



# **The e Side of the commerce**

China

Confidential - June 2017

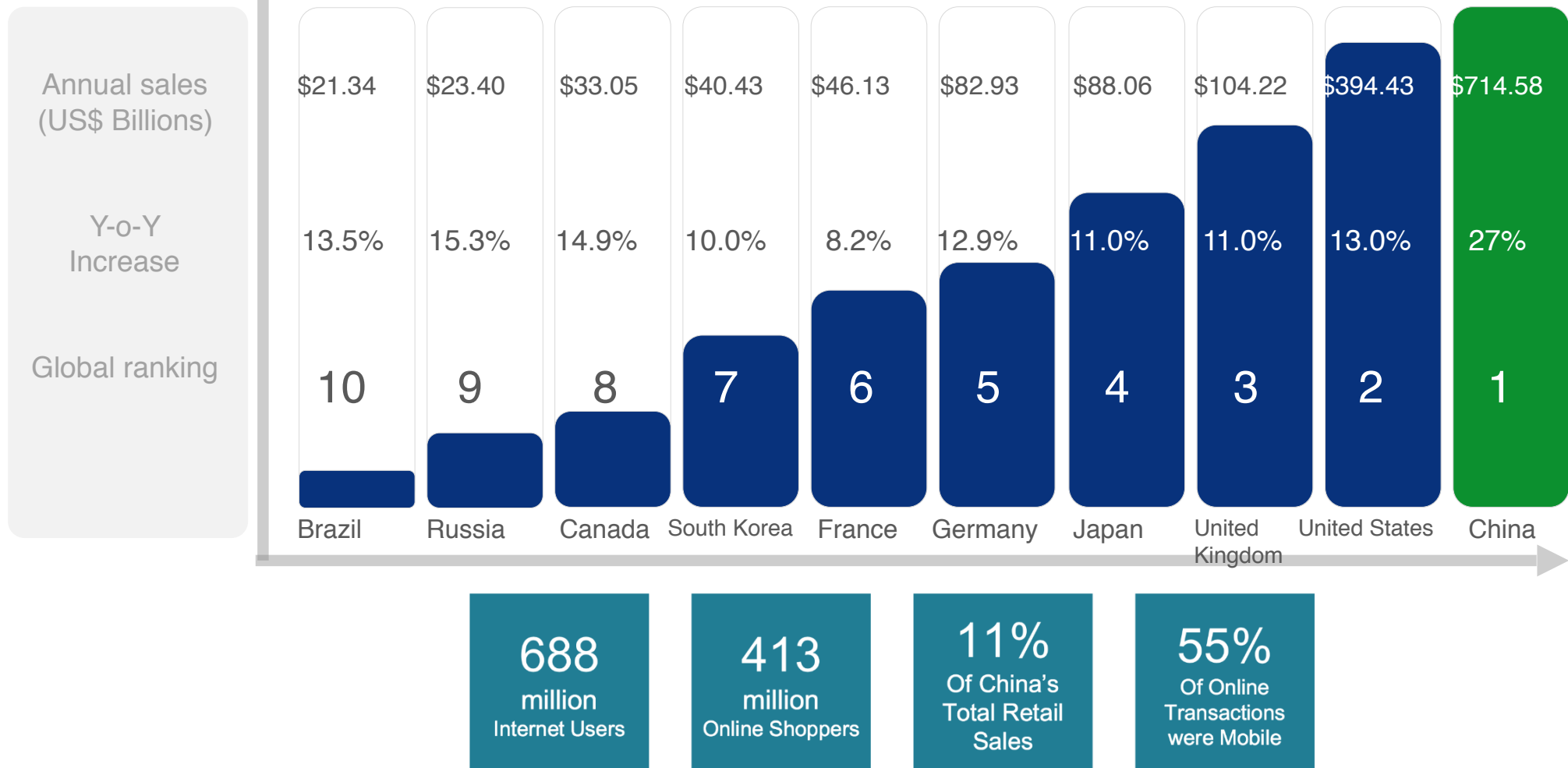
# Key messages

- ◆ **China is #1** eCommerce globally, expected to reach **USD 1 trillion by 2018**
- ◆ Consumers are rapidly sophisticating, hence demand quality, authenticity, excellence in the purchase experience and, above all, want to be informed and engaged by the brand (storytelling, exclusive services)
- ◆ The market has been traditionally dominated by one player (**Alibaba group**), even if the landscape is changing rapidly
  - **New eCommerce platforms are emerging**, with JD.com as the main threat to Tmall traditional dominance and new comers like VIP.com or Secoo.com trying to catch up quickly
  - **International brands** are flooding the arena, also leveraging new cross-boarder regulation and new services provided by incumbent platforms, even if most of them still lack the required worldclass service infrastructure
  - **Mobile ecommerce** is growing fast, boosted by overall mobile internet adoption in the country, and rapidly colluding with social media: WeChat is showing how, most probably, the future will look like
- ◆ **Digital payment tools**, especially mobile, are becoming mainstream, with Alipay and Tenpay (WeChat pay) as clear leaders
- ◆ As a consequence, most entry luxury brands are leveraging the opportunity posed by social media, eCommerce platforms and digital payment tools at best through an integrated approach

