databases) to enforce brand and customer relation through a two-way interaction, where consumers are concretely engaged in brand's decisions.

## **1.2 Luxury goods main markets**

Despite the uncertain social and economic condition lived during last years, analysts forecasted a further increase of global luxury industry in 2022, and in general for the entire decade, up to 2030. "Personal luxury goods" is the second largest luxury segment (accessories, watches, apparel, eyewear, and jewelry), that despite the Covid-19 slowdown with a revenue decrease equal to -15%, in 2022 it surpassed 2019 numbers. According to analysts, luxury industry can react better and faster to crisis compared for example to 2008/2009, due to larger and more concentrated customer base, and wider touchpoints' selection. The main geographical market to support growth are USA as market leader (\$65 billion in 2020) followed by China (\$39 billion in 2020), Japan, France, and Germany, all characterized by encouraging recovery prospects. Although Europe and North America still emerging as main regional markets, Middle East (India) and Asia (China) show the highest growth potential due to the ongoing social evolution, with the increase in individual wealth and purchasing power casting the best prospects for the luxury goods market growth.

### ***1.2.1 Differences between western and eastern countries***

To expand internationally brands are forced to preserve identity and values while understanding cultural, social, and political specificities of each country, to effectively adapt actions and decisions. "One-size fits all" approach is ineffective, due to evident differences between Western countries, that are experiencing a move toward a "sober" era, and Eastern countries where "extra is still cool".

### ***1.2.2 Analysis of Chinese luxury market: before and after Covid-19***

The Asian Mainland is still in «recovery» mode, trying to get up after the backlashes suffered because of the Covid-19, but is highly attractive for brands considering increasing purchase predisposition of consumers. Young Asians are more prone to spend money on luxury compared to their Western counterpart, laying the foundation for China to become the world's biggest market for luxury goods by 2025. Luxury brands bet not only on China also on other Asian countries such as Japan, where some brands designed Tokyo as first option to open their headquarters, and South Korea where some brands such as Moncler or Cartier in 2022 doubled the sales compared to pre-pandemic years. However, despite Covid-19 crisis that limited the market growth, China luxury goods market still accounts for 14% (Bain & Co, 2023) of the global market. Indeed, it has represented a significant percentage of revenue for luxury brands over past years, (70% of total luxury market revenue came from Asia, 50% of this revenue came from China), qualifying as a fertile ground for the growth of major brands, despite significant challenges that must be addressed to succeed. Chinese people have



always showed great propension to buy luxury products, but Covid-19 and consequent restrictions imposed by government, limited industry growth affecting brands, but also consumers that were forced to change their purchasing behaviors and preferences. Therefore, luxury brands must strive to comprehend better and deeper Chinese purchasing behavior dynamics increasingly affected by exogenous factors. China is also posing a new threat for international luxury brands coming from the growth of local fashion brands (under the national wave), especially in fashion industry. According to a survey, more than 80% of Chinese respondent rather to buy from a Chinese company instead of a foreign one since a Chinese brand would better embody Chinese designs and more credibly communicate values. Moreover, the Chinese market results to be low concentrated, LVMH held the highest market share in 2021 with 10% equal to China National Gold Group Gold Jewelry, while other main luxury brands, instead, accounted for 5% of Chinese market share each.

Thus, the Covid pandemic has certainly resulted in consequences that cannot be ignored and that may have started trends that will significantly change the dynamics of the luxury market also in the future.

