

Genesis China Distribution

Laetitia JOLY, January 26th, 2022

Introduction



Chinese consumers will make up **half of global luxury purchases by 2025** and they will mostly purchase **in their own country***.

Entering this huge market is “a must” for Luxury brands such as Genesis, a well established fashion luxury brand in France.

However, China is plenty of challenges: it is a very **large country and a fast changing market** with **complexities for western companies in terms of culture, laws and local compliances**. The process of entering the country can be tiresome and costly. **But everything is possible in China!**

In order to have a successful distribution network, we need to have a **strategy consistent with the most recent Luxury and Chinese customer trends** including the “phygital” journey of the client, the rise of lower tier cities, or their new habit of travelling within China.

We will see in the first part of this assignment which set-up format, network and channel is recommended to fit **Genesis positioning** (i) and the most recent **Chinese customers trends** (ii). Then, we will review different **Distribution scenarios** (iii).

Sources:

*MAD-luxury-convalescence-fast-forwarding-part-1 ENG.pdf (Page 17)

I - Genesis Positioning

I- Genesis Positioning

“Marque de creation”:

- Fashion brand with a unique creative vision, High-end positioning
- Best seller price in Europe : 1 200 Euros including taxes
- **Annual turnover: 5-20M Euros**
- International clientele looking for new brand universes
- Competitors: Amboush, Etude Studio, Craig Green, Koche, Patou, Roseanna.
- A Creative new brand needs an associated format set-up to reach more clients at the beginning, but they also need an Integrated one to have the full control for the long term brand development.

- At this stage of development, Genesis will focus on:
 - ⇒ Acceleration of e-shop sales
 - ⇒ Decrease wholesale as much as possible in favour of e-shop and Retail
 - ⇒ Opening their first stores for the full control of their brand

Recommended distribution set-up format:

Combination of Integrated and Associated or Hybrid set-up formats



II – Most recent Chinese customers trends

II - Most recent Chinese customer trends

1 - Get Phygital

- **E-commerce** is a very important channel in China. Customers spend a long time to experience luxury brands through digital spaces: live streaming, virtual reality, digital loyalty programs, and social retail experiences are major as purchasing drivers. Tmall Pavilion, WeChat, RED Mall are the most successful platforms which also allow brands to express their universe.
- However, **Physical store are still needed** to fully experience the brand. It complements the digital experience thanks to the possibility of using the 5 senses of the customers, and thanks to the "human factor". In other words, Digital nurtures the physical stores, the **Social Retail store** of Burberry in Shenzhen is a great example.

Recommended distribution channel:

E-commerce + physical boutique

Sources:

[MAD-luxury-convalescence-fast-forwarding-part-2 ENG.pdf \(page 2, 19 and 27\)](#)

[Deloitte Global Powers of Luxury Goods 2021 | Luxury e-commerce](#)

<https://jingdaily.com/in-china-luxury-must-bridge-digital-and-physical-like-never-before/>

<https://retailinasia.com/in-shops/gucci-to-launch-on-tmall-luxury-pavilion/>

<https://www.youtube.com/watch?v=uS1a1pF54hY>



II - Most recent Chinese customer trends

2 - Control of client data

- The ability to leverage the power of data to personalize the experience provided to each client creates a whole new dimension to the definition of luxury.
- Artificial intelligence and machine learning also give client advisors « super powers » and help the brand to stand out from the competition.
- In order to totally control these data, we need a “direct-to-consumer” strategy which is possible only through Retail network.

Recommended distribution channel :

Owned Boutique



II - Most recent Chinese customer trends

3 - Be agile

- As a **fast changing market**, China requires a level of agility higher than in other markets. It needs someone on site who has the power to take decisions on behalf of the brand. Much more than the usual subsidiaries.
- **Chinese culture, laws and digital environment are too complex** for Europe to fully understand it. The power of decision needs to be decentralized from Headquarters.

Recommended distribution network:

Management Services network



II - Most recent Chinese customer trends

5 - Sustainability

- Sustainable issues are rising up the agenda for Chinese consumers, but they have different priorities. They also don't want to listen to lectures.
- Brands can develop their sustainability dimension through managing the end of life of their products and finding for instance, a strategy to manage their left-over inventory. Both the environment and the brand's profitability will benefit from it.