# China is the biggest eCommerce market globally

## 2016 Annual Sales Forecast for Top Ecommerce Markets Globally

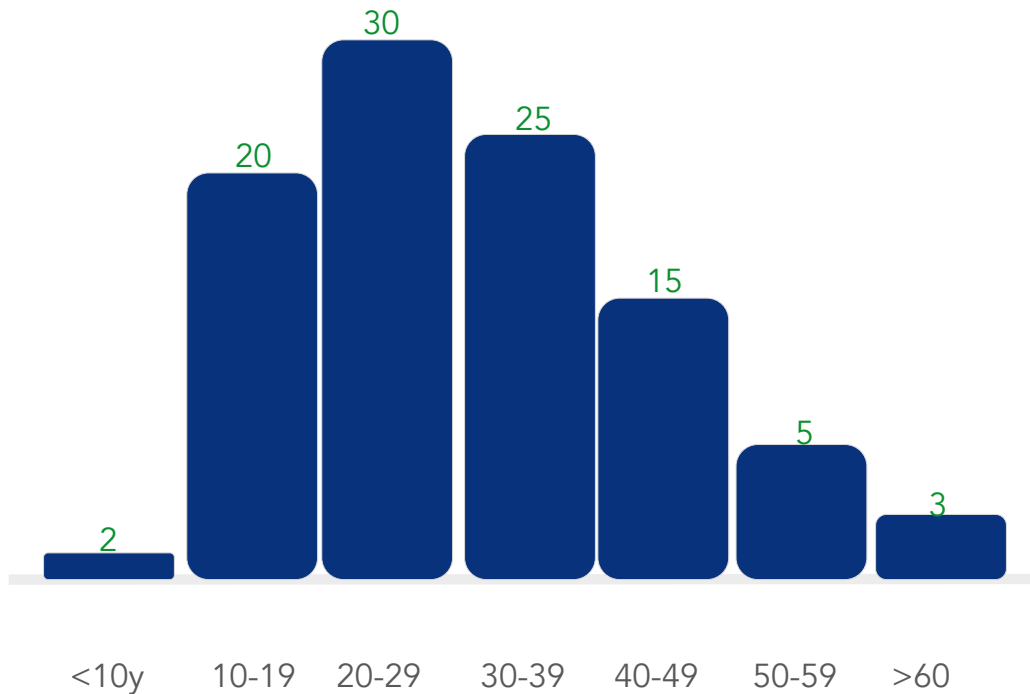
China is expected to rank #1 and grow 27% Y-o-Y



Source: eMarketer, iResearch, CNNIC, JD.com partners conference 2016

# Chinese consumers online shopping behaviours

Age distribution of China Online Shoppers  
2015, %



## Main habits of Chinese online shoppers

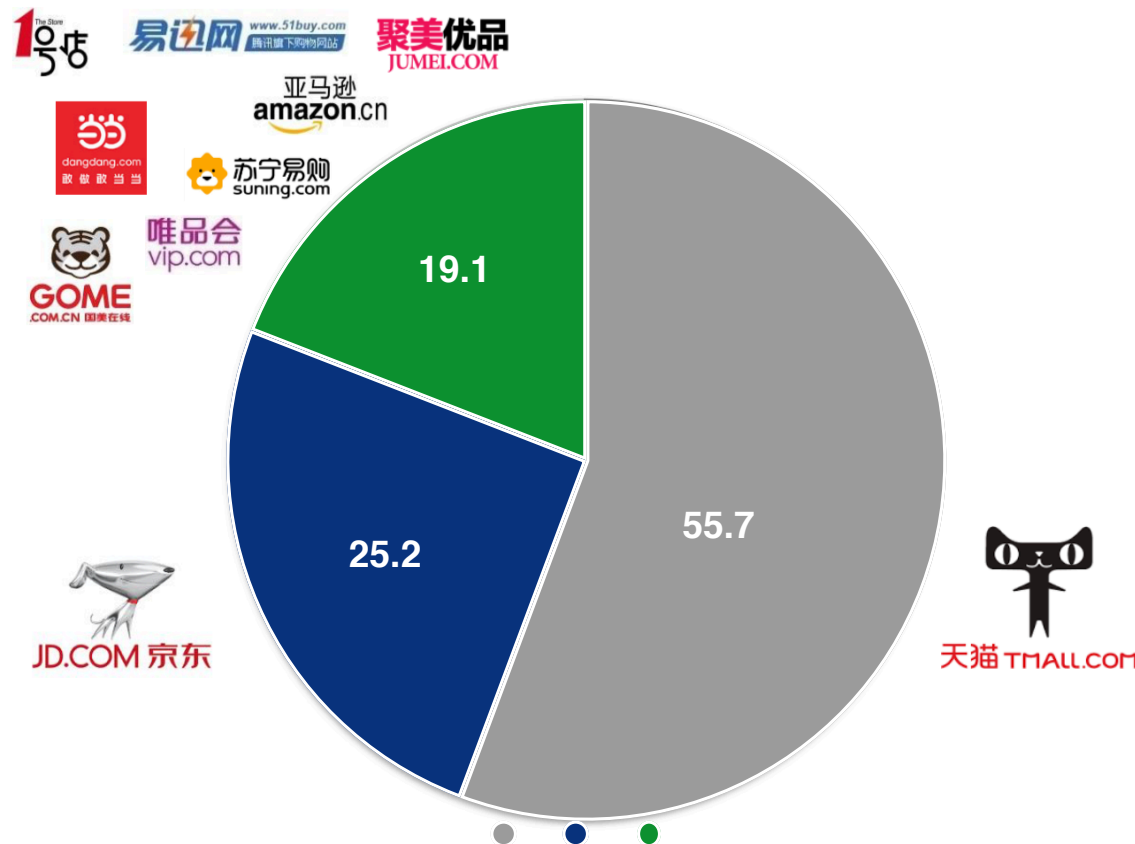
- ♦ **Traditional websites** are useful to show brand consistency, but **do not generate sales volumes**: Chinese online users spend only 0.5% of their time browsing traditional websites
- ♦ **eCommerce and social media platforms are the place to be**: between 50 and 80% of time spent online happens on Tencent or Alibaba properties
- ♦ **Self-education about brands is key**: around 90% of activities performed online by Chinese netizens are directly related to product education
- ♦ **Mobile is king**: more than **72% of JD.com orders in Q1 2016<sup>1</sup>** were placed through a smartphone