## **CHAPTER II - CHINA: MARKET EVOLUTION AND CONSEQUENCES ON LUXURY INDUSTRY**

### **2.1 Chinese consumption patterns before Covid-19: main trends**

China openness toward an increasingly free market, embracing capitalist-oriented ideology involved poverty reduction and wealth increase also for middle class people, that facilitated its economic growth. New middle-class Chinese consumers carrying the "spend now and worry later"<sup>82</sup> mentality and devolving a significant part of their salary on Western luxury companies' eccentric products, perceived to celebrate their social status and economic success, have been main responsible for the increase of luxury Chinese consumption (from 14% in 2008 to 27% in 2012) (Atsmon , Ducarme , Magni , Wu 2012). Indeed, from 2012 to 2018 China drove the luxury expenses global growth thanks to upper-middle-class increase (\$2,600 and \$3,900 per month), and 70% of which spend their money (30% of travel expenditures)<sup>83</sup> in luxury goods purchases overseas when traveling abroad. Luxury industry in China has been characterized by *travel for shopping* trend since the beginning. When Chinese government started to ease visa restriction, Chinese people travelled abroad, to Americas, Europe and nearer Honk Hong making luxury spending as a "part" of their travel experience. Consequently, luxury purchases made by Chinese during their travels became a significant portion of luxury brands sales. The much wider product offerings, the more authentic experience, and lower prices in European stores, were the reasons for the *travel for shopping* trend, while domestic luxury consumption despite accounting for a small percentage, they yearly increased (accounted for 23% in

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<sup>82</sup> Atsmon , Y., Ducarme , D., Magni , M., & Wu , C. (2012, December)

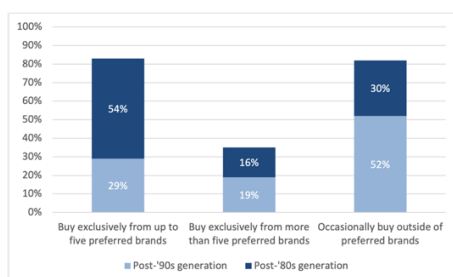
<sup>83</sup> Jing Daily. (2014, June 2).

2015, and grew to 32% in 2019)<sup>84</sup>. High price differences between China and other countries led also to the rise of *daigou* trend, “to buy on behalf of”. It indicates the role played by a “professional figure” located abroad who takes care of purchasing sought-after luxury goods in brands’ stores and selling them at a lower price through online channels in China. *Daigou* spread due to new technologies evolution, bringing damages to general economic system considering lucrative nature. In 2020 *daigou* value was estimated around \$1 trillion but statistics cannot be accurate, and it represents a threat for brands that cannot track consumers’ behaviors and for government. Another critical trend is the “parallel” and *counterfeiting market* that according to OECD, in 2019 accounted for \$464 billion and has increased in the two years 2020-2021 as consequence of e-commerce boom and Covid-19, undermining brand image and consumer’s interests.

### 2.1.1 Statistics and luxury brands marketing strategies before Covid-19

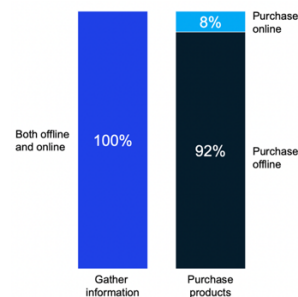
Chinese market growth boosted by fast social democratization, has been driven by young generations: Gen Y, post-80s people at the top of their careers with stable earning and opportunity to travel, accounted for 56% of Chinese annual luxury spending in 2018; and Gen Z (post-90s generation) which accounted around 23% of annual spending<sup>85</sup> in 2018. New generations result to be less loyal when making their purchasing decisions, and more influenced by other factors such as ads and communication strategies adopted by brands. Moreover, new consumers prefer to get as much as information possible before purchasing, recurring to online channels as main source of information, while still preferring to purchase in-store. (ROPO)

Figure 2 - Level of brand loyalty among luxury consumers in China 2019, by age group



Source: Statista

Figure 3 - Information and channel preference of Chinese luxury consumers



Source: China Luxury Report 2019

Most of luxury brands have adopted different approaches to penetrate Chinese market, establish effective relations with local partners and enforce their brand presence in China. Luxury retailers aware of Chinese consumers power, identified key successful strategies such as adjusting and cutting prices in China, creating their own transactional website in China (Armani), launching online stores

<sup>84</sup> Statista Distribution of Chinese luxury consumption overseas and domestically from 2015 to 2020

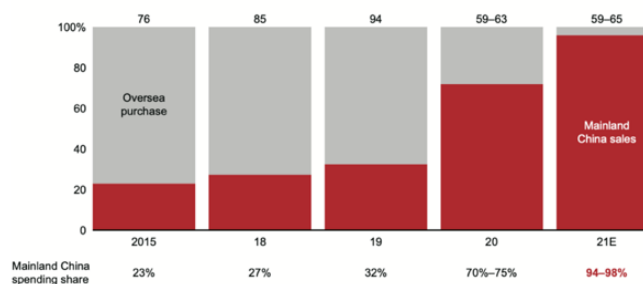
<sup>85</sup> according to China Luxury Report 2019

on Tmall (Burberry), enforcing their social media presence through collaboration with KOLs, and launching collection with references to Chinese culture and tradition; always focusing on improving physical presence by opening new stores and enhancing the experience implementing digital tools.

