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International Digital Marketing in China

Regional Characteristics and Global Challenges

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ISBN 978-3-030-38159-2 ISBN 978-3-030-38160-8 (eBook)
<https://doi.org/10.1007/978-3-030-38160-8>

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To my Grandparents

Preface

Over the last decade, China has emerged as the first digital market in the world. It is the country with the largest Internet user base and globally, it ranks first in e-commerce sales ahead of the United States. Among the different industries, most sales are generated in the fashion segment, which amounted to US\$303,842 million in 2019. Notwithstanding the growing opportunities for international firms from fashion and other sectors, China represents a complex market due to the specific characteristics of its culture and business environment. It also presents a unique digital landscape dominated by local firms and their platforms.

The relevance and specificity of the Chinese market motivates this book, which examines key issues in international digital marketing in China from a theoretical and empirical perspective. This book will be a useful read for undergraduate and graduate students with an interest in international marketing, digital marketing, retailing, and the fashion industry. It will be also a valuable resource for scholars researching international marketing and cross-cultural marketing as it provides insights into omni-channel retailing strategies of fashion firms in China, as well as Chinese consumers' adoption of mobile commerce. Professionals, in

particular from the fashion industry but not limited to, will also find it worth reading because the book investigates topics critical to understanding the dynamics of the Chinese market.

The book is divided into two main parts combining theory with practice. The first part (Chapters 1–3) provides an analysis of China’s cultural characteristics and business environment, with a particular emphasis on the Chinese digital context. In the second part (Chapters 4–6), the book presents two original empirical studies from the fashion sector.

Chapter 1 examines China’s main environmental factors, focusing on its cultural dimensions, internal heterogeneity, and fragmented distribution system. The city-tier classification is explained analyzing its origins and latest update. The recent technological innovation driven by Chinese firms from the digital sector is also considered.

Chapter 2 delves into the Chinese digital market by analyzing the characteristics of the Internet population and the most used online and mobile services. A review of the literature on the cultural influence on online communications in China is provided, considering the design of digital contents and the consumer online purchase process.

Chapter 3 illustrates the main Chinese digital platforms, including leading players such as Alibaba, Tencent, and Baidu, but also new entrants like ByteDance, the developer of TikTok. A particular attention is devoted to e-commerce as online shopping represents a primary activity for Chinese users, and to mobile payments, which are also affecting how people complete transactions offline.

Chapter 4 introduces the second part of the book. It presents a real-world case study on Florentia Village, a luxury retail firm that operates in China and is managed by RDM Asia. Florentia Village represents a successful foreign retailer implementing an omni-channel strategy in the highly digitalized Chinese market. Findings also discuss how the firm addresses Chinese consumers’ heterogeneity and implements activities to increase brand awareness and drive loyalty.

Chapter 5 discusses the results from a questionnaire on Chinese mobile shoppers concerning drivers and effects of the m-commerce experience in fashion products. Results suggest that in China, online shopping is highly experiential as enjoyment strongly mediates the effect of utilitarian factors on satisfaction.

Drawing from the previous analyses, the final chapter (Chapter 6) provides a conceptual framework on the mobile customer journey in China. It also discusses the theoretical and managerial implications for international firms operating in China, identifying some areas for future research.

This book was made possible with the support of several individuals. My first gratitude goes to the people that contributed to the data collection: key informants and respondents of the questionnaire, and those who helped me organize the company visits and the survey diffusion. I thank the interviewed practitioners from Florentia Village, in particular Claudio Grillenzoni, who shared their experiences and provided interesting perspectives on the Chinese market. Special thanks go to Lamberto Zollo for supporting the SEM analysis, and to the reviewers who provided useful comments on the initial book project. Finally, I thank all the colleagues, practitioners, and students with whom I have discussed the preliminary findings of this book throughout the past few years.

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1

China's Marketing Macro Environment: Cultural Characteristics and Regional Heterogeneity

Abstract This chapter analyzes China's main environmental characteristics that affect foreign firms' international marketing strategies in this market. Scholars have identified factors that are shared with other emerging markets (such as institutional voids), but also specific ones, including China's internal heterogeneity and a fragmented distribution system. The latter has been long considered one of the most critical factors for business success in the Chinese market. A more recent characteristic is represented by the technological innovation driven by Chinese firms from the digital sector. As Chinese firms have leapfrogged to the technologically mature phase of the web by surpassing foreign rivals from more traditional markets, China has also become a setting for reverse innovation, which pose opportunities but also challenges for foreign firms to reach their target and grow in this market.

Keywords China · Culture · Distribution · Institutional voids · Reverse innovation

The Characteristics of China's Macro Environment

In the late 1990s, marketing scholars increased their interest on emerging markets as a setting for international firms that require them to rethink their marketing strategies (Arnold and Quelch 1998; Batra 1997; Prahalad and Lieberthal 1998). Emerging economies represent low-income, rapid-growth countries that use economic liberalization as their primary engine of growth (Hoskisson et al. 2000). In such contexts, existing perspectives and practices that used to work in traditional markets turn to be unfit due to emerging markets' specific characteristics (Dawar and Chattopadhyay 2002; Sheth 2011). At the same time, emerging markets are considered an opportunity to advance marketing theory and practice (Burgess and Steenkamp 2006), for example as test beds for product innovation (Arnold and Quelch 1998).

In emerging markets, main barriers that might limit foreign firms' international activities are represented by factors of the macro environment, which are beyond firms' control (Tesfom and Lutz 2006). The marketing macro environment include socio-cultural, economic, political, and technological forces that impact the activities in the micro environment, which comprises customers, suppliers, regulatory agents, and intermediaries instead (Achrol et al. 1983). The macro environmental characteristics of emerging markets might constitute barriers for international firms as they are very dissimilar from the ones in the home market and Western countries in general.

Traditionally, China has been included among emerging markets together with the other countries belonging to the BRICS acronym (Brazil, Russia, India, and South Africa), therefore it has been analyzed within this stream of international marketing research since the first studies back in the 1990s. During the same period, the Chinese economy has boomed reaching double-digit GDP growth until 2010.

Emerging markets' main characteristics include "institutional voids," defined by Khanna and Palepu (2000) as the lack of institutions that are necessary to support business operations. In these countries, the implementation of globalization strategies is inhibited by missing reliable information on the market, an inefficient system of intermediaries, and

unpredictable government actions (Khanna et al. 2005). In China, institutional export barriers are divided into two categories: formal barriers (related to government policy and legislation) and informal barriers (Li and Liu 2018), which depend on *guanxi* (see the following paragraph).

In addition to emerging economies' institutional context, Sheth (2011) has identified characteristics connected to market heterogeneity, shortage of resources, unbranded competition, and inadequate infrastructure. Regarding market heterogeneity, it is considered at demand- and supply-levels: on the demand side, it is mainly driven by consumer diversity in income, whereas on the demand side it results in a large variety in offerings. This characteristic is even more accentuated in the Chinese market as it presents a high cultural diversity and different economic conditions within its territory, which are analyzed in the following paragraphs.

Cultural Characteristics

The Chinese society, like other Asian countries such as Japan and Korea, is strongly influenced by Confucianism, which stresses scholarship, hard work, thrift, and perseverance following the teachings of Confucius (551–478 BC) (Yeung and Tung 1996). While Taoism and Buddhism are marginalized doctrines nowadays, Confucianism is considered as the most representative culture value in China, which affects people's social lives and their consumer behaviors (Jiang and Shan 2018).

Confucian values are also reflected in Hofstede's (1980) cultural dimensions' model, originally developed based upon employees of IBM and found by subsequent research to well represent broad differences in national culture (Smith et al. 2013). Hofstede (1980) identified five universal dimensions of culture: power distance, individualism vs. collectivism, masculinity vs. femininity, uncertainty avoidance, and long-term vs. short-term orientation. Later, Minkov (2007) added another dimension, indulgence vs. restraint, which has been integrated in the original model, resulting sixth-dimensional now.

According to Hofstede's model (Fig. 1.1) (Hofstede et al. 2010; Minkov and Hofstede 2011), China is characterized by (in brackets China's score for each dimension, in a scale ranging 0–100):

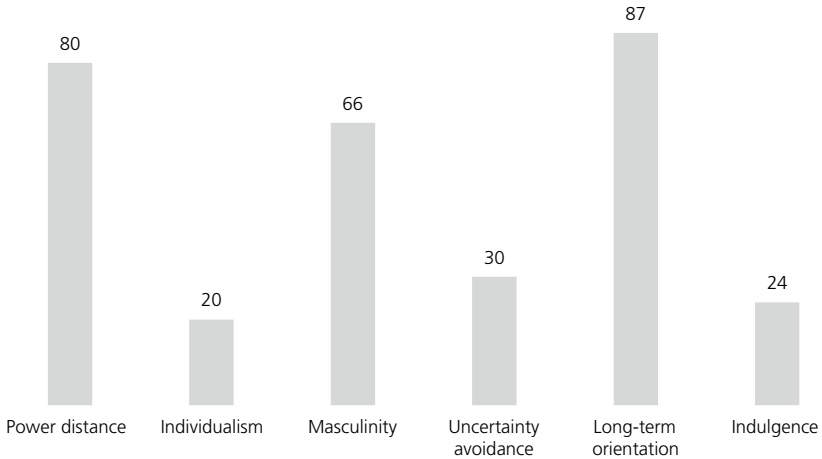


Fig. 1.1 China's scores on Hofstede's cultural dimensions (Source Hofstede et al. [2010])

- A high level of power distance (80), given by a pervasive centralized authority and hierarchical structures;
- A low degree of individualism (20), therefore China is a collectivist country, where group decisions usually prevail over individual's ones, contrarily to Western countries that are more individualistic;
- A medium-high level of masculinity (66). Usually, in masculine societies there is a higher emotional and social role differentiation between genders;
- A low rating on uncertainty avoidance (30), suggesting a low level of stress or anxiety in unstructured or unknown situations;
- A long-term orientation (87), as Chinese people concentrate their efforts more on the future rather than the present and the past;
- A low rating on indulgence (24), therefore there are more restrictions on the enjoyment of life and fun.

A major characteristic of the Chinese business culture impacted by Confucianism and China's cultural dimensions is *guanxi*, a Chinese word

that literally means “relationship” or “personal connection.” *Guanxi* concern the establishment and management of social networks that can facilitate business activities in China (Arias 1998). Several studies have found that *guanxi* are a significant factor that influences the behavior of firms in Chinese marketing channels resulting in positive business performance (Lee et al. 2001; Zhuang et al. 2010).

Even if some scholars have argued that factors including market liberalization, institutional mechanism, outward investment, “*guanxi* learning” of foreign companies, and online intermediaries (Gu et al. 2008; Wilson and Brennan 2010) might reduce the importance of *guanxi* when doing business in China, recent studies suggest that one major advantage of the cooperation between international firms and their Chinese partners is still represented by the access to *guanxi* not available otherwise (Hu 2018; Towers and Xu 2016).

In addition to the country's cultural characteristics as a whole, China's internal differences should be also taken into consideration. The 1.4 billion population includes 56 ethnic groups, with the Han group accounting for 91.51% of total Chinese people.¹ Moreover, main differences are related to language, religion, and geographical location. The latter depends on the vastitude of the Chinese territory and also the strong disparity between urban and rural areas—in terms of economic development and consumer habits at the same time.

Regional Heterogeneity

The “Chinese market”² is referred to Mainland China, which is composed of 22 provinces, five autonomous regions (Guangxi, Inner Mongolia, Ningxia, Xinjiang, and Tibet), and four municipalities (Beijing, Shanghai, Tianjin, and Chongqing).

¹World Population Review. (2019, October 22). *China Population*. Retrieved October 16, 2019, from <http://worldpopulationreview.com/countries/china-population/>.

²The term “Greater China” refers to the market that includes: Mainland China, two Chinese special administrative regions (Hong Kong and Macau), and Taiwan.

Several scholars believe that China cannot be considered as a homogeneous market as in addition to differences in natural endowments, there are major disparities in economic performance, infrastructure, and standard of living among different Chinese areas (Walters and Samiee 2003). Since 1978, the Open Door Policy implemented by Deng Xiaoping has favored the development of the eastern coastal areas of the country over the rural and western regions. Coastal areas were the first to attract outside investment and have primarily benefited from economic reforms. Therefore, Cui and Liu (2000) have identified seven regional markets (South, East, North, Central, Southwest, Northwest, and Northeast), with the South and East representing China's "growth markets" that most attract foreign investment.

The economic disparity between rural and urban regions in China is also noticeable, resulting in differences in terms of consumer attitude and behavior (Sun and Wu 2004). In large cities, consumers' product choices match those from the most developed economies, whereas rural consumers are less exposed to marketing activities (Piron 2006). As of 1980, less than 20% of China's population lived in cities compared to more than half of all Chinese (58.50%) living in urban areas in 2018; by 2030, the urban population is expected to reach up to 70% (Euromonitor International 2019).

Another common approach to the segmentation of the Chinese market is the city-tier system (Wong and Dean 2009). Based on the level of economic development (measured in GDP and per capita income), population size, level of infrastructures and services, Chinese cities are classified into tier groups: first-, second-, and third-tier cities, followed by fourth- and fifth-tier cities, which are located in more rural areas. The first-tier group includes megacities such as Beijing, Shanghai, Shenzhen, and Guangzhou (knowns as "the big 4"); second-tier cities mainly include provincial capitals (for example, Tianjin, Nanjing, Hangzhou, etc.), while third-tier cities (together with lower tier cities) are characterized by a major underdevelopment of the economy and infrastructures but could offer great potential for future growth (Chaney and Gamble 2008).

It should be noted that, despite the city-tier classification is commonly used by media and firms when developing their strategy (in particular, it

affects distribution decisions, as explained in the following paragraph), it is not developed by the Chinese government. Indeed, there can be more than one categorization (with first-tier cities usually remaining the above mentioned “big four”) and the classification is subject to change over time. For example, the latest classification published in 2019 by the news service Yicai Global presents: four Tier-1 cities, 15 emerging Tier-1 cities (including cities previously classified as Tier-2 cities such as Chengdu, Hangzhou, Chongqing, Nanjing, Tianjin, Suzhou), 30 Tier-2 cities (for example Xiamen, Fuzhou, Wuxi, Hefei, Kunming, Harbin, Jinan, Foshan, Changchun, and Wenzhou), 70 Tier-3 cities, 90 Tier-4 cities, and 128 Tier-5 cities (*Yicai* 2019, May 24).

Regardless of the periodical updates, the main idea behind the city-tier classification that remains unvaried can be summarized in a pyramid-form (Fig. 1.2):

- At the top, there are first-tier cities, which are the most advanced and only a few by number. Population size is around 20–30 million people and they have a GDP over US\$300 billion;
- Second-tier cities include province capitals and cities with an increasing development pace, which are usually located in the eastern coastal areas. They outnumber first-tier cities, but they are fewer than third- and fourth-tier cities. Population size is around 10 million people, while their GDP is of US\$68–299 billion;
- Third-tier cities include province capitals in more inner areas, with a population size around one-three million people. They have a GDP of US\$18–67 billion;
- Fourth- and fifth-tier cities are at the bottom of the pyramid, with a wider base (therefore, more cities are included in these groups). They are spread around the Chinese territory and have a population smaller than one million people. In these cities, GDP is lower than US\$18 billion.