<sup>1</sup> 1JD.com sales volumes in Q1 of 2016 were equal to 120bn USD

Source: Analysys.cn - National Bureau of Statistics on China, BCG 2015, JD.com 2016



# The online B2C market is still dominated by Tmall, but JD.com is establishing as a clear challenger

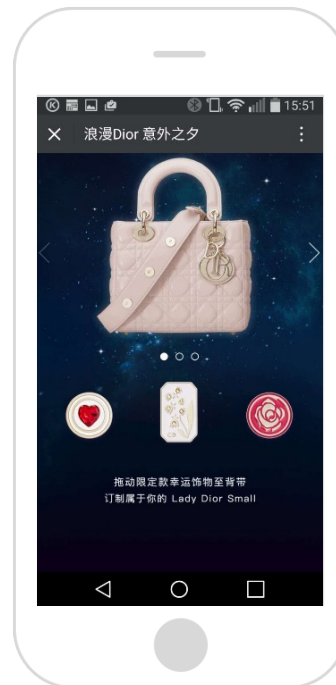


- ◆ **Tmall**, sustained mostly by Taobao and Alipay penetration is still the clear leader, still it's long lasting fight against counterfeits is posing some threats
- In 2015 **JD.com** grew at twice the speed of the industry, mostly leveraging:
  - A “zero counterfeit policy” since its beginning, in line with consumer demand
  - Seamless integration with WeChat, becoming “one-click-away” from its 800mn monthly active users base
- New comers like **VIP.com** and **Secoo.com** are experiencing positive growth but still lack global infrastructure and flexibility in the operating model to meet global brand requirements

Source: eMarketer, JD.com partners conference 2016

# Social commerce, in China, is already a reality: WeChat has become “the” communication channel for most fashion brands

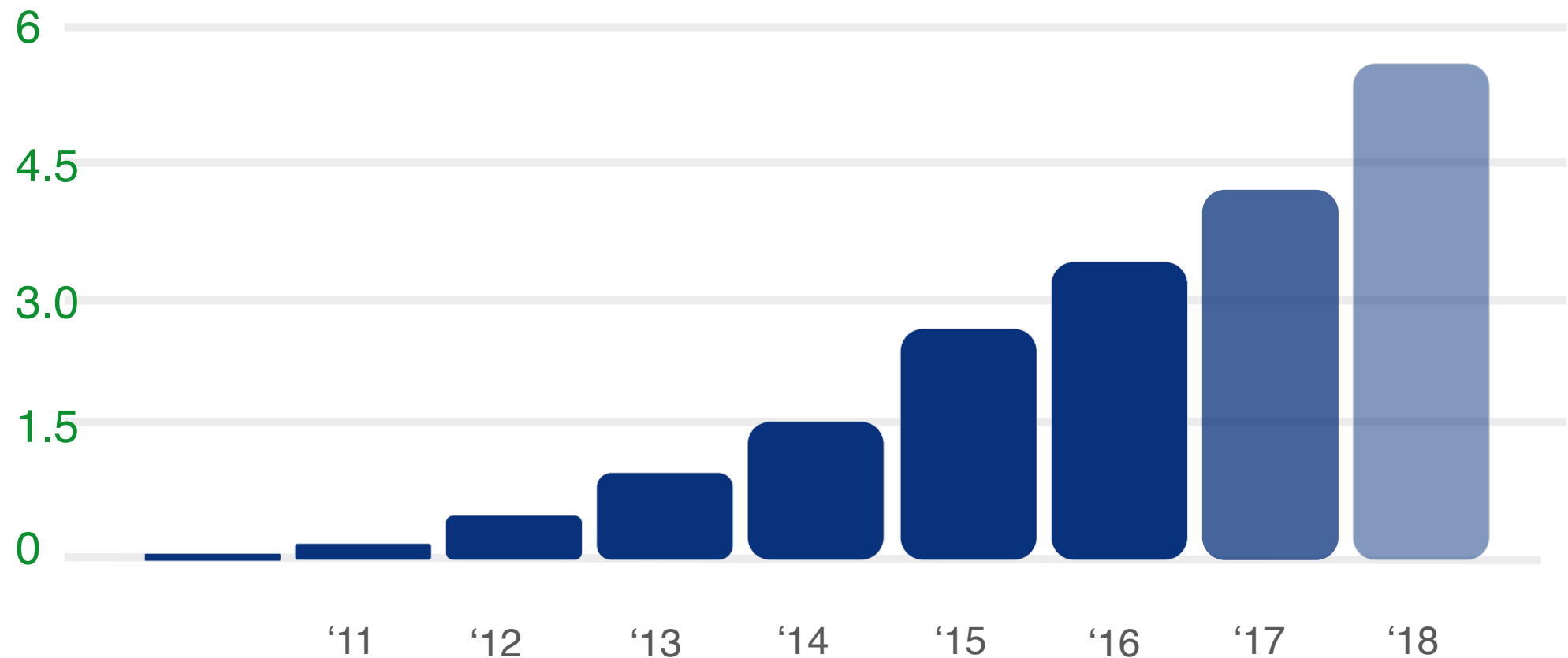
- ◆ 800 million monthly active users
- ◆ 93% smartphones penetration
- ◆ 39Bn red envelopes exchanged in 10 days during last Chinese New Year celebration, equals to 50Bn USD bank transfers via WeChat in the period
- ◆ 60% of users searched fashion products at least once in the last year