## 2.2 Covid-19 break-out and implications for luxury brands in China: emerging trends and consequences

Covid-19 isolation brought people to follow bandwagon trends trying to escape from negative condition and looking for affiliation. At the same time, the anxiety determined a moderation of luxury consumptions in favor of primary needs, affecting social and cultural sphere. Covid-19 started to move the attention toward products perceived as timeless, whose value does not depend on following temporary and actual fashion trends. Luxury became a self-rewarding way to celebrate a personal effort, therefore, good's customization and purchase's experience played a key role in incentivizing customers to select a brand rather than another. People became more interested over sustainable and environmental topics pushing brands to reorganize the entire value chain. Additionally, physical restriction also improved the social media and online platform relevance in people life, playing a key role in inspiring and communicating with consumers, supporting brands' sales, and enhancing the idea of a community around the brand also during such difficult situation. Finally, Covid-19 boosted nationalist footprint with the rise of *Guó cháo*, "national wave" between young people, which is intended as the combination and blend of contemporary elements with traditional Chinese elements, to enhance local culture and incentivize consumers' desire to celebrate and reconnect with their roots. The nationalistic wave produced an increase of Chinese luxury fashion brands that challenge Western brands with their collection inspired by China heritage and craftsmanship. However, for the first time since 2008-2009 crisis, personal luxury market growing trend with a CAGR of 6% has been interrupted suffering a significant drop in 2020 equal to -23% at current exchange rate according to Bain-Altgamma Luxury Study. In 2020 many of the most coveted countries by Asian imposed travel ban for Chinese tourists, with a significant decrease in sales volumes for destinations such as Italy, US, France UK.

Figure 4 - Geographic breakdown for Chinese luxury goods spending (% , B Euro)



Source: Bain & Company

Travels limitation, import tariffs decrease, harmonization of prices and stronger regulation aimed at limiting the counterfeit market, further increased the *repatriation of luxury sales* to China, and 2021 most of Chinese consumers, around 90%, brought luxury goods domestically. Sales of luxury goods in China have also been boosted by the Hainan luxury hub, where products are sold at a price that can be 30% to 55% lower than the official listed one, charged in a brand’s retail stores (Bain & Company).

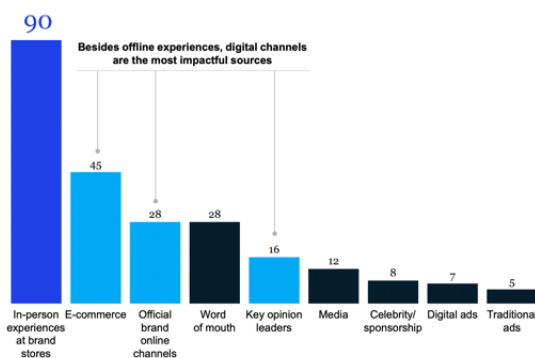
### 2.3 Changes in Chinese consumption behaviors after Covid-19: new segmentation by age

Middle-class enlargement and generational shift determined the rise of new consumption patterns in China. Chinese mature consumers are extremely aware of new consumption trends and active on digital platforms, and still represent a good target due to increased spending power and higher free time. However, younger generations, Millennials and Gen Z, configure themselves as main segments for luxury brands; and particularly, Gen Z despite young reveal to be already savvy luxury consumers. Differences among consumers lay on different expectation, attitudes and needs. While old Chinese consumers consider luxury items a way to show-off and celebrate their social status, new younger consumers (Gen Z in particular) identify luxury a self-reward way for their hard work and commitment.