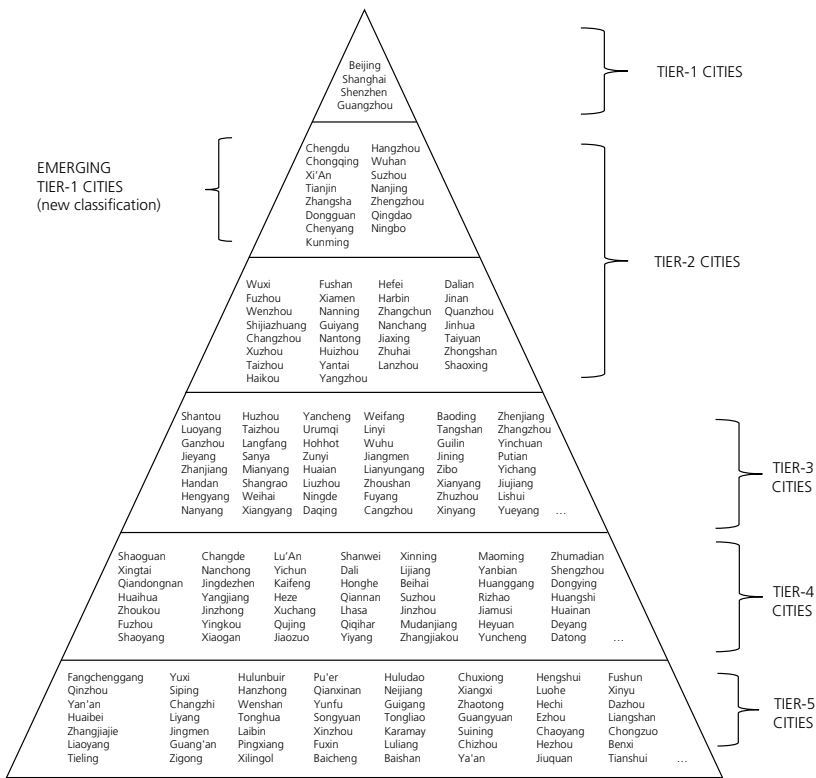


Fig. 1.2 China's city-tier classification (Source Developed by the Author based on *Yicai's* [2019, May 24] classification)

The three-tier system played a major role before the Open Door Policy implementation, but it still influences the Chinese distribution sector nowadays (Flynn et al. 2007; Hu 2018; Jiang and Prater 2002).

A Fragmented Distribution System

Distribution represents a key variable of the marketing mix, which can support firms' expansion at domestic level, but also market entry in international markets. Indeed, the establishment of reliable and aggressive marketing distribution channels is one of the most crucial challenges

for international firms that seek to enter foreign markets (Luk and Li 1997). As a consequence, one main research stream developed by International Marketing Management literature concerns distribution channels in international markets (Li and Cavusgil 1995).

Usually, firms adopt integrated distribution channels when they expand into markets that are highly industrialized, for example by relying on their own salesforce, whereas they tend to rely on independent intermediaries in more culturally dissimilar markets (Anderson and Coughlan 1987). In the case of China, local distributors play a key role in foreign firms' distribution activities as they usually have access to *guanxi* (i.e., networks that include local authorities, retailers, etc.) necessary to establish the distribution network.

Given the fragmentation and complexity of the Chinese system, distribution is considered to be a main factor affecting business success for both local and foreign firms (Jiang and Prater 2002). Two main historical events have impacted the Chinese distribution structure: the economic reform in 1978 and China's accession to World Trade Organization (hereafter, WTO) in 2001.

Before the Open Door Policy implementation, the production and distribution of commodities were centrally planned and most marketing channels at that time were state-owned (Yi and Jaffe 2007). After the economic reform, the distribution system has evolved into a more efficient and market-oriented one (Chow and Tsang 1994), although it is still influenced by the centrally planned, three-tier system (Jiang and Prater 2002). Following a top-down approach, the system has multiple layers with distributors and wholesalers operating only in one specific territory (Luk 1998), for example certain distributors and wholesalers are in charge of Tier-1 areas, different intermediaries are involved in Tier-2, and so on.

The other main structural transformation followed China's entry to WTO in December 2001. As a result, the Chinese distribution sector has been subject to several changes. First, distribution channels have been shortened. Second, foreign competition has increased due to the establishment of international distribution networks, which have also led domestic firms to improve service quality (Agarwal and Wu 2004).

Foreign retailers that have increased their presence in the Chinese market after the WTO admission are divided by Wang (2009) into three groups:

- Western retailers, including both North American and European retailers, which possess more capital resources than other retail groups. They adopted hypermarket and supermarket formats (for example Walmart, Carrefour, Metro, and Auchan), or specialized in furniture and home improvement products (like Ikea and B&Q);
- Japanese retailers, which were among the earliest foreign entrants. They entered the Chinese market in 1992 but experienced a slower expansion. Their formats are conventional ranging from the department store (Yaohan, Jusco, Ito Yokado, Isetan, and SOGO) to the supermarket (Daiei) and the CVS format (Lawson). They primarily target wealthy families; and
- Those from Southeast Asia, which are all hypermarkets: Trust-Mart, RT-Mart, Hymart-Hymall, Lotus, and E-Mart. As compared to the other groups, after entering the Chinese market they relinquished part of their business to Western retailers.

Among European retailers, there are no Italian firms. This represents a main weakness for Italian brands' internationalization, which has been hindered by the lack of Italian groups that could favor the foreign market penetration—in China and, in general, internationally.

China as Innovation Leader

A more recent characteristic of the Chinese market is represented by its innovation capacity. Thanks to major investments in research, education, and infrastructure, along with policy reforms, China is challenging the innovation leadership of Silicon Valley and Western countries (Steiber 2018).

In 2018, China's total R&D expenditures reached 1968 billion yuan (about US\$278 billion), an increase of 11.8% over the previous year. As compared to GDP, China's R&D expenditure was 2.19%.³

In the International Business literature, research interest over China has increased over the past decades as it has become the setting for reverse innovation (Govindarajan and Ramamurti 2011), a recent phenomenon according to which emerging markets are source of innovation for developed countries and their firms. Indeed, Chinese firms have leapfrogged to technological advances surpassing foreign rivals from more traditional markets (Checchinato et al. 2017). Examples can be found in the white goods sector (for example, the Haier case study has been analyzed by Liu and Li 2002) and, more recently, in the digital sector, where the new 5G infrastructure is dominated by Chinese firms Huawei and ZTE, followed by European firms Nokia and Ericsson, and Samsung from South Korea. The catch-up of Chinese firms in the mobile communications industry has been recently explained as the result of the combination between market and technological regimes (Li et al. 2019). Regarding the market force, in China segmented markets (made of urban and rural markets) provided domestic firms with a nurturing environment that allowed them to catch-up with foreign multinational enterprises (MNEs) in the core urban market. Moreover, the generational technological change in telecommunications (for example, from 2G to 3G and 4G) has opened opportunities for domestic firms to reduce their gap with foreign MNEs.

Recently, the innovation technologies introduced by Chinese including online payment systems or face scanning systems are being imitated by Western competitors (Lin 2017, June 9), even Silicon Valley giants. For instance, Facebook has planned to launch several features on its controlled platforms (like WhatsApp mobile currency) taking the Chinese app WeChat as reference (*The Economist* 2019, April 30).

On the one hand, these innovations pose opportunities for foreign firms as digital channels represent increasing touchpoints to communicate with their target in China. However, from an international

³National Bureau of Statistics of China. (2019, August 31). *Communiqué on national expenditures on science and technology in 2018*. Retrieved October 20, 2019, from http://www.stats.gov.cn/english/PressRelease/201909/t20190902_1695121.html.

marketing perspective they also create challenges due to their specificity, which is analyzed in Chapters 2 and 3.

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2

The Characteristics of the Chinese Digital Market

Abstract China is the country with the highest number of Internet users and also the largest e-commerce market in the world. The relevance of the Chinese digital sector is given by the opportunities but also the challenges for foreign firms that want to approach this market. As Western platforms are blocked, the Chinese Internet sector is dominated by local firms (for example, Tencent and Alibaba), which are characterized by different consumer interactions and features. Moreover, a main role is played by the national culture, which influences firms' online communications strategy and consumer behavior. Chinese users strongly rely on e-WOM information and share their experiences on social media platforms. Culture also has an impact on the Chinese distribution system as while the Internet has helped to overcome some shortcomings of the Chinese distribution system particularly in rural areas, *guanxi* still facilitate the availability of products.

Keywords China · Culture · Digital · Website design

The Chinese Digital Scenario

China is the country with the highest number of Internet users and also the largest e-commerce market in the world. As of January 2020, online revenues in China were US\$1002 billion, more than twice the size of e-commerce in the United States, which reached US\$420 billion (Statista 2020).

Since 1997, the China Internet Network Information Center (CNNIC) has periodically released reports concerning the status of Internet development in China, including information on Internet users' characteristics, infrastructures, and most used online services.

As of June 2019, China had 854 million Internet users (an increase of 25 million users compared to December 2018), accounting for 61.2% of the total population (CNNIC 2019). Mobile users represent 99.18% of total Internet users (847 million users), resulting in an increase of 30 million users from the previous report (Fig. 2.1).

Most users live in urban areas (73.7% of total users, up 0.4% from December 2018) and almost half of them (48.3%) belong to the 20–39 age group. 52.4% of Internet users are male, while female users account for 47.6%. Students represent the largest group of Internet users (26% of total Internet users), followed by self-employed businessmen/freelancers (20%). Based on their monthly income, the largest group (20.8% of total Internet users) earns 3001–5000 yuan per month, followed by users earning 5001–8000 yuan per month (14.1%).

The most popular services among Chinese netizens are instant messaging, used by nearly 825 million users (96.5% of total Internet users), search engines, and online news, both overall and at mobile level (Tables 2.1 and 2.2).

The online service that experienced the highest growth in 2019 is online education, which increased by 15.5% compared to December 2018 reaching 232 million users (27.2% of total Chinese users). Internet wealth management services follow with a 12.1% growth.

Regarding online shopping, there are 639 million people using the Internet to purchase products (with an increase of 28.71 million users from December 2018) accounting for 74.8% of all Chinese netizens.

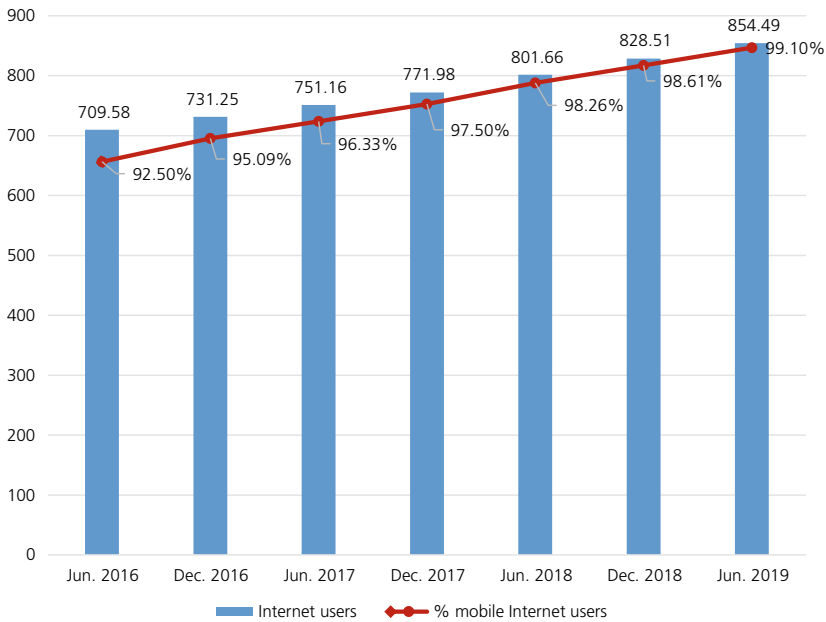


Fig. 2.1 China's mobile Internet users (in millions) as of June 2019 (Source Revised by the Author based on CNNIC [2019])

The number of mobile shoppers is 622 million, increasing by almost 30 million users from the previous report.

Mobile payments, used by 621 million Chinese netizens, experienced the highest growth among mobile services (6.5%), followed by mobile literature (6.2%) and mobile music (5.8%).

Therefore, Internet and mobile shopping represent a key activity for Chinese netizens. In 2018, online sales reached about US\$1.33 trillion, an increase of 23.90% compared with 2017 (National Bureau of Statistics of China 2019, January 21).

Online retailing poses opportunities for international firms to sell their products in China through digital channels, but also challenges as the Chinese Internet sector is dominated by domestic firms (for example, Tencent and Alibaba), which are characterized by different consumer interactions and features, while Western platforms are blocked.

Table 2.1 Most used Internet services in China as of June 2019

Services	Number of Internet users (millions)	Utilization ratio of Internet users (%)	Growth rate from December 2018 (%)
Instant messaging	824.70	96.5	4.2
Search engine	694.70	81.3	2.0
Online news	685.87	80.3	1.7
Online video (including short video)	758.77	88.8	4.7
Online shopping	638.82	74.8	4.7
Online payment	633.05	74.1	5.4
Online music	607.89	71.1	5.6
Online games	493.56	57.8	2.0
Online literature	454.54	53.2	5.2
Online travel booking	418.15	48.9	2.0
Online meal ordering	421.18	49.3	3.7
Live streaming	433.22	50.7	9.2
Online limousines/fast ride booking	339.15	39.7	1.9
Online car-hailing services	336.58	39.4	2.0
Online education	232.46	27.2	15.5
Internet wealth management	169.72	19.9	12.1
Short video	647.64	75.8	-0.1

Source Revised by the Author based on CNNIC (2019)

Moreover, a main role is played by the national culture, which influences, on the one hand, firms' online communications strategy, and on the other hand, consumer perception of websites and other digital content.

Table 2.2 Most used mobile Internet services in China as of June 2019

Services	Number of Internet users (millions)	Utilization ratio of Internet users (%)	Growth rate from December 2018 (%)
Mobile instant messaging	820.69	96.9	5.2
Mobile search engine	662.02	78.2	1.2
Mobile news	660.20	78.0	1.1
Mobile shopping	621.81	73.4	5.1
Mobile payment	621.27	73.4	6.5
Mobile music	584.97	69.1	5.8
Mobile games	467.56	55.2	1.9
Mobile literature	435.44	51.4	6.2
Mobile meal ordering	417.44	49.3	5.1
Mobile learning courses	199.46	23.6	2.7

Source Revised by the Author based on CNNIC (2019)

Standardization-Adaptation in the Chinese Internet

A main decision when firms approach foreign markets concerns the level of standardization that the marketing strategy will apply to the local market. Standardization should be pursued by multinational enterprises (MNEs) (Levitt 1983) as it permits to gain economies of scale in production, promotion, and distribution (Baalbaki and Malhotra 1995; Jain 1989). Moreover, a standardized strategy enables a consistent and uniform marketing offering in different countries (Quelch and Hoff 1986) and the creation of global brands that contribute to deliver firm value (Steenkamp 2014). For example, Apple's strategy is mostly standardized across the countries where it sells its electronic products, on a strategic and operational level: new products are launched globally around the same time and no adaptation is implemented, maintaining a consistent brand image across the world.