- ◆ For Chinese Valentine's day in 2016, a limited number of the “Lady Dior” bag went on sale on WeChat Dior's Official Account
- ◆ With the only announcement leading up to the release coming the day before in the form of a teaser on the company's public WeChat account...
- ◆ All 200 bags (priced 4.2k USD each) went sold out in a day

# Mobile payment payment tools are almost mainstream

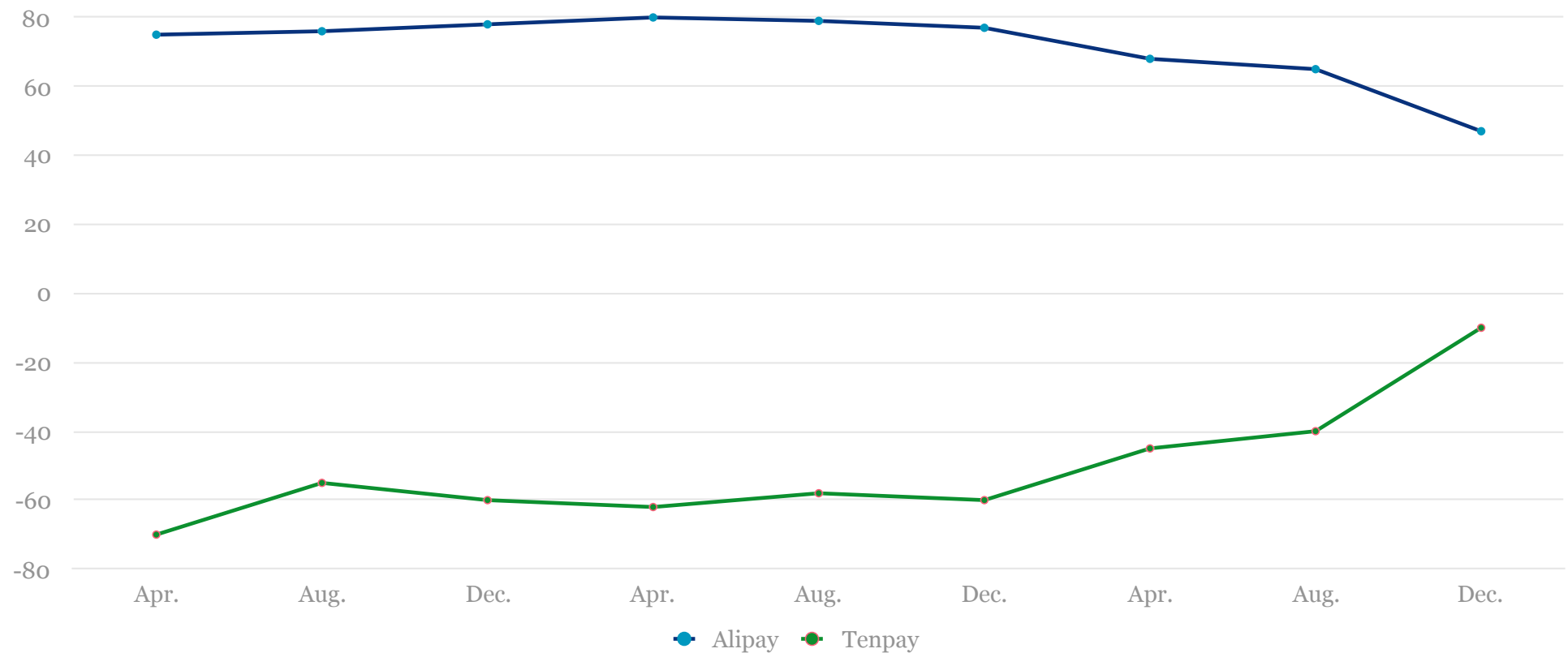
Amount processed by mobile payments firms in China, USD trillion



Source: iResearch 2016

## ...Market share evolution shows how social media are affecting eCommerce

China's mobile payment firms market-share, 2016, %



Source: iResearch 2016

# Key messages

- ♦ **Main painpoints and pitfalls faced by western brands approaching China are:**
  - Lack of the “big picture”, hence not providing customers with an exhaustive digital purchase experience consistent across all platforms
  - Loose cooperation with local partners, negatively affecting brand positioning and execution vs global standards
  - Unbalanced cooperation between local market and HQ structures: no CRM integration, detached customer care procedures, unbalanced service levels
- ♦ **Hence, we are structured to:**
  - Provide our clients with a team of real experts, based in Italy and China, to help design and execute the best strategy of digital expansion in China (i.e., digital and social media management, eCommerce)
  - Select and activate most appropriate logistic partners based on each specific client situation
  - Roll-out and manage day-by-day activities (i.e., store management, promotions, customer care, market analysis) through our office in Shanghai
- ♦ **As a consequence, our clients can benefit from:**
  - A close relationship with most relevant internet giants in China as Mili<sup>oo</sup>ne
    - thanks to its unique relationship with Tencent (owner of WeChat), has direct access to the leadership of JD.com (since JD.com is participated by Tencent)
    - has long lasting relationships with Alibaba
  - An Italian and Chinese team, based in Italy and China, ensuring that all specificities of the client are full understood and consistently executed locally