#### 2.3.1 New Chinese consumers’ preferences: digital platforms and KOLs/influencer marketing

KOLs (Key Opinion Leaders) are covering important role for a brand strategy in China where young generations of luxury consumers result to be strongly influenced by them. Differently from Western influencers that principally works as brand promoters and ambassadors, KOLs represent a new effective marketing tool and a direct sales channel for brands, since, recognized as experts in a certain field and holding an uncontested knowledge, they highly influence consumers. Brands exploit KOLs’ success in influencing consumers to attract Chinese buyers, aiming to increase sales through a less risky penetration strategy in Chinese market. According to Tencent and BCG China Digital Luxury Study 2021, in China around 68% of luxury consumption are influenced by celebrities/KOL.

Figure 5 - The most impactful sources of information that influence Chinese luxury purchase (% of survey respondents)



Source: McKinsey China Luxury Report 2019

## 2.4 Marketing strategies post Covid-19: e-commerce platforms, social media and omnichannel

Luxury brands have been forced to mix the global strategic approach with a multinational one to succeed in international expansion in China. The country's dimension requires tailored marketing strategies that brands should adopt across different tiers<sup>86</sup>, with the common element represented by online platforms implementation in business models. E-commerce in China is driven by giant platforms such as Tmall (Alibaba) and JD, and many luxury brands are investing in enforcing their online presence over these platforms. Since 2017 some luxury brands have showed their products on Cloud Luxury City<sup>87</sup>, a Tmall Luxury Pavilion's platform where consumers can exploit VR and AR try-ons technologies, allowing brands to leverage a more sophisticated data analytics systems, and to enjoy a useful marketing support, while consumers can easily have access to information and shopping services. The implementation of digital platforms still ensures a certain level of exclusivity by brands, according to their marketing strategies goals. For example, the new forms of commercial events that take place on digital platforms can be opened to a large public, "one to few", or finally, "one to one". The *Tmall.com* B2C platform offers a new evolved marketplace for luxury brands that still look for a balance between new digital tools and traditional ones, without threatening the brand's values and image. Local social media such as *Tencent QQ*, *Weibo* and *TikTok* attracted an increasingly number of new users making China the country with the highest number of social media users in 2022, equal to 1.02 billion<sup>88</sup>. The most active users in China are registered for *WeChat*, which offers a wide range of service and functions to customers exploited by brands. According to Bain Report in 2019, top 40 luxury brands since 2015 have started to increase their investment on digital and social media devolving between 40-70%<sup>89</sup> of them to WeChat that has been qualified as "app within an app" since the Mini programs implementation (consisting of different apps included in the platform). And many brands are catering their clients with WeChat programs, also integrating online and offline services toward an omnichannel approach supporting brands in their decision-making process. According to McKinsey around 75%-80% of Chinese consult multiple online and offline touchpoints before buying<sup>90</sup>. The result is an in-store digitalization to provide customers with *a fully integrated digital-physical experience* (McKinsey 2021).

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<sup>86</sup> Tier system is a growing popular unofficial classification of Chinese territory, that according to some economic and social characteristics implies a different classification of Chinese cities.

<sup>87</sup> A digital shopping channel specifically created for luxury brands, that is opened 24-hour and actually hosts more than 30 luxury brands

<sup>88</sup> Statista report 2023

<sup>89</sup> Bain & Company 2019 report

<sup>90</sup> ROPO (Research Online Purchase Offline) trend

### ***2.4.1 Global pricing strategies***

Raising prices has been a luxury strategy frequently used by brands with the aim to improve brand value and supporting sales and profit. Therefore, the price increase applied during Covid-19 cannot be interpreted as brands' new response to pandemic. Indeed, most of luxury companies increased their prices also during such critic period, showing the real magnetism of luxury goods. This increase did not mitigate price differences between China and other countries, that persists around 25%-45% for leather goods, 25%-35% for shoes, 25%-30% for bags (Bain & Co 2023). Even in crisis periods, globally increasing prices in luxury industry could reveal to be a beneficial strategy both in the short-term, exhorting consumers to purchase before the price further increase, and in the long-term, increasing company's profit and making-up losses registered during critical periods.