However, standardization may be difficult to implement if there is a low level of similarity between the home and host countries (Chung 2003), therefore in these cases local adaptation is required. Factors related

to the environmental characteristics of the host country, consumers, and products determine the ultimate degree of standardization versus adaptation, which usually falls between the two extremes, while total standardization is desirable yet unlikely (Ozsomer et al. 1991; Simmonds 1985). One product that has been adapted to meet local customers' needs in China is Oreo. In 1996, Kraft entered the Chinese market selling its popular product Oreo biscuit; the initial strategy replicated the one implemented in the United States. However, after ten-year operations, sluggish sales pushed Kraft to change strategy. In 2005, following a consumer research that revealed that the original biscuits were considered too sweet for Chinese consumers' taste, new flavors and formats¹ were introduced boosting sales from US\$20 million in 2005 to more than US\$400 million in 2012 (Reddy and Sproule 2013, June 3).

In the context of the Chinese Internet, main factors involved in the standardization-localization dilemma are represented by institutional and cultural factors, including the different language system. As far as institutional elements are concerned, the government's control is exerted through the so-called "Great Firewall," which prevents Internet users in Mainland China from connecting to certain websites (Yang and Liu 2014), such as Google, Facebook, YouTube, and Twitter.

However, the censorship of Western Internet players is not the only reason behind the differences encountered in the Chinese digital environment. As an example, e-commerce platforms from the United States like Amazon and eBay are not blocked, nevertheless they have not managed to penetrate the Chinese market (see Chapter 3). Indeed, the national culture strongly influences firms' online communications and consumer purchase process.

¹New products included a less sweet biscuit version and fruity flavors such as green tea, a popular flavor in China and East Asian countries. Regarding formats, Oreo wafers and sticks were launched in addition to the classic black-and-white-layered round biscuit. Moreover, the size of the packet was reduced allowing for lower prices.

The Cultural Influence on Website Design in China

Like in any country, also in China the national culture affects how firms convey their brands, products and services on communications channels, from traditional media like TV to digital media. Among digital communications, several studies have analyzed website adaptation, finding a relationship between cultural adaptation and website effectiveness (Baack and Singh 2007; Luna et al. 2002). Again, Hofstede's (1980) cultural dimensions theory is the most widely used model to analyze web design. However, some scholars have recently showed that the culture's influence on web communications is better explained not by using a cultural model alone, but rather by integrating Hofstede's (1980) framework with other models, such as Hall's (1989) framework (Capece and Di Pillo 2019) and Schwartz's (1994) framework (Baack and Singh 2007).

Hall's (1989) framework fits the analysis on website communications as he distinguishes high and low context cultures. In low context cultures, the message is communicated almost entirely by words, therefore it needs to be explicit. Conversely, in high context cultures, communication is largely implicit, few words are necessary as the message also depends on context, relationships, and social role of interlocutors. China is an example of high context culture, whereas Western countries are mainly low context. Hall (1989) also considers a further classification based on time, according to which cultures have two different types of relationship with time: monochronic and polychronic. Monochronic time is typical of low context cultures and it characterizes Western and Northern European cultures, which tend to focus on one activity at a time, attaching great importance to the development of plans and their execution. On the contrary, polychronic time is typical of high context cultures, where punctuality is less important, program changes are frequent, and several activities may be carried out at the same time. China is considered a polychronic country as well as Middle Eastern and Latin cultures.

Men and Tsai (2012) have found that since China is a high context culture, companies mainly adopt an implicit and indirect communication style on the web, for example providing photos of celebrity endorsements or group images. The popularity of celebrities such as actors or

singers in Chinese advertising is explained as a consequence of the Chinese collectivist and hierarchical culture (McCartney and Pinto 2014; Hung et al. 2012). Moreover, most images of leaders, national emblems, monumental buildings, and images of persons show men, confirming high indexes of masculinity and power distance in the Chinese culture (Capece and Di Pillo 2019).

In relation to Hall's (1989) high context dimension, Capece and Di Pillo (2019) explain that there is a heavy use of animations, sidebars and menus, and opening of new browser windows for every new page while surfing Chinese websites, whereas in low context countries there are few sidebars and menus, and a constant page opening in the same browser window. Furthermore, 'explorative' navigations are considered as a result of Hofstede's (1980) low value of uncertainty avoidance. Complex user interfaces that require patience are also a reflection of a polychronic culture and a long-term orientation, which is reinforced by the sections dedicated to company histories and vision statements on Chinese websites.

Baack and Singh (2007) have developed a framework to analyze the relationship between cultural adaptation and website effectiveness by combining Hofstede's (1980) and Schwartz's (1994) dimensions. Schwartz's (1994, 1999) model identifies seven types of values, structured along three polar dimensions: Conservatism versus Intellectual and Affective Autonomy, Hierarchy versus Egalitarianism, and Mastery versus Harmony. The first polar dimension concerns the nature of the relation between the individual and the group, so it is related to Hofstede's individualism-collectivism dimension. (1) Conservatism values the importance of group-relations and maintaining the status-quo in a society, whereas its opposite, Autonomy, can take two forms: (2) Intellectual autonomy, which attaches value to the individual's ideas and intellectual directions (curiosity, broadmindedness, creativity); and (3) Affective autonomy, which values positive experience (pleasure, exciting life, varied life). The second polar dimension considers how societies guarantee responsible behavior that will preserve the social fabric and it has similarities with Hofstede's power distance. It juxtaposes (4) Hierarchy, which emphasizes the legitimacy of an unequal distribution of power, roles, and resources, and (5) Egalitarianism, which values voluntary commitment to the promotion of societal welfare. The third polar

dimension concerns the relation of humankind to the natural and social world: (6) Harmony puts focus on the protection of the environment, resulting in a dimension not directly related to Hofstede's framework, whereas (7) Mastery encourages active self-assertion (ambition, success, daring, competence), therefore it is close to masculinity.

Baack and Singh's (2007) study confirms that consumers prefer adapted websites, however some cultural dimensions are found not to be reflected in marketing communications: from Hofstede's (1980) framework, high uncertainty avoidance does not emerge as a factor as websites should be designed in order to avoid any uncertainty. Then two of Schwartz's dimensions, egalitarian commitment and harmony, are unlikely to be conveyed through websites.

While some elements identified in website design are still valid for the design of Chinese social media platforms or brand apps (for example, usage of multimedia or influencers to catch users' attention etc.), future studies on digital content adaptation should focus on the characteristics of platforms other than websites such as social media, short video apps etc. as they are becoming the first communications tool among young users in China and many countries worldwide.

The Cultural Influence on the Online Purchase Process

On the consumer side, at the beginning of e-commerce diffusion in 2000's, main obstacles to developing online shopping in China included a consumer culture that prefers face-to-face transactions (Haley 2002; Samiee 1998). In high context, Confucian-based cultures like China, people prefer to deal with someone who either possesses the knowledge about the product or who is a member of their social network (Yu 2006). Moreover, Chinese consumers prefer to see and feel the products they purchase to have assurance of their quality (Wong et al. 2004).

However, the Chinese e-commerce sector has managed to overcome these weaknesses and massively develop because of two main conditions. First, the development of the technological infrastructure has permitted a fast Internet penetration across the country. Second, Chinese online

platforms are based on business models that reflect several cultural aspects of the traditional offline consumer behavior.

Infrastructure is considered to be a key element in the e-commerce development in China, both from a transport- and information technology-point of view (Yu 2006). On the one hand, the Internet has helped to overcome some shortcomings of the Chinese distribution system making easier for Chinese consumers, particularly living in rural areas, to purchase products and services previously not available. Car ownership is still limited in China: the total vehicle population stood at 240 million as of the end of 2018,² while the number of cars per 100 households in China in 2017 was around 37.5 cars³ as opposed to 90 in the United States in the same year.⁴

Therefore, the Chinese fragmented distribution has favored the emergence of national platforms such as Alibaba that could act as intermediaries between manufacturers and consumers spread all over the different regional areas, meeting their needs otherwise satisfied only by local retailers and shops. On the other hand, relationships (*guanxi*) still facilitate the e-commerce availability of products and maximize reliability of e-commerce order fulfilment (Towers and Xu 2016), so this particular cultural element of the Chinese business scenario still holds.

Recent studies suggest that Chinese users strongly rely on electronic word-of-mouth (hereafter, e-WOM) information and share their experiences because of the social pressure (Besbes et al. 2016; Christodoulides et al. 2012), common in collectivist cultures. Men and Tsai (2012) have found a greater dependence on social networks for

²Statista. (2019, September 23). *Car parc in China from 2007 to 2018 (in millions)*. Retrieved October 29, 2019, from <https://www.statista.com/statistics/285306/number-of-car-owners-in-china/>.

³Statista. (2019, September 23). *Number of cars per 100 households in China in 2017, by region*. Retrieved October 29, 2019, from <https://www.statista.com/statistics/233678/number-of-cars-per-100-households-in-china-by-income/>.

⁴Statista. (2019, September 23). *Number of vehicles per household in the United States from 2001 to 2017*. Retrieved October 29, 2019, from <https://www.statista.com/statistics/551403/number-of-vehicles-per-household-in-the-united-states/>.

information search among Chinese consumers, and less complaints and criticisms in comparison to U.S. consumers. This reflects a cultural emphasis on group harmony. Therefore, to analyze consumer attitude in e-commerce and m-commerce, Hofstede's (1980) cultural dimensions have been also adopted in several cross-cultural studies (see Chapter 5).

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3

Chinese Digital and Mobile Platforms

Abstract This chapter examines the characteristics of the main Chinese digital platforms. Starting with an analysis of the platforms controlled by leading players, i.e., Alibaba, Tencent, and Baidu, the emergence of new entrants including ByteDance, the developer of TikTok, is also considered. A particular focus is devoted to e-commerce as online shopping represents a primary activity for Chinese users, who mostly purchase products through mobile commerce (m-commerce) platforms. Finally, among China's digital ecosystem, mobile payments systems represent a key function both online and offline.

Keywords China · e-commerce · m-commerce · Mobile payments

Chinese Digital Platforms

As discussed in Chapter 2, the Chinese digital landscape is very different from the one in Western countries because of governmental restrictions, but also cultural characteristics at the same time. In China, the Internet is dominated by a few Chinese companies, with the most important ones known with the acronym BAT, which stands for Baidu, Alibaba, and Tencent. Their main areas of operations are the following: Baidu is

China’s main search engine, Alibaba is the first player in the e-commerce sector, while Tencent holds the leadership in social and mobile communication through its application WeChat. However, while these three companies have expanded their businesses with acquisitions and innovations throughout the years, new recent entrants might erode the leadership of local incumbents in China, and also Western platforms internationally. An example is represented by TikTok, developed by ByteDance, which operates in 150 countries in the world as of November 2019, including China, the United States, and Europe. In the following paragraphs, the characteristics of the main Chinese digital platforms are described and discussed from an international marketing point of view. Table 3.1 summarizes key data about Alibaba and Tencent ecosystems.

Table 3.1 Data summary of Alibaba and Tencent

	Alibaba	Tencent
Year of foundation	1999	1999
Founder	Jack Ma	Pony Ma
Headquarter city	Hangzhou	Shenzhen
Main digital platforms	<ul style="list-style-type: none"> – Alibaba (B2B for international buyers) – 1688.com (B2B for Chinese buyers) – Taobao (C2C) – TMall (B2C) – AliExpress (B2C for international buyers) – Koala (imported products) – YouKu (video) 	<ul style="list-style-type: none"> – QQ – WeChat – Tencent Weibo – Tencent Music
Partnering platforms	<ul style="list-style-type: none"> – Sina Weibo – Mei.com 	<ul style="list-style-type: none"> – JD.com – Pinduoduo – Vip.com
Payment systems	Alipay	Tenpay (QQPay and WeChat Pay)

Source Author based on corporate websites and secondary data

Alibaba

Alibaba Group was founded in 1999 in Hangzhou, Zhejiang province, by Ma Yun alias “Jack,” a former English teacher. Initially, the company operated in the business-to-business (B2B) sector with the platform Alibaba.com. A few years later, in 2003, Taobao platform was launched to operate in the consumer-to-consumer (C2C) sector and in 2008, Taobao Mall (later renamed TMall) followed as a platform to sell branded products in the business-to-consumer (B2C) sector. In 2010, Alibaba introduced 1688.com platform to operate in the B2B sector like Alibaba.com, but targeting only Chinese buyers. In September 2014, Alibaba launched its initial public offering (IPO) on Wall Street, raising US\$21.8 billion and representing the largest IPO of all times (Baker et al. 2014, September 19).

At the international level, Alibaba operates through Aliexpress, a marketplace that sells products and services directly from sellers in China to consumers in Europe, Russia, and America. It also operates through Lazada, an e-commerce company acquired in 2016 mainly present in Asia (Wu and Gereffi 2018). At the local level, in 2019 Alibaba acquired Koala, a platform specialized in selling overseas luxury products, previously owned by the Chinese gaming company NetEase (Horwitz 2019, September 6).

In addition to digital platforms, Alibaba has opened some physical stores in China: in 2017 it launched Tao cafés, which are cashless cafés, then in 2018 it opened its grocery stores Hema and a shopping mall in Hangzhou, More Mall.

Among the Alibaba ecosystem, Ant Financial is the financial affiliate that manages Alipay, Alibaba’s digital payment platform, which is analyzed in the last paragraph of this chapter. Regarding other digital platforms belonging to the Group, in 2013 Alibaba acquired an 18% stake in Weibo, the microblogging service owned by the web portal Sina Corporation and in 2015, Alibaba acquired YouKu, a video-sharing website similar to YouTube.

Taobao and TMall

While Taobao is a large digital emporium made of small vendors and is sometimes compared to eBay, TMall sells branded products, so Amazon is often considered the closest corresponding platform from the Western digital scenario. However, if we take a deeper look at Alibaba platforms (and Chinese platforms, in general) they present specific characteristics that cannot be found or are hardly comparable in Western markets. This also helps to explain the reason why eBay and Amazon have failed in China.

Taobao was launched in 2003, a year after eBay's market entry in China. eBay approached the Chinese market by acquiring the Chinese online auction house EachNet. First, in March 2002 it purchased one-third of the company. Then, in July 2003 eBay completed the purchase of the remaining 67% stake for \$150 million (*The Wall Street Journal* 2003, July 16). A similar path was followed by Amazon in 2004 with the acquisition of Yoyo, China's largest online bookseller at that time, for US\$75 million (Hines 2004, August 19).

At the beginning of Chinese operations, eBay launched online and offline advertising campaigns to promote its platform renamed "eBay EachNet." However, its business model, which replicated the one adopted in the United States, was not successful. Unlike Taobao, eBay Eachnet charged its sellers for listing their products and also transaction fees. Moreover, users were simply grouped into "buyers" and "sellers," whereas Taobao's listings were organized into several product categories (*Forbes* 2010, September 12). The fact that eBay wanted to set the prices offered to final consumers is against the Chinese traditional way of negotiating prices. Indeed, influenced by Confucius' parsimony value, Chinese consumers used to bargain prices with vendors at street markets, reaching a final price that could mediate both parties' interests. Despite being digital, a platform that had set fixed prices like eBay did not meet Chinese consumers' needs and habits. On the contrary, since the beginning of its operations Taobao has enabled consumers to chat with vendors and eventually bargain a lower price than the displayed one.