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**Our approach**

## Milioone's elements of distinctiveness

- ◆ **A single contact point for all China sales & operations activities**

Based in Italy and China, we can provide a consistent “end-to-end” solution, covering from the creation of the legal entity, to all local account management, administrative procedures, marketing and advertising, merchandising, store manager, promotions, logistics, operations, customer care and sales monitoring activities.

- ◆ **A skilled team fully dedicated on doing business in China**

Team of Italian and Chinese professionals covering all eCommerce related topics, 100% focused on Italy-China eCommerce.

- ◆ **Strong partnership and direct access to major internet giants in China**

Due to our close relation with Tencent & JD.com and the long lasting relationships of our team with Alibaba, we can benefit from all technological and market innovations developed by the two most relevant internet players in China.

- ◆ **Strong experience in Apparel & Fashion industry**

Just in the last 12 months, we have been engaged in strategy design and digital execution of China business development projects for several tier 1 brands in apparel and fashion industry.

# How are we organized and how do we work

## How are we organized

Team	mili <sup>OO</sup> ne Italy The e side of the business		mili <sup>OO</sup> ne China The e side of the business	
	Key Account	Technology	Delivery	Delivery
Role	Work with Client to design strategies and coordinate execution	Design and implement required tech solutions and system integrations		Manage client related operations
Core Skills	<ul style="list-style-type: none"> <li>◆ Digital marketing strategy in China</li> <li>◆ Client management</li> <li>◆ Industry vertical experience</li> </ul>	<ul style="list-style-type: none"> <li>◆ Solution design and system integration</li> <li>◆ eCommerce platforms and technologies</li> <li>◆ PHP, Java, H5 development</li> </ul>	<ul style="list-style-type: none"> <li>◆ Content management and adaptation</li> <li>◆ Graphic design</li> <li>◆ ADV planning (Tencent, Baidu, Weibo, Tmall)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Stores management</li> <li>◆ Promotions</li> <li>◆ Market research</li> <li>◆ Compliance</li> <li>◆ Customer care</li> </ul>

## What we aim at

- 
- ◆ Close relationship with Client team in all phases of the collaboration
  - ◆ Seamless integration between Italy and China teams and activities
  - ◆ Flexibility to manage activity peaks and local partners performances
  - ◆ Deep knowledge of both Client context and Chinese ecosystem & market trends



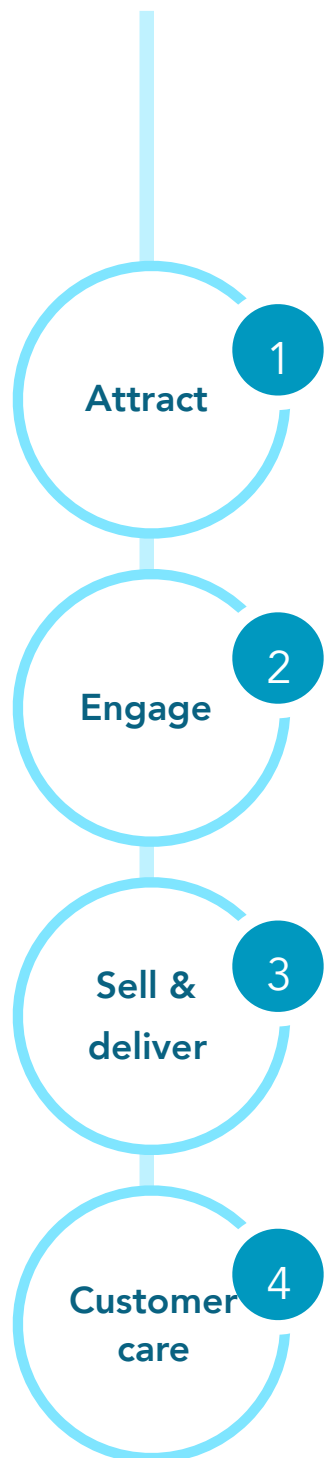
# Key messages

- ♦ Considering market and consumer trends, common pitfalls and key learning from recent experiences as outlined in previous chapters, we have designed an approach which:
  - **Starts from WeChat** to attract, engage, inform and serve customers
  - Includes two contact points, to be sustain the overall positioning, still with limited investments:
    - a **officialwebsite.cn** site to optimize dynamic content management, leverage company's already existing digital assets and reach non-mobile users
    - a Weibo account to ensure an “official” presence on a still relevant social media channel in the industry
  - **Is focused**, at least in the first phase, on two sales platforms:
    - **TMALL**, due to its size and relevance in the entry luxury segment
    - **JD.com** due to its “zero fake” tolerance, higher positioning and, above all, full integration with WeChat
  - Is based on a “cooperative” delivery model to provide close support and coordination at HeadQuarter level while preserving a “local touch” thanks to our ITALY - CHINA distributed team
- ♦ We also recommend the opening of a local legal entity in order to:
  - Be allowed to open a **.cn website hosted in mainland China**, hence ensuring a browsing performance in line with market standards
  - Be allowed to get payments through **Alipay** and **WeChat pay**
  - Have access to **TMALL** and **JD.com** local platforms, instead of “global” sites which are still showing some limits in terms of performance