### **2.5 Expectation for the future, new alternatives for brand's expansion**

In China shopping behaviors and tastes diverge from Europe and generally other Western countries, and it is expected a widening of such differences in future. Digitalization, local values, and attitudes toward luxury are expected to enlarge differences. Therefore, international luxury brands are called to spend more effort to re-attract Chinese consumers overseas and support local markets. According to Bain China Luxury Report 2023, after five years of continuous and exponential growth, Chinese luxury market in 2022 contracted around 10%, probably as natural consequence of new stringent lockdowns imposed in the second trimmest of 2022 by Chinese government pursuing the zero-covid policy. Indeed, new closures limited again Chinese shopping mall traffic, undermined consumer's purchasing power and his propensity to buy. According to Bain & Co, most of luxury segments that suffered from this contraction, and they will recover thanks to online channels implementation that can partially mitigate and lever the decline in offline sales. Analysts and consultants are sure about the fact that numbers won't go back to pre-pandemic statistics, expecting a balancing around 50-50 between domestic and abroad personal luxury good purchases by Chinese,

#### ***2.5.1 What about India as the "new China" for luxury brands?***

For the first time after since 1961, Chinese population decreased in 2022, leading ONU to expect India to become the most populated country in 2023 surpassing China (*The World Population Prospects 2022*). India hosts about 36% of world's richest people, and the number of ultra-rich people increased 11% (Bain & Company 2023) in past 10 years, making it the third country for number of billionaires, after USA and China, attracting the interest of luxury brands. Indeed, Bain & Company in 2023 report, expects that the country will reach USD 200 billion by 2030, supported by potential increase in middle-class purchasing power and consequently in country's demand, and by the spread of digital and e-commerce platforms. It becomes clear that India has a significant growth potential among all other emerging Southeast Asian and African countries, but it still requires an infrastructure

development to facilitate brands' local expansion. Indeed, the availability of space to build and open physical retail stores is one of the main challenges for luxury brands in India, even if some high-end brands (Valentino, Balenciaga) already opened physical stores. India as China configures as a complex market that brands must take time and effort to better understand it and penetrate it. Indians are easier influenceable through social media as all other countries, and luxury consumers are maturing their needs and expectations with great attention to the quality of the experience. Even if in big cities it emerges that Indians prefer to shop in-store, the e-commerce coming is concrete, with an increasing predisposition of consumers located in small and suburban cities to shop online. Therefore, despite being in first stages of digitalization, also Indians appear to be attracted by new technologies, so that brands are again called to integrate online tools such as metaverse, gamification, VR techs ... to improve the interactions with consumers. Hence, considering India and China, despite the same growth drivers, such as the huge income increase of Chinese and Indians during past years, and the rise of middle-class purchasing power, the two countries are following different paths defined by their specific socio-cultural roots. Finally, it is assumed that there will never be "another China" for luxury industry, and India requires specific tailored actions that follows a deeper understanding.

## CHAPTER III: GUCCI CASE

### 3.1 Gucci history: China penetration strategy

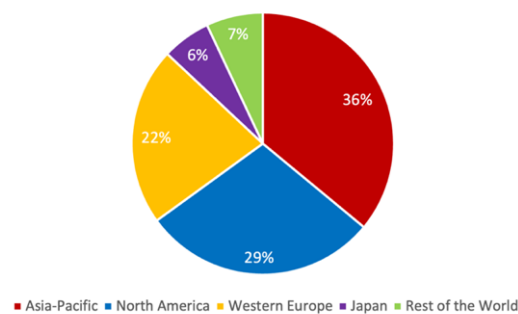
According to the latest analysis conducted by Brand Finance, in 2023, Gucci is the first Italian brand for value with €17 billion (+10%) generated exploiting its image and reputation. It was founded in 1921 in Florence (Italy) by Guccio Gucci, it has always been representative of Italian craftsmanship, with great attention to detail, visionary design, and highest quality. Mainly producing leather goods, in 1935-1936 with nations embargo against Italy leather supply was limited forcing the *House* to implement different materials expanding product lines. After opening a store in Rome in 1938, Gucci House invested in new opening across different cities along various years. Gucci is now part of the giant French conglomerate Kering, that completed the acquisition in 2004. Many important designers followed one another over time, Tom Ford started as responsible for the ready-to-wear collection and was appointed as creative director in 1994 signing one of the biggest changes for the Italian *Maison* strongly revitalizing brand's products, left the brand in 2004 due contrast with then Pinault Printemps Redoute (renamed Kering in 2013). He was substituted by Frida Giannini who left the company in 2015, substituted by Alessandro Michele an unknown accessories designer, whose first collection revealed an immediate success. He has forged the luxury House giving her the image that everyone now today. In November 2022, Gucci announced the Michele department from the House and in January 2023 Sabato De Sarno was appointed as Gucci new creative director who will present his first collection during Milan Women Fashion Week in September 2023. However, Gucci Chinese