TMall holds a different positioning than Taobao. Alibaba's B2C platform is divided into different sections such as clothing, furniture, automotive etc., where notorious brands display their products. Moreover, on TMall firms can open "flagship stores," which allow them to increase their visibility on the platform and create a more engaging relationship with consumers.

Also limited-edition products are a way to boom sales in a very short time, for example two cases involving Italian brands have recently set sale records on TMall:

- in 2016, 100 Maserati Levante SUVs were sold in 18 seconds;
- in 2017, 350 Alfa Romeo Giulia Milano cars were sold in 33 seconds.¹

Media exposure following sales contribute to increase brand awareness and positive communications effects towards Alibaba platforms.

Singles' Day

Singles' Day is a Chinese holiday celebrated on November 11, which is called "Double 11" (*shuang shiyi* in Chinese language). Before the e-commerce boom, this holiday was celebrated in a less popularized respect among university campuses in China. However, Alibaba capitalized on the holiday's profit potential and turned Singles' Day into a sales jackpot that could serve as a polar opposite of the commercial purpose of Valentine's Day, making single Chinese celebrate their unattached status on November 11 (Singh and Keating 2018).

As a demonstration of Alibaba's emphasis on its ownership on Singles' Day's initiative, it filed for six trademarks related to the term "Double 11" in order to limit competitors' marketing options (*Reuters* 2014, October 30). However, the popularization of Singles' Day has increased so much that it goes beyond Alibaba's platforms, even reaching foreign

¹Bonaventura, S. (2017, March 22). Alfa in Cina, in 33 secondi vendute 350 Giulia con un clic [Alfa in China, 350 Giulia cars sold within 33 seconds with a click]. *Repubblica*. Retrieved October 30, 2019 from https://www.repubblica.it/motori/sezioni/attualita/2017/03/22/news/alfa_romeo_giulia_milano_vendite_record_alibaba_cina-161112142/.

markets like Italy, where some online and offline retailers have started to launch discounts on November 11 over the past few years.

Indeed, on Singles' Day retailers offer large discounts for their products, persuading consumers to buy from the midnight of the previous day until the end of the day.

Started in 2009, this commercial holiday has turned into a massive event for Alibaba, which organizes a gala at its headquarters in Hangzhou broadcasted online and on some TV channels as well. Famous VIPs, both Chinese and foreign ones, are invited to the show where total sales on TMall are displayed on a huge screen, increasing at a fast pace after each product sale. Every year at midnight, a new record is set. In 2019, Alibaba recorded US\$38.4 in gross merchandise volume, growing by 26% from the previous year (*The New York Times* 2019, November 12).

Tencent

Tencent was founded by Ma Huateng nicknamed “Pony” in Shenzhen in 1999. Aside from messaging services (computer-based QQ and mobile phone-based WeChat), Tencent develops several products and services including online games and also operates in the movie and music industry. Its business portfolio is grouped into four main categories²:

1. Communications and Social (WeChat, QQ, and QZone);
2. Digital Content, which include Online Games, Video, Live Streaming, News, Music, and Literature;
3. FinTech Services, the main ones being WeChat Pay and QQ Wallet (grouped altogether under the Tenpay system);
4. Tools, which include services like email, a browsing software, and WeChat mini-programs.

²Tencent. (n.d.). *Connecting ecosystems*. Retrieved January 2, 2020, from <https://www.tencent.com/en-us/business.html>.

In 2014, Tencent acquired a 20% stake in the online retailer JD.com (Smith 2014, March 11), adding on WeChat the feature to buy products on JD.com directly from the app.

In addition to JD.com, other two main e-commerce platforms have recently partnered with Tencent—Pinduoduo and Vip.com (Chang et al. 2019), increasing its overall competitive force against Alibaba.

While Tencent's products per se do not have unique features and functions (such as games, search, shopping, music, etc.), their added value is represented by the fact that these services are integrated within one single tool (first QQ, then WeChat) used by people to communicate online and in a rapid way (Steiber 2018). Moreover, according to Peng (2017), WeChat has enhanced Tencent's digital business governance in China generating profit by becoming popular in users' everyday lives and activities.

QQ and WeChat

In 1999, Tencent launched QQ, a desktop-based instant messaging software with a similar layout of Windows Live Messenger. QQ logo is represented by a penguin with a closed right eye.

QQ contacts are identified through a nine-digit number and before WeChat launch, it was so popular that Chinese people used to include their QQ ID within the business cards' details.

One of the main features of QQ is Social group, which permits multiple users to communicate instantly with all the members belonging to the same group. Groups can be formed based on personal relationships, common interests or by members belonging to the same organizations, e.g. universities or companies (You et al. 2015). Another feature is QZone, a diary platform similar to Facebook where users can upload texts and multimedia content.

Considering QQ's user base between 2010 and 2018, while it has constantly increased between 2010 (no. of QQ monthly active users: 674.6 millions) and 2016 (868.5 million users), in 2017 users have dropped to 786.3 million (−9.46%), before catching up in 2018 reaching 807.1

million users (Statista 2019b). This is due to the parallel growth of Tencent's more recent development, Weixin.

Weixin mobile application was launched in 2011. "Weixin" means "short message" in Chinese and was renamed WeChat for international markets in 2012. Its logo is composed of two green chat bubbles with two dots each, making it resemble WhatsApp instant messaging application. However, messages represent a basic function of Tencent's app. WeChat permits users to send messages and share pictures, videos or links with their contacts through the "WeChat Moments" function, which makes it similar to Facebook. Apart from these initial functions, WeChat has gradually expanded its features, from taxi booking to venue search (for restaurants, hotels etc.), from money transfer among contacts to mobile payments for transactions online and offline at physical stores.

As of the second quarter of 2019, WeChat had 1.33 billion users, who mainly use the app to access WeChat Moments (about 61% of WeChat users), voice and text messaging, group messaging, payment and games (Statista 2019c). Another successful feature is represented by the digital "red envelopes" (*hongbao* in Chinese) or "lucky money," which allow users to send money to their contacts also in the form of lucky draw. Recalling the traditional paper red envelopes, they are usually exchanged on celebrations like the Chinese New Year (Spring Festival) or birthdays. In 2019, the number of red envelopes sent or received on WeChat during the Spring Festival period increased by 7.12% year on year to 823 million.³

Private users can follow WeChat public accounts, which deliver updates directly to users' feed section. They can also create "mini-programs," which are accessible directly and integrated within the WeChat platform. In this way, WeChat shifts from being a messaging social media into a "app-store" social media (Ma 2019), where users are constantly connected to carry out diversified activities.

Since 2017, some Chinese cities have started to test the use of WeChat as digital ID card (Wildau 2017, December 27): by linking the national identity card to the WeChat account, people can use it to check in at hotels or purchase train tickets, get married and even divorce.

³ *China Daily*. (2019, February 11). *Tech giants report more digital 'red envelopes' usage during Lunar New Year*. Retrieved January 2, 2020, from <https://www.chinadaily.com.cn/a/201902/11/WS5c6130dba3106c65c34e8b7a.html>.

Other Platforms

As discussed, the Chinese digital scenario is highly different from the Western one, being characterized by local players and specific tools that sometimes do not have corresponding functions in the West. At the same, it is constantly evolving, therefore attempting a comprehensive analysis is difficult. In the following paragraph, a brief description of the main platforms other than the Alibaba-Tencent duopoly (although as discussed, 18% of Weibo stake belongs to Alibaba Group, while Tencent has partnered with JD.com, Pinduoduo, and Vip.com) is provided.

Baidu

Baidu is China's main search engine, characterized by similar sections to the ones of Google: webpages, news, images, documents and multimedia files, and maps. It also provides an encyclopedia service called "Baidu Baike," which is a collaborative, web-based platform like Wikipedia.

Baidu was founded by Robin Li and Eric Xu in Beijing in 2000, after both of them pursued their graduate studies and had some professional experience in the United States. In 2005, Baidu completed its IPO on NASDAQ under the symbol "BIDU."

In 2010, when Google decided to leave the Chinese market, Baidu's market share was higher than 70% (Liu and Sheperd 2019, October 20). As of 2018, Baidu is still the most used search engine in China holding an 80.09% market share, while competitors Sogou and Qihoo have very limited shares: 6.63 and 3.27%, respectively (Statista 2019d).

In addition to serving individual Internet search users, Baidu provides a platform for businesses to reach customers through three segments: search services, transaction services, and iQiyi (Reuters 2019). iQiyi (formerly known as "Qiyi") is an online video platform founded by Baidu in 2010. With more than 100 million viewers in June 2019 (iQiyi 2019, June 24), its content library includes licensed movies, television series, cartoons, and variety shows.

Weibo

Weibo (which means “small blog” in Chinese) is often called the “Chinese Twitter” as many functions recall the ones of Jack Dorsey’s social network, including the initial 140-character limit (changed into 2000 word-limit in 2016).

It was launched in 2009 by the Chinese media corporation Sina and it is also referred to as Sina Weibo in order to be distinguishable from Tencent Weibo, the microblogging platform launched by Tencent, which is however outperformed by the more popular Sina Weibo. As of 2019 Q2, Sina Weibo had 486 million users, of which 40% belonged to the 23–30 age group (Statista 2019e).

Like Twitter, Weibo accounts can be either private or public, with the latter mainly used by media, companies, or celebrities to interact with their followers. While WeChat targets mainly small groups of consumers, Weibo reaches a higher coverage, therefore it is often used to launch contests involving Chinese influencers called KOLs (key opinion leaders), for example offering give aways or limited-edition products.

ByteDance

The last Chinese digital player considered in this analysis is ByteDance, which owns TikTok, the social media platform that has grown the fastest over the past few years. Moreover, while Chinese platforms are still mainly used by Chinese users despite Alibaba’s and Tencent’s internationalization processes, the popularity of TikTok has reached other Asian countries and Western countries as well.

ByteDance was founded by Zhang Yiming in Beijing in 2012. Zhang graduated in Software Engineering and his first product was Toutiao, a news aggregator based on a tailored feed list of content generated by algorithms. Toutiao and Tencent News lead the news information market in China with a combined market share of over 70%.⁴

⁴China Internet Watch. (2019, May 29). *Toutiao and Tencent News accounted for over 70% of China mobile news apps market*. Retrieved January 3, 2020, from <https://www.chinainternetwatch.com/28908/china-mobile-news-apps-2018/>.

In 2016, ByteDance launched Douyin, a mobile application that enables users to produce and browse short videos 15 seconds in length, adding special effects including music and filters.

In November 2017, ByteDance acquired Musical.ly, a social media platform operating in the United States owned by a start-up based in Shanghai (Lin and Winkler 2017, November 9), later rebranded TikTok. While TikTok is the platform name for international markets, Douyin brand is retained for China.

Douyin and TikTok combined users total 500 million people (Statista 2019a), posing threats to Western platforms and also Chinese incumbents. For instance, Bytedance search functions incorporated in its platforms limit the use of Baidu and consequently, its potential revenues (Liu and Sheperd 2019, October 20).

Other e-Commerce Platforms

JD.com (*Jingdong* in Chinese, formerly called 360buy) is a digital retailer founded in Beijing in 1998. It was initially focused on the 3C industry (Computer, Communication, and Consumer Electronics industry) but later expanded its product range in a more comprehensive offer like Alibaba. With a 16.7% market share, it ranks second in retail e-commerce sales, after Alibaba, which holds an undisputed leadership with 55.9% of total sales (Fig. 3.1).

The third player is Pinduoduo (7.3% market share), a social buying app that was launched in 2015 mainly targeting lower tier cities. Pinduoduo has quickly captured the attention of bargain-seekers as consumers can get discounts if they purchase products altogether, challenging JD.com as the second-largest retail e-commerce player (eMarketer 2019, July 2).

Suning and Gome are two companies both specialized in electronics, which operate online and through physical stores. In particular, Suning owns about 3000 offline electronics retail outlets across China and has recently partnered with Alibaba (Chang et al. 2019). Moreover, in June 2019 Suning announced the acquisition of an 80% equity stake

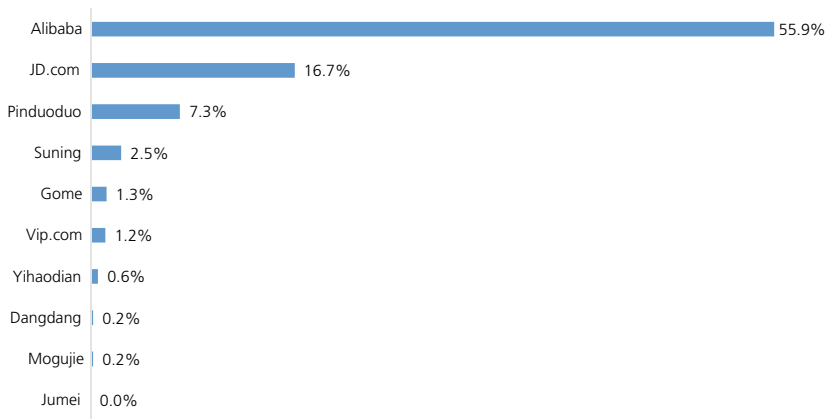


Fig. 3.1 Sales shares of retail e-commerce in China (Source eMarketer 2019, July 2)

in Carrefour China in order to reinforce its market competitiveness of fast-moving consumer goods.⁵

Regarding smaller e-commerce platforms:

- Vip.com is specialized in flash sales, mainly in the apparel sector;
- Yihaodian is a grocery store platform, owned by Walmart in 2011–2015, before being sold to JD.com in 2016⁶;
- Mogujie is specialized in fashion, while Jumei is focused on make-up and skin care.

Another sector dominated by local firms (and not international companies) is tourism. In China, the main online travel agencies are CTrip,⁷ Qunar, and Fliggy (part of Alibaba Group), which hold market shares

⁵PR Newswire. (2019, June 2019). *Suning.com announces the acquisition of Carrefour China to achieve leaping development of FMCG retailing operations*. Retrieved November 20, 2019, from <https://www.prnewswire.com/news-releases/suningcom-announces-the-acquisition-of-carrefour-china-to-achieve-leaping-development-of-fmcg-retailing-operations-300873150.html>.

⁶Russell, J. (2016, June 21). Walmart sells Yihaodian, its Chinese e-commerce marketplace, to Alibaba rival JD.com. *Techcrunch*. Retrieved November 20, 2019, from <https://techcrunch.com/2016/06/20/walmart-sells-yihaodian-its-chinese-e-commerce-marketplace-to-alibaba-rival-jd-com/>.

⁷CTrip and Qunar both belong to Trip.com Group (formerly known as CTrip Group), which also includes the Scotland-based flight-search company Skyscanner acquired in 2016.

of 36.6, 16.5, and 14.3% respectively.⁸ A minor share (3.4%) is held by Meituan Dianping, which is however a leading platform in another sector, the food one. As the result of the merger in 2015 between Meituan (a group buying platform) and Dianping (a consumer review platform), Meituan Dianping allows consumer to access group discounts on restaurants, write reviews, and give ratings. Throughout the years, new services including food delivery have been added.

Digital and Mobile Payments

Online and mobile payments represent a very popular Internet service used by Chinese netizens at all ages and social statuses. Indeed, in Chinese cities even beggars do not ask for physical money as they just show a Quick Response code (or QR code) to receive donations. QR codes can be found in any physical stores, museums, restaurants or on taxis.