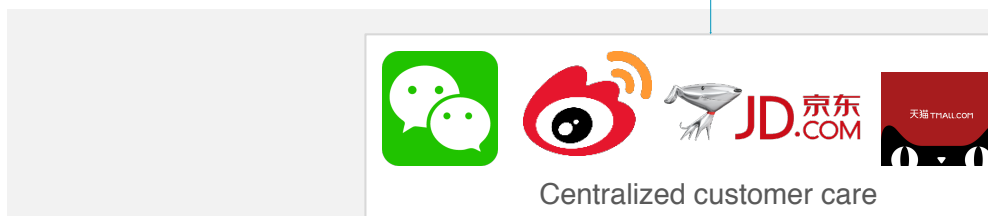
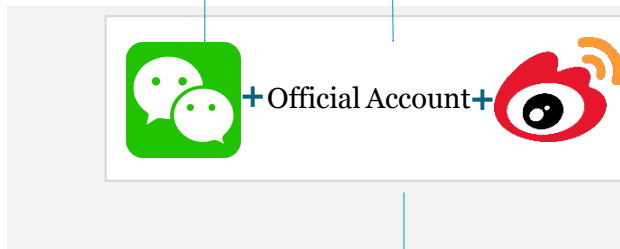
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**Our solution**

# Helicopter view of the proposed approach to the market



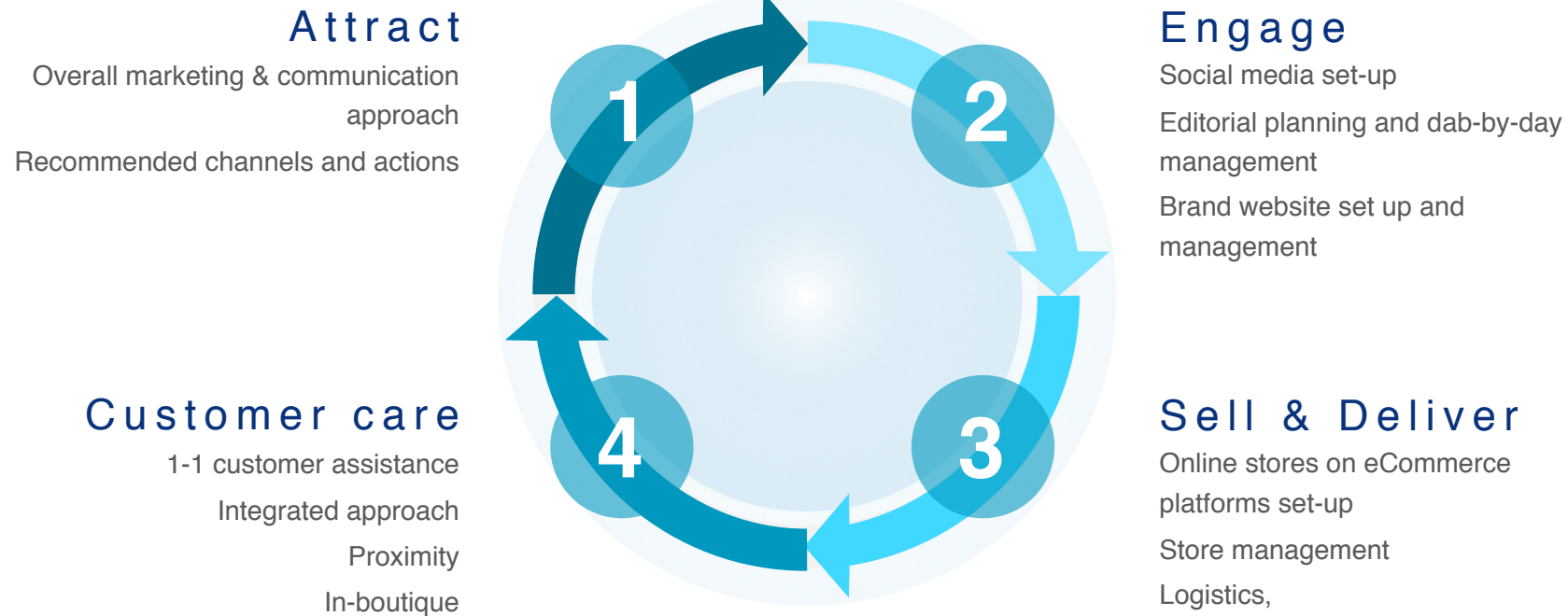
## Customer purchase process



## Rationale

- ◆ Leverage WeChat profiling tools and adv formats to build brand awareness and a base of profiled followers
- ◆ Tactically promote selected products on TMALL to generate leads
- ◆ Centralize engagement and storytelling activities on Client Official Account on WeChat leveraging H5, website contents and broadcast message features
- ◆ Leverage TMALL volumes and JD.com integration with WeChat
- ◆ Maximize synergies (stock, product catalogue, eCommerce manager, ...)
- ◆ Manage all activated digital contact points through a centralized customer care team