Recommended distribution channel:

Outlet

Sources:
<https://www.scmp.com/magazines/style/luxury/article/3135546/chinas-woke-gen-z-want-sustainability-mindfulness-and>



II - Most recent Chinese customer trends

6 - The rise of lower tier cities

- Over 50% of luxury consumers in China live in cities that are 2nd tier, 3rd tier, or lower.
- **Benefits of entering 2nd tier cities:**
 - more opportunity for long term customer loyalty
 - sizable consumer base
 - more opportunity for growth
 - lower rent
 - less saturation of competition
 - less traffic and congestion
 - less competition for attracting and retaining talented employees

Recommended distribution channel:

2nd Tier city malls



II - Most recent Chinese customer trends

7 - Domestic travel

- During the National holidays week between the 1st to 8th Oct 2020, a news that "Hainan offshore duty free business sold 500 million RMB products in just 5 days" jumped into top searches of social media in China.
- Hainan Province has opened a new business window and now become a new destination choice of brick-and-mortar stores shopping of duty free products imported from oversea.
- The destination started to be so attractive that Hainan was one of the stop-offs for Watches and Wonders 2020.

Recommended distribution set-up format:

Travel Retail








II - Most recent Chinese customer trends

To sum up, our alternative scenarios will include these following networks and channels in order to fit the most recent Chinese trends.

SET-UP FORMATS

NETWORK

CHANNELS






INTEGRATED	3.1. RETAIL	 3.1.1. OWNED BOUTIQUES 3.1.2. DPT STORES CONCESSIONS 3.1.3. E-COMMERCE  3.1.4. OUTLETS
ASSOCIATED	3.2. WHOLESALE 3.3. LICENCES	3.2.1. SPECIALTY STORES & MULTIBRANDS 3.2.2. DPT STORES  3.2.3. E-COMMERCE 3.2.4. FRANCHISE 3.2.5. DISTRIBUTORS & AGENTS 3.3.1. LICENCES CHANNELS
HYBRID	3.4. AFFILIATION  3.5. MANAGEMENT	
	 3.6. TRAVEL RETAIL	

III – Distribution Scenarios

II - Distribution scenarios

Scenario 1 (given in this assignment) - **100% Associated set-up format.**






- Two franchised boutiques in Shanghai Plaza 66 and Beijing SKP with *CHIN Retail corp.*
- One distributor for the rest of China with *Blue Sky Inc.*

Client perception 	Brand's control 	Customer base 	Brand's workload 	Profitability 
<div style="text-align: center;">+</div> <ul style="list-style-type: none"> ○ The franchises is transparent for the customer, like an owned boutique. 		<ul style="list-style-type: none"> ○ The franchises are located in the 2 main 1st tier cities. ○ The distributor can reach the customers from the lower tier cities. 	<ul style="list-style-type: none"> ○ Time saving on local administrative and legal actions. ○ This allow a quick opening of the two boutiques. 	<ul style="list-style-type: none"> ○ No financial risk for the brand.
<div style="text-align: center;">-</div> <ul style="list-style-type: none"> ○ The distributors will give a less exclusive image, retailers needs to be carefully selected. ○ No digital shopping experience with pure players might not serve Genesis' image. 	<ul style="list-style-type: none"> ○ The franchises and the distributor do not allow total control of client data and experience. ○ Local managers may lack management skills. 	<ul style="list-style-type: none"> ○ The customer base could have been broaden with an E-commerce platform. 	<ul style="list-style-type: none"> ○ Finding and evaluating licensee candidates can be tough. 	<ul style="list-style-type: none"> ○ Not profitable for the Franchise (payback period not within 5 years). ○ No management of leftover inventory.

II - Distribution scenarios

Scenario 2 (given in this assignment) - **Combination of Integrated and Associated format.**

- Two owned boutiques in Shanghai Plaza 66 and Beijing SKP
- One distributor for the rest of China with *Blue Sky Inc.*

Client perception 	Brand's control 	Customer base 	Brand's workload 	Profitability 
<div style="display: flex; align-items: center;"> <div style="background-color: #e0e0e0; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; margin-right: 10px;">+</div> <div> <ul style="list-style-type: none"> ○ Owned boutique: Totally consistent with the brand environment and with other boutiques. </div> </div>	<ul style="list-style-type: none"> ○ The owned boutiques allow total control of client data, client experience and Brand Image. ○ Agility: possibility to have the brands office in China with a balanced power decision between global and local / limit the dependence on wholesalers. 	<ul style="list-style-type: none"> ○ The owned boutiques are located in the 2 main 1st tier cities. ○ The distributor can reach the customers from the lower tier cities. 		<ul style="list-style-type: none"> ○ Maximize the level of consolidated turnover.
<div style="display: flex; align-items: center;"> <div style="background-color: #e0e0e0; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; margin-right: 10px;">-</div> <div> <ul style="list-style-type: none"> ○ The distributors will give a less exclusive image, retailers needs to be carefully selected. ○ No digital shopping experience with pure players might not serve Genesis' image. </div> </div>		<ul style="list-style-type: none"> ○ The customer base could have been broaden with an E-commerce platform. 	<ul style="list-style-type: none"> ○ Heavy workload for the brand with complex local administrative actions. 	<ul style="list-style-type: none"> ○ High financial exposure: creation of the local company the first year and the annual running cost. ○ Bear the losses at the beginning until the store reaches the sales critical size. ○ No distribution channel for left-over inventory.