According to CNNIC (2019), as of June 2019 633 million people used online payments accounting for 74.1% of the total Internet user base in China. Regarding mobile payments, they were used by 621 million users (73.4% of total mobile Internet users).

Mobile payment refers to the usage of mobile terminals such as mobile phones to conduct payment for bills, goods and services (Dahlberg et al. 2008). Compared to traditional and online payments, the main advantage of mobile payments is ubiquity as thanks to mobile networks and terminals, users can conduct payment at anytime from anywhere (Zhou 2013). Mobile payment facilities are so popularized that many Chinese cities have become a cashless society, as 40% of Chinese people carry almost no cash when going out (Lu 2018).

In Q1 2019, China third-party mobile payment transactions reached 55.4 trillion RMB, up 24.7% compared with the same period in the previous year (iResearch 2019, July 19). Altogether, Alipay and Tenpay accounted for 93.7% of third-party mobile payments, with a market

⁸Free World Holdings. (2019). *What is China's Top Online Travel Agency (OTA) in 2019?* Retrieved December 20, 2019, from <https://freeworldholdings.com/what-is-chinas-top-online-travel-agency-ota-in-2019/>.

share of 53.8 and 39.9% respectively. Alipay benefited from a first-mover advantage, in fact it was introduced in 2003 as Alibaba's version of PayPal in order to provide a secure means for online payments in China (Backaler 2010, April 19), while WeChat Pay was introduced in 2013.

Among innovations in digital payments, both Alipay and WeChat Pay have recently launched their facial recognition payment systems, called respectively "Dragonfly" and "Frog Pro," which allow customers to pay for their items after linking their face image to the digital payment system. Therefore, it is now possible in some Chinese grocery stores or fast food restaurants to pay by posing in front of point-of-sale machines equipped with face-scanning technology cameras.

In conclusion, China is leading the race in digital and mobile payments, which can represent an area for reverse innovation as mobile payments have been first adopted in China and later introduced in Western countries. Indeed, in the digital payments' sector Chinese firms outrank Western competitors like Facebook, which launched Facebook Pay in November 2019, many years after WeChat Pay. Starting from the United States, Facebook platforms' users will be able to complete transactions by using Facebook Pay.

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4

Luxury and Fashion Retailing in China: The Case of Florentia Village

Abstract The aim of this chapter is to investigate how luxury retailers manage brand communications and omni-channel retailing in a highly digital market such as China, which represents the most growing market for luxury products at the same time. A case study of an Italian luxury designer outlet operating in Mainland China and Hong Kong, Florentia Village, is analyzed. Data consist of semi-structured interviews with the firm's managers and store visits, triangulated with secondary data. Results discuss the main issues involved in the development of an effective luxury retailing strategy in the Chinese market, including activities on traditional and digital channels. The analyzed case study suggests that, despite the growing relevance of e-commerce, physical stores hold a primary role in enhancing the consumer experience in China. Moreover, luxury retailing strategies should focus at building a strong brand image that leverages on attributes such as country of origin and the integration with digital tools.

Keywords China · e-commerce · Fashion · Florentia Village · Luxury · Omni-channel

Introduction

China represents the first market for luxury products with Chinese consumers accounting for over 30% of the global luxury purchases (McKinsey & Company 2019). In particular, sales are driven by the rising purchasing power of young Millennials and Generation Z (Deloitte 2018), who are referred to the post-80's and post-90's generations (as those born after 1980 and after 1990) in China.¹ At the same time, over the past decade the Chinese market has been significantly affected by the e-commerce boom. With a market volume of US\$1002 billion online revenues as of January 2020, China is the first e-commerce market in the world (Statista 2020). This scenario constitutes a challenge for practitioners but also for scholars that analyze the evolution of retailing in a digital world.

The aim of this chapter is to analyze the main issues for international retailers in a highly digital market like China. A case study of an Italian luxury designer outlet operating in Mainland China and Hong Kong, Florentia Village, is analyzed. As pointed out by Jin and Cedrola (2016), case studies help to answer questions about firms' internationalization, however they represent a rarity within the literature.

Data was collected through in-depth interviews with company managers and store visits in China between 2012 and 2018. The remaining of this chapter is structured as follows. First, a literature review on the evolution of retailing is provided, focusing on recent studies on luxury retailing in China. Second, the research questions and methodology are presented. Third, the results of the case study of Florentia Village are analyzed. Last, the discussion section concludes.

¹ *Balinghou* (after 1980) and *jiulinghou* (after 1990) in Chinese language.

The Evolution of Retailing: Omni-Channel Strategies

Over the past few decades, retailing has been revolutionized by technology innovations, which have introduced new ways of selling products and engage consumers (Grewal et al. 2017), for example through e-commerce platforms or social commerce on mobile applications. There has been a move from multi-channel retailing, where channels are developed and managed separately within firms, to omni-channel retailing, where customer experience is modeled across different touchpoints and channels (Verhoef et al. 2015). Moreover, big data have provided an increased ability to predict customer behavior in five dimensions: customer, product, location, time, and channel (Bradlow et al. 2017).

Scholars agree that even if some sectors including the fashion industry have been slow in e-commerce adoption as it is difficult to translate the in-store experience to the online environment (Blázquez 2014), nowadays fashion brands adopt an omni-channel vision that allows customers to research and shop anytime and anywhere (Hansen and Sia 2015).

In the context of the Chinese market, omni-channels strategies have gained increasing relevance, driven by leading e-commerce giants such as Alibaba and JD.com (Euromonitor International 2018), which have both invested in physical stores. Alibaba defines omni-channel strategies as the “new retail” model, which integrates “the best of both the in-shop and online experiences.”² In China, the omni-channel approach is also known as “O2O,” an acronym that stands for “online-to-offline.”

Previous literature suggests that physical stores represent an important marketing channel in China. First, it is due to a cultural reason since Chinese consumers prefer to see and feel the products they purchase to have assurance of their quality (Wong et al. 2004). Second, flagship stores are a signal of the brand strength (Hu and Checchinato 2015; Moore et al. 2010). Moreover, Chinese consumers perceive foreign stores as superior to local stores (Chaney and Gamble 2008).

²Najberg, A. (2018, May 28). The future of retail is happening right now in China. *Alizila*. Retrieved December 17, 2019, from <https://www.alizila.com/future-of-retail-happening-in-china/>.

Regarding luxury retailing management, given the relatively recent market growth in China compared to other markets like Japan or Western countries, so far only a few studies have investigated this topic. In analyzing the retailing format of international firms in China, Goldman (2001) argues that luxury specialists usually replicate the same format of their home market since minor format changes could damage their brand's global image and unique offering. Also Liu et al. (2016) consider the standardization-localization issue, but from a brand communications' point of view. According to their study, on the one hand, foreign luxury retailers implement a more adaptive marketing communications strategy in China than those adopted in other mature markets in order to increase brand awareness. On the other hand, a strategic control of key branding issues is retained at the head offices in their home markets to maintain an overall global positioning. Bai et al. (2017) focus on foreign luxury retailers' internationalization strategies in China. They suggest that while in the entry phase, foreign firms usually adopt a single method (ranging from wholly owned strategies to local partnerships), in the post-entry phase multiple methods are increasingly popular. Therefore, once firms are more established in the market, they move to direct investments such as the opening of flagship stores and set online channels. In this respect, Deng and Wang (2016) argue that the Internet represents a relatively low cost of entry for foreign firms.

As previous studies have not analyzed the effects of the growing Internet retailing on the strategies of luxury retailers in the Chinese market, this study explores the main issues connected to brand and consumer engagement in this sector with the aim of stimulating future research in a topic under investigated in the current literature.

Research Questions and Methodology

With a market volume of US\$1002 billion, e-commerce most global revenues are generated in China, while in the United States revenues reached US\$420 billion as of January 2020 (Statista 2020). This scenario affects the overall retailing sector in China, including the luxury one, which has been characterized by the highest growth compared to all countries in the world (Bain & Company 2019).

The present study posits the following research questions:

- *RQ1. What is the role of physical points of sale in communicating brand values and engaging consumers in the Chinese luxury sector?*
- *RQ2. How do fashion retailers deliver the customer experience among physical and digital channels?*

In order to answer these research questions, the case study of Florentia Village, an Italian luxury designer outlet operating in Mainland China and Hong Kong, is analyzed.

Following previous studies that investigated luxury fashion retailing in China (Bai et al. 2017; Goldman 2001; Liu et al. 2016), a qualitative approach is adopted. The data collected consist of semi-structured interviews with the firm's managers, taken place in China between 2012 and 2018. The researcher also visited two main stores of Florentia Village, the Tianjin complex (located in Wuqing) in 2012 and the Shanghai one in 2017.

The FV interviewed informants are:

1. The Operations Director;
2. The Retail Director;
3. The Marketing Manager of the Shanghai store; and
4. The Head of Digital.

Interviews lasted around one hour each and were conducted in Italian and English. The interview questions covered topics including brand and communications strategies implemented in China, the retail format, the luxury brand perception of Chinese consumers, and the impact of digital channels on the retailer's overall strategy.

When agreed by the informants, the interviews were recorded and fully transcribed. To ensure triangulation and cross-verify the findings from the primary data (Yin 1994), secondary data consisting of sector reports and newspaper articles were analyzed.

Florentia Village Case Study

Overview of the Company

Florentia Village (Chinese name *Foluobunsa xiaozhen*) is an Italian luxury designer outlet operating in Mainland China and Hong Kong since 2011. It is invested by Silk Road Holdings and managed by RDM Asia, the Asian branch of the Italian company RDM-Fingen, a real estate development company founded in 1998 belonging to Fingen Group. The Group was founded by Marcello and Corrado Fingen in Florence in 1979 and operates in real estate development and retail. Historically, it has specialized in the fashion sector by acquiring the licenses of major global brands including Calvin Klein, Cotton Belt, Guess, and Jean Paul Gaultier.³ In Italy, Fingen Group has partnered with McArthur Glen, a main global player in the sector of factory outlets, to open five outlet stores (including Serravalle Outlet and Barberino Outlet). Aside from China operations, in 2015 RDM Asia partnered with Emaar Properties in Turkey to start building the first Florentia Village in Istanbul.

As of 2019, Florentia Village (hereafter, FV) has opened six stores in China in the following cities: Wuqing, Shanghai, Guangzhou, Hong Kong, Wuhan, and Chengdu. In 2018, the development of the seventh store started in the growing city of Chongqing, considered a new Tier-1 city. In the same year, FV turnover was US\$1 billion with a total of 18 million visitors.⁴

RDM Asia has replicated the same business model adopted in Italy by RDM-Fingen. However, as pointed out by the Operations Director, the entertainment element was enhanced as shopping represents a main hobby for Chinese consumers—especially during weekends and holidays (Faure and Fang 2008). In order to settle the shopping areas, RDM Asia first purchases the land where the mall will be built, then it develops the construction project. Afterwards, they lease commercial areas to anchor

³Fingen. (n.d.). *About us*. Retrieved November 19, 2019, from <https://www.fingen.it/about-us/>.

⁴Toscana24. (2019, June 13). *Florentia Village-Rdm apre il settimo outlet in Cina* [Florentia Village-Rdm opens its seventh outlet in China]. Retrieved November 19, 2019, from <http://toscana24.ilsolo24ore.com/art/oggi/2019-06-13/florence-villagerdm-apre-settimo-114038.php?uuid=ABvmlKE>.

tenants that pay a rental fee and a license fee, since RDM Asia owns the brands' business licenses (as in Italy). Therefore, they act as a landlord, although "not in the traditional way." As stressed by the interviewed managers, RDM Asia works closely with tenants in a joint cooperation in order to deliver benefits to both parties.

Similarly to the outlet centers developed by RDM-Fingen in Italy, all FV stores are open-air malls located at the proximity of Chinese first- and second-tier cities, well connected with public transport, such as bullet trains and subways. For example, the first mall, "Florentia Village – Jingjin Luxury Designer Outlet," was opened in Wuqing, a location in Tianjin municipality between Tianjin City and Beijing, which is connected with 22 daily trains. The total site area is 70,000 square meters. Figure 4.1 shows the scale model of FV in Wuqing.

According to the interviewed managers, the main competitors of Florentia Village are:

- Value Retail, which is the most direct competitor with a similar brand mix of luxury and foreign products. It is a European company headquartered in the United Kingdom and has opened two outlet malls in China located in Shanghai and Suzhou;
- Badaling Outlets, which is owned by a Chinese group and is located in Beijing. According to the FV Head of Digital, it is considered "the best performing outlet in Asia;"



Fig. 4.1 Scale model of Florentia Village in Wuqing (Photographed by the Author in April 2012)

- Bailian Group, a main Chinese retailer operating in grocery stores and also fashion. It owns an outlet in Qingpu, a Shanghai district, which “ranks as second outlet mall in Asia together with Florentia Village in Wuqing” (while Florentia Village in Shanghai ranks fourth);
- Tai Koo Li, part of the Swire Group (headquartered in Hong Kong), is an indirect competitor as it specializes in fashion, however items are sold at full price.

The main sectors of FV outlets are: luxury, which is the distinctive core of the complex, lifestyle, casual wear, and sportswear. Normally, casual wear sales generate a high turnover at outlet malls, however they are not the focus of FV as the company aims at keeping their environment distinctively upscale. The Retail Director explained:

Our business model is luxury [...]. Tianjin outlet was the first one to open an outlet of Prada, Bulgari, and other important brands in the whole China, and even the whole Asia. Therefore, we immediately identified ourselves as a luxury outlet store.

In the brand selection, FV aims at maintaining a high positioning and the Italian style, as analyzed in the following sub-paragraph. At every Florentia Village store, there are about 200 brands mainly from Europe and the United States. There is also a limited number of Asian brands and also Chinese brands, however the majority is usually not available in local competitors' malls as they are produced for exporting, therefore the offering exclusivity is preserved.

Table 4.1 summarizes key information about the case study.

The Italian Fashion Style

All Florentia Village centers are characterized by a classic Italian architecture and are decorated with squares, fountains, and monuments that evoke famous cities such as Venice, Florence, and Rome. Plants and flowers also contribute to recall gardens of Italian villas. Therefore, FV centers look like “Little Italy, Italian towns.”

Table 4.1 Data description of Florentia Village

Data	Description
Name of company	Florentia Village
Investors	Silk Road Holdings
Management	RDM Asia
Country of parent company	Italy
Year of entry in the Chinese market	2011
No. of stores	6
Turnover	US\$1 billion in 2018
No. of employees	550
No. of customers	17 million visitors in 2018

Source Author based on corporate website and newspapers' articles

However, the design of each village is not exactly the same. Wuqing Village displays a square similar to the amphitheatre of Verona (Fig. 4.2), then they built some bridges and an artificial canal, which clearly recalls Venice and can even transport customers on a real gondola; Shanghai



Fig. 4.2 Florentia Village in Wuqing (Photographed by the Author in April 2012)

store is characterized by an oval square and a building that resembles Doge's Palace in Venice (Fig. 4.3), whereas Foshan store has many small alleys and green spaces etc.