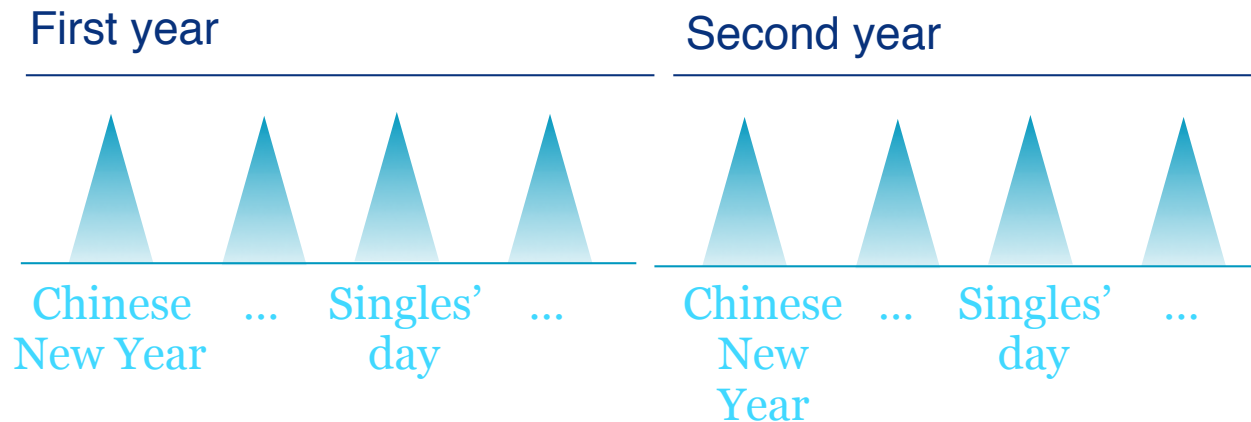
# Focus on key elements of the proposed solution



# 1 WeChat flights to acquire followership and leverage key sales periods, Tmall and JD.com to sustain top selling items

## High level advertising investments allocation

## Main rationale



- ◆ Effective audience profiling tools to deliver targeted messages and acquire valuable users
- ◆ Once acquired, users can be reached by branded messages with no additional costs



- ◆ No investment on JD as WeChat will represent the main source of leads
- ◆ Limited investments on TMALL in the first period as low brand awareness would anyway hardly convert clicks into actual sales



# 1 Example of a WeChat banner campaign

## Actions

- ◆ Planning 3 flight of 35k on WeChat:
  - Click to follow campaign during Chinese New Year
  - Banner campaign brand awareness during San Valentine's day
  - Click to follow campaign during Mid Autumn Festival

## Example



Banner Click to Follow



Brand activity banner

## Results

- ◆ Slowly increase followership base: 35,000 followers
- ◆ Create awareness around features

# 1 Example of a WeChat moments campaign

## Actions

- ◆ Planning 1 flight of 35k on WeChat:
  - Ads Moments Campaign during Single's day
- ◆ Moments campaign linked to a native WeChat landing page within the Official Account displaying engaging contents aimed to strength the brand awareness

## Example



Adv Moments

Adv Moments

## Results

- ◆ Increase followership base: 20.000 followers
- ◆ This campaign has a high impact on the brand perception and a huge sharing rate on users' Moments walls