expansion started in 1997 after opening 2 stores in Beijing and Shanghai under Tom Ford’s direction making physical expansion one of Gucci main goals over years (in 2022 the brand to own more than 126 stores in Mainland China). However, under Michele’s leadership the transformation within the brand became the principal strategy for Gucci. Indeed, as one of the oldest brands entering China it was necessary to seek for innovation to succeed in such evolving market where consumers are attracted by innovative ideas and products. Thus, Gucci focused on empowering and adapting its product branding and marketing based on deep analysis and understanding of local market.

### 3.2 Positioning in China and Covid-19 consequences

Gucci has been one of first brands investing and entering the Chinese market, able to penetrate and compete in the Chinese market not only through many physical stores opening but also through digital implementation and partnership with e-commerce platforms (2017 opened its first Chinese official website and brand’s page on Weibo and 2020 it opened two official brand stores on Tmall Luxury Pavillon). Gucci qualifies as the fourth leading fashion luxury brands in China with 107.4 USD of value generated in the last 2021 quarter, but it suffered more than other competitors due to new lockdowns and restrictions imposed by Chinese government in late 2021 and beginning 2022. It was the main responsible for the drop of -26% of Kering shares (LVMH shares dropped -16% in same period), highlighting the high Gucci reliance on Chinese market. Indeed, according to Barclays<sup>91</sup> Chinese market represents 35% of Gucci’s annual sales compared to 27% of LVMH and 26% of Hermes. This strong dependence could be very risky.

*Global revenue share of Gucci in 2022, by region*



*Source: Statista*

despite the huge opportunities that the brand can exploit, maintaining and improving market positioning is still challenging, and require a strong strategy plan and marketing actions for China.

### 3.3 Gucci Marketing strategies during and after covid-19

In 2015 when Alessandro Michele was appointed as creative director and started brand’s renovating path, innovating the design that became more in line with preferences of young people increasingly

<sup>91</sup> British international bank



becoming new target. To attract them and compensate the losses registered during Covid-19, Gucci has implemented internet tools to enforce its online sales network and overcome physical limitation that undermined in-store purchases. Indeed, it has opened official online retail store in Alibaba Tmall<sup>92</sup>, and created brand's official accounts on WeChat and Weibo, where it could display new collection, host virtual events, and incentivize customers' involvement. In general, three main steps can be identified to understand Gucci's clever social media use to engage Chinese consumers: collaborating with local companies, developing a tailored strategy plan, and finally integrating the strategy according to feedback received by users. Therefore, Gucci's success has been built on frequent launches of new designed products that matched evolving needs, on the implementation of digital tools that favored the adoption of a multi-channel approach to detect changing needs, and finally on innovative and tailored advertising strategies.

### **3.3.1 Main ad strategies: Cultural inclusiveness, WeChat Mini Programs and KOLs collaborations**

Diversity, inclusion, and equality are at the core of Gucci's values encapsulated in the brand's most iconic campaigns and collaborations. Latest one is the "Roman Rhapsody" Gucci's Cruise18 new campaign, where 24 people of various ethnicity, and status have been involved to celebrate different cultures and eccentric personalities in the Roman society. Among these Gucci involved Sonia Zhou, a Chinese immigrant in Rome where she run with her family a restaurant. Other initiatives have been launched to promote cultural diversity and inclusion such as of partnerships with fashion schools, inclusion programs (*Changemakers*) to promote employees' internal mobility and support underrepresented communities. Gucci as second most famous brand on WeChat decided to also launch WeChat mini programs (*Gucci Beauty Self-expression mini-program* and *Gift Card mini-program*), that could attract larger number of Chinese consumers, and enhance Chinese brand loyalty. The Italian House has built its success also exploiting the power of Chinese KOLs and celebrities that coherently share and embody Gucci's value and vision. Different collaboration followed in past years and the most recent Gucci's global ambassador is Xiao Zhan, whose announcement in October 2021 immediately gave visibility to Gucci, pushing it at the top of discussion topics among Chinese. His last adv campaign was about the promotion of "Gucci Cosmos", an itinerant exhibition that celebrates all the most iconic models produced by the Florentine house to mark the brand's 102-year history, which was opened in Shanghai on April 28 until the end of June 2023. Zhan's appointment turned out to be a very effective decision made by the brand, which selected an affirmed individual in the K-