The Italian style represents a key element of the Florentia Village brand image and also a factor of consumer engagement. Differently from some Chinese outlet retailers, where the store density per square meter is higher, for RDM Asia it is important to maintain a balanced efficacy per square meter as well as the Italian style in the whole complex. The Retail Director argued:

(Florentia Village) is an Italian luxury brand in China. (Italy) is perceived as the first luxury country, from fashion to shoes, elegance, and design. For Chinese people, Italy is a little bit considered as the country of hedonism. Therefore, we always stress the Italian attribute. Our logo consists



Fig. 4.3 Florentia Village in Shanghai (Photographed by the Author in June 2017)

of the lily from Florence, then our name “Florentia” means Florence, which is a representative Italian city together with Venice and Rome.

The Italian style is conveyed by the store selection with top designer brands and also the food and beverages facilities, which include an Italian restaurant, coffee bars or ice-cream bars. Moreover, events and activities (for instance, Italian languages courses, sommelier courses or cooking classes) are organized to engage consumers and represent the Italian lifestyle values since most customers have not been to Italy before.

The Marketing Manager stressed:

(Our malls) have the logo in the entrance of the store, and the logo should be in Italian. So most customers say: “Oh, it’s Italian! It means quality!” [...]. In China, people think that luxury good products with the highest quality come from Italy or France.

Moreover, the Italian style is conveyed by maintaining a high positioning in fashion and luxury. Some Italian elements are used, e.g. music and images showing Vespa (the traditional Italian scooter), but not in a folkloristic way (elements like “pizza and mandolin” are not present). The Head of Digital argued:

It is an international environment, Italian but international. [...] We want to give the idea that you’re not in China any longer, this is what we want to provide: for a moment you can live the “Italian dream” without leaving China.

Therefore, the Italian lifestyle represented is fashionable and upscale in both static (such as the malls’ architecture) and dynamic elements (events and activities focused on Italy and Italian culture).

Target Analysis

The average customer of Florentia Village is between 30 and 35 years old with young children. Moreover, customers are mainly workers (and not students) so they have a certain purchasing power to buy discounted yet

luxury products. Most of them have never traveled abroad before, therefore visiting the mall also represents a way to live a Western/European experience.

Interviewed managers stated that customers usually visit Florentia Village stores once every three months, sometimes they drive a couple of hours to go there so it is unusual that they would not purchase anything at the end of their visit. Overall, customers are interested in luxury and fashion products but cannot afford to buy them at full price. Therefore, they are motivated to go to the outlet by the possibility to access luxury products and brands at a lower price, although merchandise belongs to collections one or two years earlier. In the case you are “extremely fashion-oriented and you are interested in the latest year’s collections, you would not go to the outlet.”

At the same time, it was pointed out that while in European outlet malls customers do not have high service expectations as the main appealing aspect is the discounted offer, this is not the case for China. Chinese customers consider outlets as an “opportunity” to buy a branded product with a discount up to 60% off the original price. Moreover, the entertainment element is central for malls in China and Asia. The service offering include several restaurants and cafés, and also entertaining activities for kids, therefore customers usually spend long hours at the mall.

As a consequence, the highest flows of customers happen during weekends (50% of the customers of the entire week) and holidays, since consumers spend the whole day with their families at the complex. This makes even more important to engage consumers with entertaining events and activities that are associated with the Italian values and exclusivity.

Heterogeneity of Chinese Consumers

As supported by previous studies (Cui and Liu 2000; Hu 2018), Chinese consumers are very diversified because of their cultural heterogeneity and a non-homogeneous economic development across the different regions of the country. Therefore, Florentia Village needs to consider the

specific characteristics of China's various areas in order to adapt its operations and activities. In all FV stores, there are mostly Italian and international brands, however some local brands are also present at certain outlets. The Retail Director argued:

(The Chinese consumer) is different from one city to the other, for example, we have realized that Shanghai is more stylish, they dare more, [...] whereas Beijing is more traditional [...], so there is a difference already between the two main Chinese cities. [...] Then Canton has a very local market, there are some brands that most people do not know, but since they are local, they are quite strong in our villages.

Interviewees confirmed that Shanghai is the leading fashion city in China, as explained by the Head of Digital:

I think China is made of many Chinas, so in reality it is difficult to consider the whole population as a single segment. In cities like Shanghai, fashion is certainly different, fashion is at the level of design and research while in smaller cities like Chengdu, which is growing well, but (consumers) are still attracted by "pure luxury." We have realized this difference for what concerns brands as well: in Shanghai, there are many small local brands but also Chinese fashion brands that are having a certain resonance on the market because they are doing some research. If you bring other brands like that outside of Shanghai, no one would consider them...

The Retail Director explained this trend as a consequence of the Chinese consumer sophistication over the past few years: some time ago, brands used to represent a main factor impacting the purchase decision, while nowadays consumers from more advanced areas look for something that can meet their "personal taste, and not necessarily a well-known brand." In this way, some consumers have started to choose niche brands over top of mind brands.

Moreover, activities are adapted to the characteristics of the local areas of each FV through "micro-marketing" campaigns. For instance, they monitor local holidays of that particular area in China and develop specific activities for the FV located nearby, considering cultural elements like food traditions and also how the communications message is presented.

Communications and Engagement Strategy

Most advertising activities are implemented through digital channels, including social media and communications involving local influencers (the so-called “KOLs,” which stands for Key Opinion Leaders). FV official accounts are active on WeChat and Weibo in Mainland China, while in Hong Kong they have also launched an account on Instagram.

Weibo is mainly used to provide information (FV Weibo account reached 151,631 followers as of December 20, 2019⁵), whereas FV’s WeChat account drives engagement with customers and permits to personalize marketing activities thanks to data analytics. WeChat subscribers are updated with news related to fashion trends or in-store activities. Some promotional activities like gift cards are also run, however they are not specifically related to any brand as those are implemented directly by FV tenants.

Most importantly, the loyalty program is also managed on the social network WeChat by means of a virtual card, which replaced the physical card in 2016. Based on the purchases made in all the outlet’s points of sale, Florentia Villages’ customers can gain points that are used to classify them into three tiers: Blue, Silver, and Gold, which represents the top level. Initially, when customers sign up for the loyalty program, they get a white card. If a customer spends a sum of over 700 RMB in one day, he/she will access the starting level, represented by the blue card. The threshold for the silver card is 10,000 RMB (or 10,000 loyalty points) within two months, whereas for the gold one it consists of a 50,000 RMB minimum expenditure (or 50,000 loyalty points) within five months. For each tier, specific targeted activities are developed, which include discounts, private sales, limited edition products, special events, etc. Silver and gold members can also access a VIP lounge—an Italian designed space with several services, including Wi-Fi and other activities, which is located in all Florentia Villages stores. The FV Head of Digital argued:

The VIP lounge is accessible only to members of a certain level, so there is an aspiration to spend more to access a certain type of environment. Outlets can be compared a little bit to airlines, where based on how

⁵Retrieved 2019, December 20, from <https://www.weibo.com/florentiavillage>.

much you spend you reach certain levels and depending on those levels, you access certain benefits.

Regarding KOLs, they are involved in collaborations with FV for activities such as store openings or events. They can be either national celebrities famous around China (usually, Chinese or Asian) or local celebrities that are popular only in a certain area and are relevant for the target audience, as explained in the previous paragraph. KOLs represent an effective way to reach users that did not know FV before, as they can communicate directly with their followers on their personal social media.

Among traditional media, out of home (OOH) and radio activities are developed, while TV commercials are considered to be too expensive and not in line with their target. According to the FV Marketing Manager, their target is quite young and active on digital channels, while the TV audience is represented by older generations.

Outdoor billboards are displayed at strategic urban locations, for example subway stations or on the highway at the proximity of the outlet, Huaihuai Road (a main shopping street in central Shanghai) etc.

Omni-Channel Strategies

Interviewees stressed that as a physical retailer, the core business of Florentia Village is and will remain offline. However, they strongly leverage on digital channels for communications and customer relationship management (CRM) activities through their loyalty program on WeChat.

Moreover, driven by the growing online sales, in early 2018 Florentia Village opened their own e-commerce platform, FVoutlet.com. This new channel includes a limited selection of brands as compared with FV physical stores, exclusively belonging to the top-premium and luxury division. Previously, products were available on luxury flash sales platforms Vip.com and Mei.com, respectively partner of Tencent and part of Alibaba Group.

The direct e-commerce website creates opportunities to reach new customers or engage with the existing ones, bringing “affordable luxury products all over China, giving everybody the opportunity to shop in Florentia Village.”⁶ Indeed, the main target of Florentia Village e-commerce platform is represented by consumers that live far from the outlet malls (for example, in cities classified Tier-3 and -4), therefore they use the digital channel to purchase. The secondary target is composed of the people that visited the physical stores but did not complete their purchases for time constraints. Therefore, main advantages of the FVoutlet.com are ease of use and convenience in terms of time and transportation, since the e-commerce website provides a 24-hour service delivering purchases directly to customers’ house, while there is no price convenience as product prices are maintained the same on the FV e-commerce and physical stores.

Informants underlined the relevance of the integration between the physical and online channels in contemporary retailing. They argued:

We do it in bi-directional way, which is from brick-and-mortar to digital, and from digital to brick-and-mortar, also because our core is brick-and-mortar, but from the end of last year we launched e-commerce, we also have a digital RDM. (Retail Director)

What is called omni-channel is the creation of a unique chain in which we are able to optimize the resources we have and deliver them both online and offline. Then, if in the future the online channel receives a big response, we will be able to use these insights to open new outlets. Maybe we will realize that in a certain region they are particularly interested in outlet merchandise and that can be an indication to understand if there is the possibility, the interest, and also the opportunity to open a physical outlet. (Head of Digital)

During the interviews, informants mentioned the limits of using just the online channel:

⁶Rapp, J. (2018, February 2). Booming Chinese luxury outlet launches own e-commerce platform. *JingDaily*. Retrieved November 20, 2019, from <https://jingdaily.com/booming-chinese-luxury-outlet-launches-own-e-commerce-platform/> (accessed on 7 March 2018).

E-commerce as standalone [...] is not useful anymore, since consumers want what we call “retail experience.” (The strategy) is not just about pricing, selling with the best offer [...] Now it is about selling something to create, provide an experience, so we have a VIP lounge, an elegant environment, attention to details... (Retail Director)

Thanks to “being born offline,” a main attribute Florentia Village has built throughout the years is the consumer trust towards products’ authenticity, which is perceived to be higher than mainstream retailers, in particular online retailers. The Head of Digital explained:

A major limitation of online luxury products in China is the consumer trust towards the product itself. Many times you think that the online product is fake, while Florentia Village has a solid brand awareness from the point of view of the product authenticity, which means that those who buy in Florentia Village offline know that they are buying a 100% real product, also because you know that are buying directly from the store’s boutique. [...] (Customers) may say: I don’t know if it is authentic, maybe this discount is so high because the product is not original. Something that does not happen in Florentia Village... Because our company is born offline, it has built its business on “you come, take a look, and touch,” which in some way bypasses the fear that the product is fake.

On the other hand, a main advantage of digital technologies is represented by analytics. They simplify the management of customer flows at stores and transactions, providing detailed data to better customize the retail experience. Data also facilitate FV to improve their collaboration with anchor tenants by analyzing KPIs together and developing appropriate tactics in a timely manner.

Discussion

Florentia Village represents a successful case study of an international luxury retailer operating in the Chinese market. Throughout the years, it has developed its business across different areas of the country, opening six stores and facing highly diversified consumers.

Regarding the format, on the one hand, RDM Asia has implemented a similar strategy of the outlet malls located in Italy as far as the location (both in China and Italy, stores are located at the proximity of large cities), dimensions, and colors are concerned. This confirms Goldman's (2001) study regarding the need for building a strong brand image across different markets by maintaining the same format. Also the business model is the same of the home market as RDM-Fingen acts as landlord and brand licensor.

On the other hand, in China Florentia Village enhances hedonic elements in store and online by means of the loyalty program. The country of origin attribute is conveyed through an architecture that recalls Italian cities and the selection of brands in the mall itself. Moreover, communications and engagement activities, such as recreational events, are designed "to educate" Chinese consumers to the Italian lifestyle. The loyalty program provides some utilitarian benefits (i.e., discounts or promotions), however symbolic benefits (i.e., access to the VIP lounge or invitation to special events) are more important for FV as a high-end retailer in order to deliver exclusivity (Stathopoulou and Balabanis 2016). Therefore, in answering *RQ1*, physical points of sale hold a primary role in communicating brand values and engaging consumers in the Chinese luxury sector. Florentia Village's main success factor is represented by the development of a strong and distinctive brand identity, which is enhanced by country of origin—in this case, "Made in Italy"—confirming previous studies on the positive foreign origin attribute in retailing (Chaney and Gamble 2008), and stressing the experiential element in retailing (Hirschman and Holbrook 1982; Davis 2013).

In answering *RQ2*, Florentia Village enhances the integration between online and offline channels by providing a consistent customer experience that leverages on data analytics (Dekimpe 2019; Silva et al. 2019),

in order to drive customer loyalty and design a better customer experience in store. Findings confirm that major advantages of digital platforms include the possibility to collect a huge amount of data about customer preferences and purchase decisions (Bai et al. 2017; Bradlow et al. 2017; Grewal et al. 2017). Thus, digital tools allow retailers to provide a personalized experience and develop more targeted activities (both online and offline), increasing customer engagement.

Based on this case study, in China physical stores represent a main marketing channel in the luxury fashion sector, where consumers are engaged in a highly experiential way through activities and events that reflect the brand image of the retailer. The in-store experience should be integrated with digital and mobile channels along the customer journey (see Chapter 6). Country of origin and a clear luxury positioning also represent key attributes of the retail experience. The architecture itself immerses customers in an “Italian village,” an international and upscale environment that most of them have not experienced before. Such elements help foreign retailers differentiate themselves from local companies.

In conclusion, this study provides interesting findings concerning luxury omni-channel retailing in China. However, it suffers from the limitations of generalizability as only a single retailer is analyzed. In the future research, the results from this study should be compared to other companies’ strategies, also considering countries other than China, for example Asian countries, in order to verify commonalities or identify any difference in the growing luxury retailing sector.

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5

Mobile Commerce in the Fashion Sector in China

Abstract This study aims at investigating drivers and effects of mobile commerce in the fashion sector in China. A model is developed and tested with a survey among 137 consumers, analyzing results using Structural equation modeling. Findings show that utilitarian factors influence the customer satisfaction in m-commerce in China, confirming previous studies. Moreover, enjoyment strongly mediates the effect of utilitarian factors on satisfaction as online shopping is highly experiential for Chinese customers. After the purchase, satisfaction increases e-WOM effects and is likely to accelerate Chinese mobile shoppers' purchase decision. This study can be considered as a pre-test that provides theoretical contributions in the research area of m-commerce adoption to be verified in future research involving larger samples, not only from China, but also from other countries. Managerial implications for fashion firms operating in China are provided.

Keywords China · Fashion · m-commerce · Internet retailing · TAM

Introduction

Over the past few years, the Internet has profoundly affected customer experience and how customers interact with brands and respond to offerings (Kumar and Anjaly 2017). Indeed, digital and mobile channels are involved within several phases of the customer journey (Lemon and Verhoef 2016; Wagner et al. 2020), from the search phase to the moment of the product purchase, and also after the purchase. Consumers, especially Millennials (in the case of China, post-80 and post-90 generations), are willing to share their experience through personal evaluations of products, thus facilitating word-of-mouth communication (Chen et al. 2011; Mangold and Smith 2012).