II - Distribution scenarios

Scenario 3 - Scenario including **domestic travel** and **leftover inventory strategy**.

- One **Management Service Agreement** boutique with *Bluebell* + one concession with a classical rent agreement with the **outlet** *Florenzia* in Shanghai
- One duty free boutique in Sanya **Duty Free** City in Hainan

Client perception



○ MSA boutiques: **no difference with owned boutiques.**

○ Outlet: some clients could see in the outlet the sustainable side of the brand.

○ Hainan duty free: comfort of shopping **experience needs to be improved.**

○ Outlet: some clients could not understand why **prices are so low.**

○ **No digital shopping experience** with pure players might not serve Genesis' image .

Brand's control



○ MSA is flexible: can be 100% management or only few compartments. The Brand can control **client data, client experience and Brand Image** through the operator who follows the brand strategy, or directly.

○ Hainan duty free: same as wholesale, **no control of client data nor experience.**

○ Outlet: no control of client data nor experience

Customer base



○ Presence in the **historical 1st tier city** thank to the boutique in Shanghai.

○ Hainan duty free: a way to reach clients from **lower tier cities.**

○ Outlet: a way to gain awareness from **younger generations with a lower spending power.**

Brand's workload



○ MSA:
 ✓ **operator manages all the local business** (creation of the company, legal, RH Logistic, Marketing, Retail).
 ✓ operational efficiency with functional expertise.

○ Hainan duty free: **light workload** for the brand.

○ The outlet **cleans-up the excessed inventory** after sale period.

Profitability



○ MSA: **economies of scale**, utilization of their resources, alternative to wholesale for new brand with low financial capacity.






○ Hainan duty free: **low financial risk** from the brand

○ The **outlet generates cash** with dead stocks.

II - Distribution scenarios

Scenario 4 - **Phygital** distribution focusing on **brand's control** with a combination of Integrated and Hybrid format.

- Two **Management Service Agreement** boutiques, one in Shanghai Plaza 66 and one in **Chengdu IFS** mall with *Bluebell*
- One concession with pure player **Tmall Luxury Pavilion** to cover the rest of China

	Client perception 	Brand's control 	Customer base 	Brand's workload 	Profitability 
+	<ul style="list-style-type: none"> ○ MSA boutiques: no difference with owned boutiques. ○ Tmall: High-end experience in Luxury sector, constantly innovate in immersive and engaging experience (VR technology to try on bag, shoes, virtual tour in store)... 	<ul style="list-style-type: none"> ○ MSA is flexible: can be 100% management or only few compartments. The Brand can control client data, client experience and Brand Image through the operator who follows the brand strategy, or directly. ○ In Tmall, Brands maintain complete control over the look, feel and experience for consumers as well as pricing and merchandising. 	<ul style="list-style-type: none"> ○ Presence in the historical 1st tier city thank to the boutique in Shanghai, but also into the new 1st tier city Chengdu. ○ Tmall: a larger wealthy clientele and it can reach any location for shoppers online including lower tier cities. 	<ul style="list-style-type: none"> ○ MSA: <ul style="list-style-type: none"> ✓ operator manages all the local business (creation of the company, legal, RH Logistic, Marketing, Retail) ✓ operational efficiency with functional expertise. ○ Tmall: no technical difficulties for implementation 	<ul style="list-style-type: none"> ○ MSA: economies of scale, utilization of their resources, alternative to wholesale for new brand with low financial capacity. ○ Tmall: acceptable level of cost but need to pay a 3rd party: the T partner. No extra cost.
-	<ul style="list-style-type: none"> ○ Tmall is also a high competitive environment. 				<ul style="list-style-type: none"> ○ No distribution channel for left-over inventory

Conclusion



The 4th scenario seems to be the most suitable for Genesis to enter China with a lot of Pros and not many Cons.

In the future, once Genesis reaches the level of 20-50 M Euros turnover, like *Off White* or *Stella McCartney*, the brand will be able to focus on:

- opening **more boutiques in the lower tier cities** in order to gain the clients who experienced the digital part of the brand.
- developing the boutiques with a specific digital aspect, such as the **Social Retail** concept in partnership with *Tencent*. *Burberry* developed a unique boutique that blends social media and retail to create digital and physical spaces for engaged communities to interact, share and shop.
- on the e-commerce aspect, Genesis could also explore mini programs on **WeChat**, another successful e-commerce platform in China with rising livestreaming sales.

The distributions options are multiple and they might change other time as consumers will have new habits linked to new technologies. Also, the competition will get fiercer and fiercer. One thing might not change: **a luxury client expects a unique experience which is possible only if the brand controls its client data.**