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<sup>92</sup> Despite the aversion toward digital platforms, due to counterfeiting incitement the brand has been forced to partner with them, considering the strength of e-commerce in China. Even if new digital expansion required higher investments, it also provides opportunities to the brand that in such way is able to enlarge its customer base referring to a larger and younger customer base.

pop world, a fast-growing industry with a large following in Asia, who also encompasses a style in line with Gucci's design and characteristics.

### **3.4 Coping with counterfeiting and sustainability**

China is the greatest market for counterfeits luxury goods, and Gucci, as one of the most counterfeited brands in the world, forced to start different legal actions to mitigate counterfeits threats for its image, sales, and profit. Not only cooperation between brands and online platforms (Alibaba, Meta...) but also implementation of new advanced technologies, such as blockchain and NFTs<sup>93</sup>, revealed to be effective in improving control strategy efficiency. Gucci journey into NFTs has recently started in February 2022 with SuperGucci NFT collection in collaboration with Superplastic, and continued in March 2023, when Gucci has announced its collaboration with Yuga Labs<sup>94</sup>. The collaboration between luxury and technology (blockchain and NFTs) is expected to intensify in the future, configuring as the main system able to prevent counterfeiting, supporting sales<sup>95</sup> thanks to lower digital costs involved. Gucci is a driver in sustainability journey reducing environmental impact, promoting sustainable practices and programs involving all production stages. It is one of the first brands not to use animal fur in its creations, and to base its strategy on circular economy perspectives. Gucci has also made concrete its commitment to sustainable evolution through the Gucci Equilibrium<sup>96</sup> and EP&L annual release. The Italian House started *Gucci-up* project in 2018 aiming at giving a new value to resources considered as “waste” at the end of processes, by recycling them or donating to no-profit organizations. The path toward sustainable transformation also involved physical stores, for which Gucci also received LEED<sup>97</sup> certification in 2009, classified as an example of sustainable company . In 2020, 93% of Gucci stores energy consumption came from renewable energy, and 41 Gucci stores across countries are 100% eco-friendly.

### **3.5 New Creative Director: between excitement and uncertainty**

After announcing Alessandro Michele's farewell on November 23, Gucci announced the appointment of Sabato De Sarno as new creative director with a previous experience in Prada, Dolce & Gabbana, and Valentino. He will debut his first collection for Gucci in September 2023 at Milan Women's Fashion Week with positive expectations by analysts. Indeed, following the news, Kering stock price rose, showing a market tenuous confidence. Comments over the news are positive not only due to the

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<sup>93</sup> NFTs are no-duplicable cryptocurrencies that using blockchain technology allow to guarantee product authenticity and ownership.

<sup>94</sup> “*Creators of the famous NFT Bored Ape Yacht Club collections and currently owners of CryptoPunks and Meebits.*” (Dung, T, 2023)

<sup>95</sup> Is expected a 10% increase in brands' revenue and a 25% improvement in brands' profit by 2030 , thanks to metaverse and NFTs technology implementation (Ledger Insight, 2022)

<sup>96</sup> A portal opened in 2018 and created to witness and explain the brand's sustainability choices, programs, and goals

<sup>97</sup> In 2022 around 110 Gucci's stores have been awarded with LEED (Leadership In Energy And Environmental Design) certification, but the brand aims to extend such prize to all its 380 directly managed stores by 2025.