Among e-commerce channels, mobile commerce (hereafter, m-commerce) is rapidly increasing and it is expected to account for 54.1% of all online transactions worldwide in 2022 (Euromonitor International 2018). This share has already been surpassed in China, where mobile retailing accounted for 75.35% of total Internet sales in 2017 (Euromonitor International 2018).

Despite the rapid growth of the Chinese mobile retailing, studies on this topic are still scarce. Indeed, the academic literature investigating online consumer behavior mainly adopts Western perspectives by utilizing U.S.-based samples (Cayla and Arnould 2008; Smith et al. 2013).

Therefore, this chapter aims to investigate m-commerce in China focusing on the fashion sector, the segment with the highest e-commerce revenues, which amounted to US\$303,842 million in 2019 (Statista 2020).

This study's main research question is: *How is m-commerce characterized in terms of drivers and effects among Chinese consumers?*

Building on the prior literature on e-commerce and m-commerce, a model is developed to measure the effects of utilitarian factors and enjoyment on satisfaction, and how the latter impacts e-WOM and time involved in the purchase decision. It is also analyzed whether enjoyment acts as mediator of utilitarian factors on satisfaction. To test this model, an online survey among Chinese young consumers was carried out using Structural equation modeling (SEM) to analyze results.

The objective of this study is to contribute to the marketing literature on mobile commerce analyzing the Chinese context and provide managerial implications for international fashion companies that operate in this market.

TAM in m-Commerce

The Technology Acceptance Model (TAM) developed by Davis (1989) is the most widely recognized framework for examining technology adoption (Smith et al. 2013). Based on the theory of reasoned action (Ajzen and Fishbein 1980) and the theory of planned behavior (Ajzen 1991), TAM's original scales were developed to predict user acceptance of computers at organizational level. They include perceived usefulness, perceived ease of use, and behavioral intention. Perceived usefulness is the degree to which a person believes that using a particular system would enhance his/her job performance; perceived ease of use represents the degree to which a person believes that using a particular system would be free of effort; and behavioral intention is a self-prediction of behavior (Davis 1989).

While scholars agree on the validity of the TAM as a parsimonious model in several technology-related contexts, they have also integrated the original model with new constructs (Ha and Stoel 2009; Zhang et al. 2012). Bruner and Kumar (2005) applied the TAM, which was developed to analyze the work environment, to the consumer context and extend it to analyze m-commerce by incorporating both utilitarian and hedonic aspects of technology use. While utilitarian factors concern how consumers use the technology in an efficient and timely manner to achieve their goals with a minimum of effort (Childers et al. 2001), the hedonic factor is referred to the fun/enjoyment associated with using the technology (Bruner and Kumar 2005). Also Yang (2010) found that utilitarian and hedonic dimensions are critical determinants of consumers' intentions to use mobile shopping services.

Regarding utilitarian factors, several studies have investigated the impact of ease of use on website satisfaction and loyalty. It should be noted that the term "ease of use" can be used interchangeably with

“usability” (Flavián et al. 2006). For instance, Belanche et al. (2012) conducted a study with a Spanish sample and their results show that website usability affects satisfaction, which in turn positively affects consumer intention to use a website. Also usefulness/convenience has been analyzed as antecedent of online shopping. In the context of m-commerce, this refers to the ability to purchase from anywhere and at any time (Wang et al. 2015). Agrebi and Jallais (2015) compared m-commerce purchasers and non-purchasers in France and have shown that both ease of use and usefulness affect satisfaction with regard to m-commerce. Chi (2018) analyzed apparel m-commerce in China and has found that both perceived usefulness and perceived ease of use result in positive consumer attitude and a greater likelihood to use apparel m-commerce.

Recently, ease of use/usability and usefulness/convenience have been found to be interlinked with a third utilitarian construct, customization (Magrath and McCormick 2013; McLean et al. 2018), which refers to the personalization of services and content to a customer’s own preferences and interests (Lee and Cranage 2011) and a retailer’s ability to personalize the delivery to the customer (Tam and Ho 2005).

Utilitarian factors drive an effective customer experience in m-commerce. Moreover, McLean et al. (2018) have found that enjoyment is an important mediator in the relationship between the utilitarian factors and the customer experience, affecting the level of satisfaction while purchasing on mobile applications.

Therefore, the following hypotheses are developed:

H1: Utilitarian factors have a positive effect on satisfaction in m-commerce.

H2: Enjoyment mediates the relationship between utilitarian factors and satisfaction in m-commerce.

As the customer experience does not end with the purchase phase, it is also important to consider the effects in the post-purchase phase, when e-WOM (electronic word of mouth) can be activated by means of consumer reviews and ratings. In particular, Chinese users strongly rely on e-WOM information because of the social pressure (Besbes et al. 2016; Christodoulides et al. 2012) within a collectivist culture.

Furthermore, shopping is influenced by the devices used during the purchase. Digital media reduce the time taken for collecting necessary information while buying products (Dahiya and Gayatri 2017); in particular, the increasing use of mobile devices makes shopping a continuous rather than discrete activity (Faulds et al. 2018). According to McLean et al. (2018), a mobile app that is easy to use, convenient, and provides customization will reduce the perception of spending time on the app. This could lead to a faster purchase decision involved in m-commerce compared to shopping from desktop. Hence, in the post-purchase phase it is hypothesized:

H3: Satisfaction has a positive effect on e-WOM in m-commerce.

H4: Satisfaction influences the time involved the purchase decision in m-commerce.

As mentioned, a limitation of the previous research on online shopping behavior is represented by the fact that most studies have analyzed U.S.-based samples. As China is the country where m-commerce accounts for the highest share of total e-commerce sales, it is relevant to understand consumers' drivers of using mobile phones for shopping and the related effects in this market. Among recent studies, Chi (2018) has the merit of integrating additional constructs of brand equity and website quality as determinants of perceived usefulness and perceived ease-of-use to predict Chinese consumers' intention to use apparel m-commerce. However, he does not measure the impact of enjoyment in TAM, which is analyzed in this study.

Methodology and Data

To test the hypotheses, a questionnaire was developed in English using scales from previous literature on e-commerce and m-commerce. Then it was translated in Chinese and back translated into English to check for accuracy of the translation (Brislin 1970). As in Smith et al. (2013) and Chi (2018), a 5-point Likert scale (1 = strongly disagree/never; 5 = strongly agree/always) was adopted. Qualtrix[®] was used to collect responses, relying on a non-probabilistic and convenience sample of

Chinese students and their contacts. University students represent a significant segment of the mobile population with new media skills and they are a major market for e-tailers (Ha and Stoel 2009; Smith et al. 2013).

A final sample of 137 responses was collected between April and June 2018 (67.15% female). 41.61% of respondents is represented by students; regarding their income, the majority of the respondents (55.74%) has a family income higher than 50,001 RMB (around 6400 euros) per year. Most respondents (51.09%) spend on e-commerce between 1001 and 10,000 RMB (129–1285 euros) per month. Table 5.1 presents the demographics of the sample.

Construct Measures and Data Analysis

Consistent with McLean et al.'s (2018) study on mobile applications, utilitarian factors were conceptualized as a second-order construct composed of three sub-dimensions—ease of use, convenience, and customization.

The hypothesized five-construct model consists of one exogenous variable (i.e., utilitarian factors), one mediating variable (i.e., enjoyment), and three endogenous variables (i.e., satisfaction, e-WOM, and time). Table 5.2 summarizes the constructs of the scale and sources from which they were adapted for the variables.

SEM was adopted to test the model because of its ability to estimate multiple interrelated dependent relationships (Hair et al. 2006). SPSS 25.0 and AMOS 25.0 were used as statistical tools to test for reliability and validity of the measurement model. The two-step approach of SEM (Anderson and Gerbing 1988) was followed to (1) validate the psychometric properties of the measurement model through a confirmatory factor analysis (CFA) and (2) simultaneously test the relationships among variables in the structural model.

Table 5.1 Demographics of the sample

Characteristics	Number (<i>N</i> = 137)	Percentage
<i>Gender</i>		
Female	92	67.15
Male	45	32.85
<i>Age</i>		
18-24	48	35.04
25-34	74	54.01
35-44	11	8.03
45-54	4	2.92
<i>Education</i>		
High school or lower	3	2.19
Professional degree	3	3.65
Bachelor's degree	71	51.82
Master/post-graduate	58	42.34
<i>Profession</i>		
Student	57	41.61
White collar	36	26.28
Teacher	14	10.22
Business owner/manager	14	10.22
Intellectual job/artist	8	5.84
Blue collar	4	2.92
Other	4	2.92
<i>Yearly family income (RMB)</i>		
0-30,000	19	13.87
30,001-50,000	11	8.03
50,001-100,000	28	20.44
100,001-200,000	38	27.74
200,001-500,000	32	23.36
Above 500,000	9	6.57
<i>Monthly expenditure on e-commerce (RMB)</i>		
0	6	4.38
1-1000	56	40.88
1001-5000	59	43.07
5001-10,000	11	8.03
Above 10,001	5	3.65

Results

Table 5.3 shows the Cronbach's alpha values of the variables and their bivariate correlations using Pearson's *r* values. As reported, all the variables showed satisfactory levels of reliability, with alpha values ranging from

Table 5.2 Measurement scales

Variable	Scale reference
Ease of use	Agrebi and Jallais 2015; Davis 1989; McLean et al. 2018; Natarajan et al. 2017; Rose et al. 2012
Convenience	Davis 1989; McLean et al. 2018; Singh and Swait 2017
Customization	McLean et al. 2018; Rose et al. 2012
Enjoyment	Agrebi and Jallais 2015; McLean et al. 2018; Natarajan et al. 2017
Satisfaction	Agrebi and Jallais 2015; McLean et al. 2018; Natarajan et al. 2017; Rose et al. 2012
e-WOM	Jiang et al. 2018; San-Martín et al. 2015
Time	Dahiya and Gayatri 2017; McLean et al. 2018

0.783 (customization) to 0.949 (convenience). Concerning the correlations, all the variables were significantly correlated among each other ($p < 0.01$).

The validity of the second-order construct utilitarian factors was checked: the three sub-dimensions showed satisfactory factor loadings (lambda parameters) all higher than 0.5 as required (Hair et al. 2006), namely ease of use ($\lambda = 0.97$; $p < 0.01$), customization ($\lambda = 0.84$; $p < 0.01$), and convenience ($\lambda = 0.90$; $p < 0.01$). Next, the internal consistency and the convergent validity of the variables used in the research were assessed by estimating the composite reliability (CR) and the average variance extracted (AVE), respectively (Hair et al. 2006). All variables had CR values higher than 0.7 and AVE values higher than 0.5 as required (Fornell and Larcker 1981). Moreover, discriminant validity was checked by ensuring that the square values of AVE were all higher than the variables' correlations (shown in Table 5.3). As a result, the overall measures' reliability and validity levels suggested an acceptable fit of the hypothesized model.

The relationship between utilitarian factors and satisfaction was significant ($\beta = +0.89$; $p < 0.01$). Hence, *H1* was empirically supported. To test the mediation effect of enjoyment on such a relationship, Baron and Kenny's (1986) three-step procedure was followed: (1) the independent variable (i.e., utilitarian factors) should be significantly related to the mediating variable (i.e., enjoyment); (2) the mediating variable should be significantly related to the outcome variable (i.e., satisfaction); and

Table 5.3 Correlation matrix

	M	SD	1	2	3	4	5	6	7
1. Convenience	3.80	0.92	(0.949)						
2. Customization	3.25	0.91	0.649**	(0.783)					
3. Ease of Use	3.74	0.81	0.780**	0.673**	(0.858)				
4. Enjoyment	3.61	0.93	0.778**	0.682**	0.852**	(0.947)			
5. Satisfaction	3.56	0.90	0.800**	0.669**	0.776**	0.875**	(0.875)		
6. e-WOM	2.61	1.05	0.430**	0.491**	0.409**	0.463**	0.465**	(0.881)	
7. Time	3.34	1.11	0.511**	0.380**	0.577**	0.580**	0.560**	0.514**	(0.794)

** $p < 0.01$

Cronbach's alpha values are reported on the diagonal

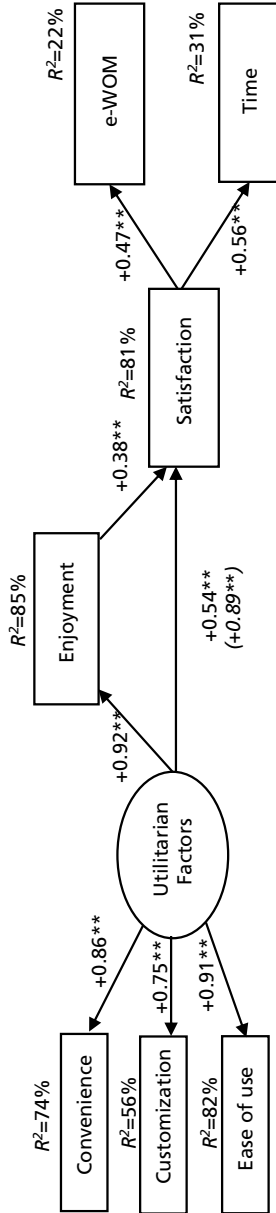
(3) the original relationship between the independent variable and the dependent variable should be reduced (partial mediation) or become non-significant (total mediation). As shown in Fig. 5.1, enjoyment resulted as a partial mediating variable in the sample, significantly lessening the original path ($\beta = +0.54$; $p < 0.01$). Hence, $H2$ was supported. Next, the influence of satisfaction on e-WOM was found to be significant ($\beta = +0.47$; $p < 0.01$). Thus, $H3$ was confirmed, although the percentage of variance explained of the endogenous variable e-WOM is low ($R^2 = 22\%$). Similarly, the influence of satisfaction on time was significant ($\beta = +0.56$; $p < 0.01$; $R^2 = 31\%$). Hence, $H4$ was also confirmed by the results.

Discussion

Drawing on TAM, the influence of utilitarian factors on satisfaction considering the mediating role of enjoyment was measured. The present study also explored the subsequent relationship between satisfaction and e-WOM and time involved in the purchase on mobile devices by Chinese consumers.

Results show that utilitarian factors (made of ease of use, usefulness, and customization) influence customer satisfaction among Chinese m-commerce consumers, confirming the results of previous studies that have found a positive relationship between utilitarian factors and customer satisfaction (Agrebi and Jallais 2015; Natarajan et al. 2017; Rose et al. 2012).

Regarding the role of enjoyment, for Chinese consumers it strongly mediates the relationship between utilitarian factors and satisfaction. As emphasized in previous studies (Chong 2013; Li et al. 2017), enjoyment has a positive influence on e-commerce adoption in China. Chinese consumers derive enjoyment from browsing fashion items through mobile platforms, which are their main channel used for shopping online, affecting their overall satisfaction towards the m-commerce experience. Therefore, retailers should develop entertaining functions on mobile platforms such as information on trending products, influencers' reviews, and lifestyle content. They should also enhance engaging activities that customize the m-commerce experience.



** p<0.01

Fig. 5.1 Results of the structural model (Notes Standardized regression weights are reported; R² indicates the multiple square correlation which represents the percentage of variance explained of the endogenous variables; The beta regression weight in parentheses and latin refers to the original path between utilitarian factors and satisfaction which has been significantly mediated)

This study also presents evidence of a positive relationship between customer satisfaction and e-WOM, as satisfied customers are more willing to recommend their purchase to their network (San-Martín et al. 2015). Therefore, functions on mobile apps that trigger shares and reviews should be developed by retailers.

Compared to online shopping from desktop, findings suggest that m-commerce implies a shorter time to complete the purchase decision of fashion items. However, for more expensive items time may not be affected as there is a higher perceived risk involved.

In conclusion, this research can be considered as a pre-test that provides theoretical implications for the technology adoption model of m-commerce for fashion products in China. The managerial implications discussed should be also taken into consideration by fashion firms that want to develop an effective m-commerce experience for Chinese consumers. By leveraging on easy-to-use, personalized, and entertaining mobile platforms, firms could strengthen their relationship with customers in the Chinese market.

Given the limited size of the sample, this study should be tested among a larger sample. Moreover, the model could be refined with additional items (such as perceived risk, which could lower the effect of utilitarian factors). Other product categories should be also considered as fashion items represent hedonic products, therefore enjoyment plays an important role in mediating utilitarian factors and satisfaction, but the same might not be true for utilitarian products as, in such case, consumers are more information focused and want maximize the efficiency of their shopping task (Singh and Swait 2017). Lastly, studies in the context of m-commerce should be conducted by adopting a cross-cultural perspective. Results from the Chinese market should be compared with the ones of other countries in order to understand whether there are any differences in m-commerce drivers and effects.

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6

The Mobile Customer Journey in China: Implications and Future Research Areas

Abstract This conclusive chapter draws the book's implications for marketing theory and practice relevant for international companies that operate in China. The results from the two empirical studies focused on the fashion sector suggest that the Chinese consumer's shopping experience is driven both by utilitarian and hedonic elements. Moreover, enjoyment strongly mediates the effect of utilitarian factors on customer satisfaction. In China, mobile touchpoints are involved in all customer journey phases. However, while digital and mobile touchpoints provide increasing opportunities for firms to engage with customers and develop their strategy in a very targeted and personalized way, physical stores continue to be central in building brand awareness and driving customer experience. Cultural heterogeneity and different levels of customer sophistication also impact marketing strategies of international firms and how brands are perceived in China. Three areas for future research are suggested.

Keywords China · Customer journey · Fashion · m-commerce · Mobile touchpoints

Mobile Touchpoints in the Customer Experience in China

The results of the two original empirical studies focused on the firm-side (Chapter 4) and the consumer-side (Chapter 5), together with the analysis of the contributions from the recent literature and secondary data (Chapters 2–3) confirm that in China, consumers' shopping experience is pervasively mobile connected. Customer experience can be conceptualized as the customer journey with a firm over time during the purchase cycle across multiple touchpoints (Lemon and Verhoef 2016). The main phases of the consumer journey include pre-purchase, purchase, and post-purchase, which should not be considered as three distinct stages. Indeed, after the consumption experience, customers can reenter the pre-purchase phase or go directly to the purchase phase if they become loyal to that particular brand. Therefore, the customer journey represents a continuous and dynamic process, in which consumers interact with several touchpoints in each phase. Touchpoints consist of individual contacts between the firm and the customer at distinct points in the experience (Homburg et al. 2017; Schmitt 2003); they can be directly under the control of the firm (such as advertisement) or a contact in which the firm is not involved (such as WOM). Over the past few years, digital and mobile touchpoints have become increasingly relevant.

For Chinese consumers, mobile devices are the primary tool used to access the Internet, compare and purchase products, and share their experiences in several ways: from posting “moments” on their WeChat circle to writing reviews etc. As discussed, the m-commerce experience has been analyzed considering utilitarian factors (ease of use, convenience, and personalization) and enjoyment/affective or hedonic factor (Agrebi and Jallais 2015; McLean et al. 2018; Rose et al. 2012), with the latter strongly mediating the effect of utilitarian factors on satisfaction (Chapter 5). Also in the Florentia Village (FV) case study, these two groups of factors emerge as affecting the overall shopping experience with regard to luxury fashion products. Despite the pervasiveness of online platforms (mobile platforms, in particular) in daily activities, indeed physical stores still represent a primary touchpoint to build customer engagement in China. Therefore, the results from these empirical

studies suggest that in order to provide a comprehensive customer experience, mobile touchpoints should be managed leveraging on a strong integration with physical stores. Omni-channel strategies seem to be already the dominant approach in the Chinese retailing, although for international firms it might be harder to implement them because they often operate through intermediaries that control *guanxi*.

Aside from utilitarian factors, m-commerce represents an activity from which Chinese consumers derive a high level of enjoyment. This holds for physical retailing as well. Indeed, the hedonic factor plays a key role for brand building and consumer education in store. First, physical stores, and flagship stores in particular, transmit brand value and contribute to reinforce the brand strength (Moore et al. 2010). Second, activities in store and loyalty programs engage consumers and increase loyalty towards retailers (Stathopoulou and Balabanis 2016). In the case of FV, since it is a high-end retailer, symbolic benefits are more important than utilitarian benefits in delivering consumer satisfaction.

Moreover, the store experience is highly digital itself. Consumers regularly pay using mobile payment systems, collect items purchased online, access Wi-Fi services or check the retailer's WeChat account for updates or promotions. Therefore, digital tools can enhance the customer shopping experience and also provide retailers with a huge amount of data that could potentially be used to improve their strategy. Indeed, big data can transform the fashion retail industry by using analytics to enhance their operations and maximize on profitability (Silva et al. 2019). On the other hand, in spite of the big data revolution, retailers should continue to ensure true continuity of consistent customer experiences (Dekimpe 2019). Figure 6.1 sums up the theoretical model of the mobile customer journey in China, derived from the literature review and the empirical studies in the fashion industry carried out in this book.

In order to define “mobile touchpoints,” it should be noted that:

- The model adopts the classification provided by Lemon and Verhoef (2016), who identify four types of touchpoints (including both traditional and digital touchpoints): brand-owned, partner-owned, customer-owned, and social/external. Among mobile touchpoints in China, examples of brand-owned mobile touchpoints (which are

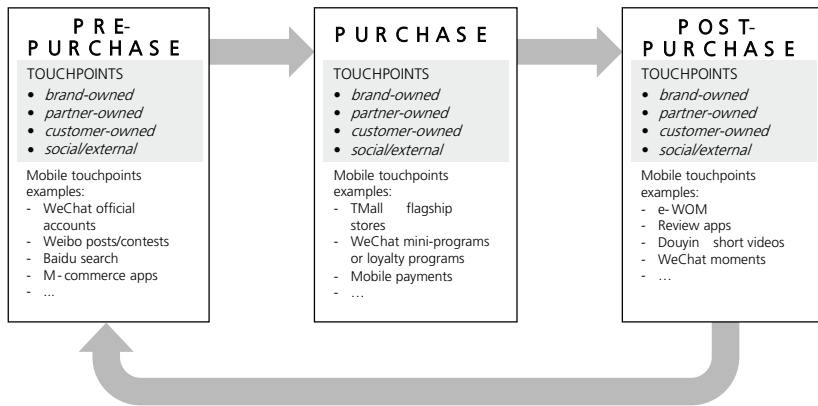


Fig. 6.1 The mobile customer journey in China (Source Developed by the Author)

designed by the firm and under its control) are WeChat loyalty programs or official accounts; partner-owned mobile touchpoints are those managed by the firm together with third parties like m-commerce platforms (e.g. Tmall flagship stores or WeChat mini-programs); customer-owned mobile touchpoints include contents created by customers (for example, video tutorials), which can also belong to the last touchpoint type—social/external touchpoints—in case they are shared with other users. The latter two categories are not under the firm’s control, although brands should monitor them and try to trigger positive e-WOM. Indeed, social/external mobile touchpoints (e.g. Douyin short videos, WeChat moments, reviews on sites like Meituan Dianping etc.) have a major impact on the purchase decision as Chinese consumers strongly rely on e-WOM information (Christodoulides et al. 2012). In Fig. 6.1, some examples of mobile touchpoints for each phase of the customer journey in China are listed.

- A distinction between e-channels and e-channel touchpoints has been made by Wagner et al. (2020). E-channels refer to categories of Internet-enabled devices (e.g. mobile devices or laptop), while e-channel touchpoints are specific digital shopping formats, which include mobile touchpoints.

Therefore, the following definition of mobile touchpoints is proposed: *Mobile touchpoints are specific mobile shopping formats employed by retailers (for example, a mobile shopping app) to provide consumers with an online shopping opportunity on mobile channels (for example, mobile devices).* In China, given the primary use of mobile channels for daily activities, mobile touchpoints are involved in all phases of the customer journey.

As argued by Herhausen et al. (2019), existing segmentation studies have largely overlooked mobile touchpoints despite their increasing usage in the purchase process. Although mobile touchpoints have not replaced traditional touchpoints, more studies should be conducted in order to understand how they shape a more digitally connected customer journey.

Implications for International Fashion Companies

Several managerial implications can be drawn from the findings of this book that primarily concern international fashion firms but are also relevant for firms from other sectors.

First of all, the Chinese market is digital and mobile. This means that any company operating in China or that wants to access this market should develop a digital strategy, which is a necessary investment. Otherwise, those companies will not “exist” for Chinese consumers or worse, their brands might be used by third parties. As the Head of Digital of FV explained:

People often think that launching a (digital) platform means sales. No. Launching a platform means that you will start new challenges so that the market, the online community will see your website [...]. Some brands state that they are not interested in the online channel. I believe that the idea of going online or not in China is outdated as your brand is already online, but you are not managing it, someone else buys your product and sells it under your name. You should not ask yourself whether you want to go online or not, but whether you want to lose the control over your brand.

Moreover, the online channel is so pervasive in China that it is perceived as integral part of people's daily life:

In China, the online channel is not perceived as in Western countries, where people buy discounted items. It is seen as an extension of the daily life, so they will not associate the online channel just with cheap brands. It is an experience that everybody must have. (FV Head of Digital)

The digital strategy should be developed bearing in mind the specific platforms used by consumers and their functions, for example WeChat mini-programs have become increasingly popular and Douyin represents the latest platform where to launch promotional activities.

International firms should also consider China's macro environmental characteristics, in particular culture represents a major factor because of the market heterogeneity (see Chapter 1). On the one hand, the Chinese middle and upper class have increased the awareness of international brands and their positioning as they purchase them more often and also travel abroad (moreover, young generations belonging to these social classes attend college in Western countries). On the other hand, the majority of the Chinese population still has a limited knowledge of foreign brands' characteristics. Therefore, consumer education activities should be developed on digital channels as well as in store to trigger familiarity with the brands. Moreover, while brand management should be controlled coherently at the national level (for example, implementing an official account on Weibo and WeChat), more specific marketing campaigns should be implemented locally considering China's regional characteristics, for example involving local KOLs for events or launching advertising activities in limited areas.

In physical stores, the shopping experience should be developed leveraging on hedonic elements, therefore initiatives that could engage consumers and are coherent with the brand should be periodically organized. In this context, the country of origin attribute could reinforce a positive brand perception of foreign retailers (for example, by organizing an event for the celebration of an international holiday). Such hedonic benefits should be also delivered through loyalty programs to be activated on mobile channels in order to enhance consumer loyalty.

Future Research Directions and Conclusion

In the future research, the findings from this book's empirical studies concerning international digital marketing in China should be verified in three main areas of investigation: other sectors, other countries under a cross-cultural approach, and considering China's intra-regional characteristics.

First, other sectors should be analyzed in order to extend findings' generalizability. Indeed, the central role of physical stores might be confirmed in other sectors that are highly experiential and where perceived status represents an important product attribute like furniture, while for utilitarian products the relevance of the experience in the point of sale might be reduced.

Second, future studies could consider some of these results as a starting point to carry out similar analyses in other countries. For example, it could be verified whether the omni-channel retailing approach in China is similar to other advanced Asian countries like South Korea or Japan. These markets would be also an interesting setting to test the TAM model in m-commerce, since both South Korea and Japan have quite an advanced e-commerce sector. Moreover, like China, they are characterized by a digital leadership of companies not representing the Western "tech giants" like Facebook or Google. Indeed, in South Korea the main social app is Kakao Talk, whereas Line is the first app in Japan. Like WeChat, Kakao Talk and Line allow users to send messages, but also exchange money and access several services. As already stressed, culture plays a key role in marketing and helps to explain the reason why certain business models might not work in a particular country, like in the cases of Amazon and EBay in China. In Japan and South Korea, Western platforms are not censored like in China, nevertheless users' interaction habits and communication styles are more closely met by Asian platforms' characteristics. For example, since their launch these applications have permitted users to insert emoji, something that was added by Facebook as a feature only at a later stage. Emoji are "picture characters" developed for mobile phones in Japan in the late 1990s, which have recently become popular worldwide in text messaging and social media with the adoption of smartphones supporting input

and rendering of emoji characters (Pavalanathan and Eisenstein 2015). The frequent use of emojis in countries like China (or Japan that also uses ideograms in the *kanji* system) could be explained by the symbolic writing system of Chinese language, as well as Chinese culture (Ge and Gretzel 2018). Therefore, drivers and effects of m-commerce should be explored under a cross-cultural approach, investigating similarities or differences among Asian consumers, or with consumers from Western countries and other countries characterized by a developed mobile shopping sector.

The last area of analysis is less explored yet deserves more attention. As argued in literature and confirmed by the FV case study, one of the main characteristics of the Chinese market is represented by its high internal heterogeneity (Chapter 1). Firms address regional differences in their marketing strategy (for example, by means of the product selection or developing ad hoc marketing activities that are implemented only in that particular area). However, little has been explored concerning the characteristics of online and mobile shopping among Chinese consumers from different regions. Some questions include: how do utilitarian and affective factors in online and mobile shopping differ among Chinese regional areas? Does the city-tier classification correspond to different consumer behaviors with regard to e-commerce and m-commerce? Such topics will be increasingly relevant for international firms, as while first- and second-tier cities have become very competitive and might be even considered as mature markets, new opportunities will arise from lower tier cities in the next decades. Segmented markets have facilitated domestic firms in China to catch-up with foreign multinationals by leveraging their initial advantages in rural markets to upgrade in the more competitive urban markets (Li et al. 2019). Therefore, not only answering these questions can contribute to the marketing literature in an underdeveloped area of investigation, managerial implications will be of primary relevance for international firms that face more competitive firms established in emerging markets.

In conclusion, the analysis of the Chinese digital scenario provided by this book has framed some of the main features, local players, and consumer insights that help to better understand the Chinese market

nowadays. In the light of international marketing, the regional characteristics of the destination market, including cultural elements, should be carefully examined in order to develop effective strategies. Otherwise, even globally successful companies might encounter epic failures in China as recently happened to the Italian firm Dolce&Gabbana in late 2018.¹ Recovering from such pitfalls might take a long time, while confronting a more competitive environment and consumers' fast and diversified evolution.

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¹In November 2018, Dolce&Gabbana cancelled a fashion event organized in Shanghai following a huge protest among Chinese netizens caused by three video clips considered to be racist together with some leaked messages apparently published by the Instagram account of the company founder Stefano Gabbana. Afterwards, the company apologized publicly, while all Chinese e-commerce platforms removed D&G items from their stores.

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