previous success achieved by Gucci following Michele's arrival as the new creative director, but also because of consumers' tiredness around Gucci's product pointed by Bernstein<sup>98</sup> analysts. Indeed, the entire fashion system spins unsustainably fast, shortening the eras that mark the different life stages of a single brand and its creative director. Consumer's needs keep changing and continuously evolve becoming more pretentious and difficult to meet. Indeed, the time to understand, interiorize and satisfy new expectations decreases and it becomes difficult for creative directors to express their vision and creativity in a calm and refined way. Covid-19 accelerated the transition and change, raising the pace of both consumption and brand responsiveness. Alessandro Michele transformed and changed the brand, giving at the time the needed boost to revamp the brand, that naturally reached its saturation point over time. He can be qualified as a monothematic designer, who endlessly revises, reworks, and investigates the same idea. Nowadays, world now runs fast, and consumers are increasingly demanding, and those who first enthusiastically embraced Michele's creations, i.e the Chinese, are also the first (maybe) to desire and seek something new. Therefore, the necessity of constant change leads to the need to close a brilliant era to begin a new one, under the banner of excitement and uncertainty.

## CONCLUSION

China, despite the first country to suffer from Covid-19, it still qualifies as the most relevant geographical market for luxury brands. However, strict lockdowns, import tariffs decrease, price harmonization strategies and stronger regulation boosted the repatriation of luxury sales to China. Before pandemic, most of Chinese luxury purchases took place abroad due to many factors such as lower price, better experience, more authenticity ... but travel ban, and other physical limitations forced Chinese to shift toward domestic shopping. Chinese luxury sales repatriation significantly impacted most of luxury brands balance, forcing them to redefine their strategies in the Asian country, enforcing physical presence (opening new stores, implementing new technologies...), and consolidating their networks with local partners and social media. However, Covid-19 crisis mitigation with the opening of borders between countries, determined a slow travel resume with a consequent return of overseas purchases by the Chinese, leading analysts to expect a balance (50-50) between abroad and domestic Chinese personal luxury good sales. In 2022, for the first time since 1961, Chinese population decreased in 2022 with a decrease equal to 850 million people compared to previous year<sup>99</sup>, leading ONU to expect India to become the most populated country in 2023 surpassing China. Consequently, experts conducted some studies about India, as the potential new

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<sup>98</sup> Alliance Bernstein LP, one of the largest independent investment managers that provides investment management and research services worldwide.

<sup>99</sup> According to official authorities of Beijing

relevant market for luxury brands (“substituting China). However, studies have revealed that India won’t never be an “another China”, since cultural, social, political, and economic grounds are totally different, and brands must define tailored strategies and actions that are founded on Indian market deep knowledge. Actually, understanding and rapidly reacting to a world that constantly changes is a key aspect to impose a survive within luxury market.

In fact, Gucci is a perfect example of a successful international brand able to penetrate the Chinese market, attract consumers’ attention, and mitigate losses generated by forced lockdown and Covid-19 anxiety. It relies on a proper investigation and understanding of local specificities before taking in place its marketing strategies, sustainable and inclusive initiatives. Additionally, trends accelerated by the pandemic permanently changed the industry, which is now experiencing the advent of a new, young, and increasingly pretentious consumers generation whose expectations are also forcing brands to accelerate toward digital transformation. Indeed, it shared the idea that luxury industry dynamics speeded up since consumers’ demand evolves fast: in particular, luxury buyers constantly look for something that is innovative, getting tired faster compared to the past. This situation requires a prompt and rapid response by brands that sometimes involves needed changes also at the top; and an example is the farewell of Alessandro Michele after "only" 7 years at the creative helm of Gucci, announced in November 2022. Although Gucci has suffered a major backlash because of the pandemic, mainly due to declining sales in China which is its main target market, analysts are confident about the department of Alessandro Michele. The choice made by Kering group to go for an unknown designer, as it already did with Michele 7 years before, could reveal a nice move. Indeed, the change of pace for Gucci is what the conglomerate is looking for, and De Sarno is expected to start a new chapter to revitalize brand’s aesthetic and set new trends for luxury and fashion industry more in line with actual needs. However, the change in creative director position, will not necessarily generate immediate changes, indeed according to some experts, it will take more time to De Sarno to define his mark on the brand. Therefore, excitement for the news faces with doubts and uncertainty that only time can solve. What is clear is that Gucci has a long experience, and strong basis to begin a new stage of its history, and the brand’s experience shows its solidity, capable of tackling new beginnings and dictating new paths toward success.

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