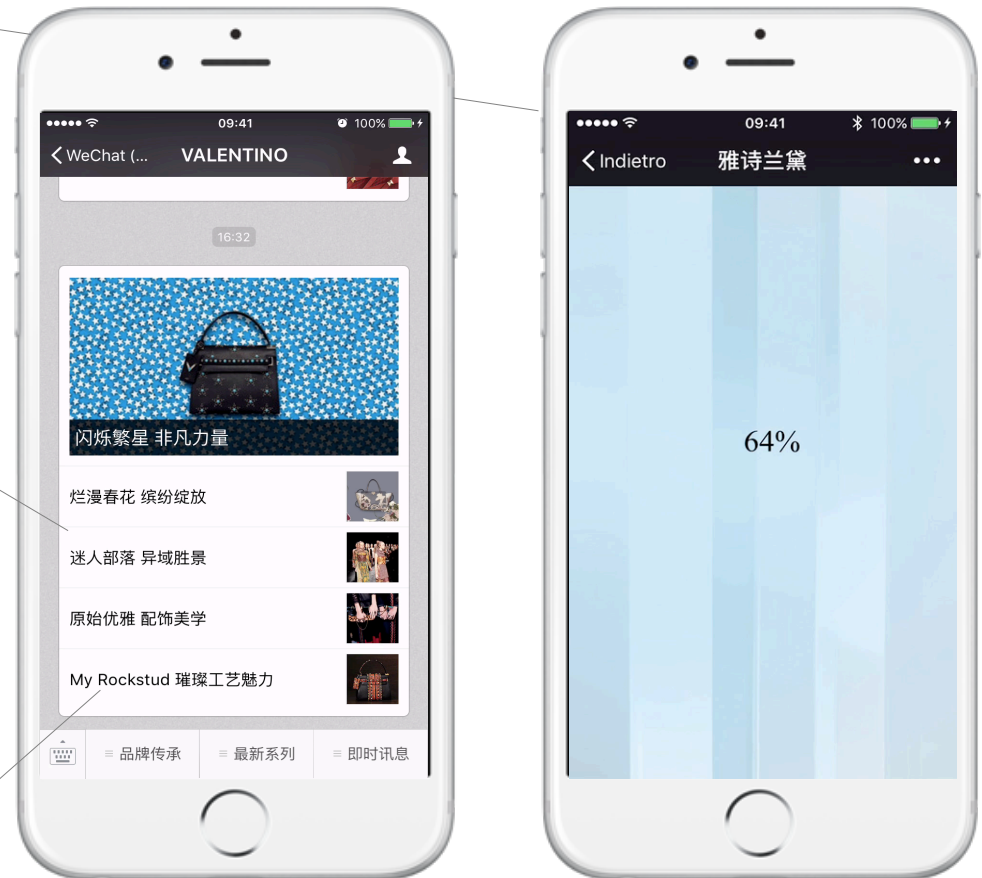
## Engage

### 2 WeChat official accounts are, in China, the first and most direct moment of truth when dealing with a brand

Interactivity and dynamic experiences, typically implemented through HTML5 experiences, have become the standard for most F&L brands to entertain, inform and collect data from their customers

Periodic messages can be broadcasted by the brand to its follower base to push updates, commercial offers or promotions

Customizable menu to allow quick access, within the app, to specific contents and services (e.g., store locator, brand history, product catalogue, ...) From this menu, followers of the brand can also send private messages to the brand and get 1-1 assistance





## 2 officialwebsite.cn and Weibo: required channels to be managed, at least in the first stage, maximize synergies to limit costs

	Main rationale for setting up the channel	Role within the overall go-to-market strategy	Our approach to manage the channel
<b>.CN</b>	<ul style="list-style-type: none"> <li>◆ Make developed contents searchable and available also to web users</li> <li>◆ Sustain trust and brand positioning</li> <li>◆ Host contents and deliver them quickly (no firewall)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Provide full experience and details to customers / prospects willing to know more about client's product</li> <li>◆ In phase 2, support direct eCommerce features</li> </ul>	<ul style="list-style-type: none"> <li>◆ Share contents on both WeChat and .cn site to maximize synergies</li> <li>◆ Design and maintain .cn in accordance with global website guidelines, balancing them with local tastes</li> </ul>
<b>Weibo</b>	<ul style="list-style-type: none"> <li>◆ Guard a still relevant social media for influencers marketing</li> <li>◆ Prevent/contrast fake accounts with an official presence</li> </ul>	<ul style="list-style-type: none"> <li>◆ In the first phase, portions of WeChat posts during the week to enhance frequency</li> </ul>	<ul style="list-style-type: none"> <li>◆ Minimize costs by:               <ul style="list-style-type: none"> <li>• Posting adapted versions of WeChat contents</li> <li>• Moderate the channel using same resources in charge of customer care on other channels (TMALL, JD.com, WeChat)</li> </ul> </li> </ul>

### 3 Tmall and JD.com as the core eCommerce platforms to be leveraged

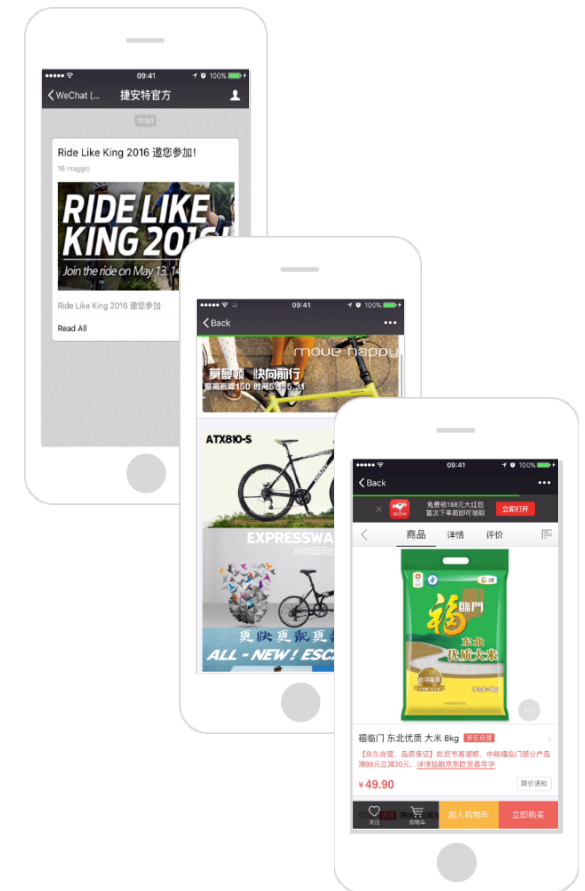
Main eCommerce platforms considered	Key selling points	Potential risks and current limitations	Recommended strategy
	Biggest eCommerce marketplace	Fake market and brand cannibalization	<ul style="list-style-type: none"> <li>◆ Start on Tmall to drive traffic and push offers</li> <li>◆ Leverage JD.com for brand positioning and WeChat integration</li> <li>◆ Selectively consider VIP.com in a later stage</li> <li>◆ Add Secoo.com to sustain higher positioning as soon as the brand gets some traction</li> </ul>
	Fastest growing marketplace Competitive price Integration with WeChat	Well known for electronics, not weaker on luxury and apparel	
	Actively seeking partnerships with Italian brands	Flash sales model, hardly suitable to sustain a full eCommerce strategy	
	Elite positioning Some Italian brands already active on the marketplace	Low traffic volumes Weak brand positioning Still unclear business model	

Sell & deliver


### 3 How a TWINSET flagship store on TMALL and JD.com might look like

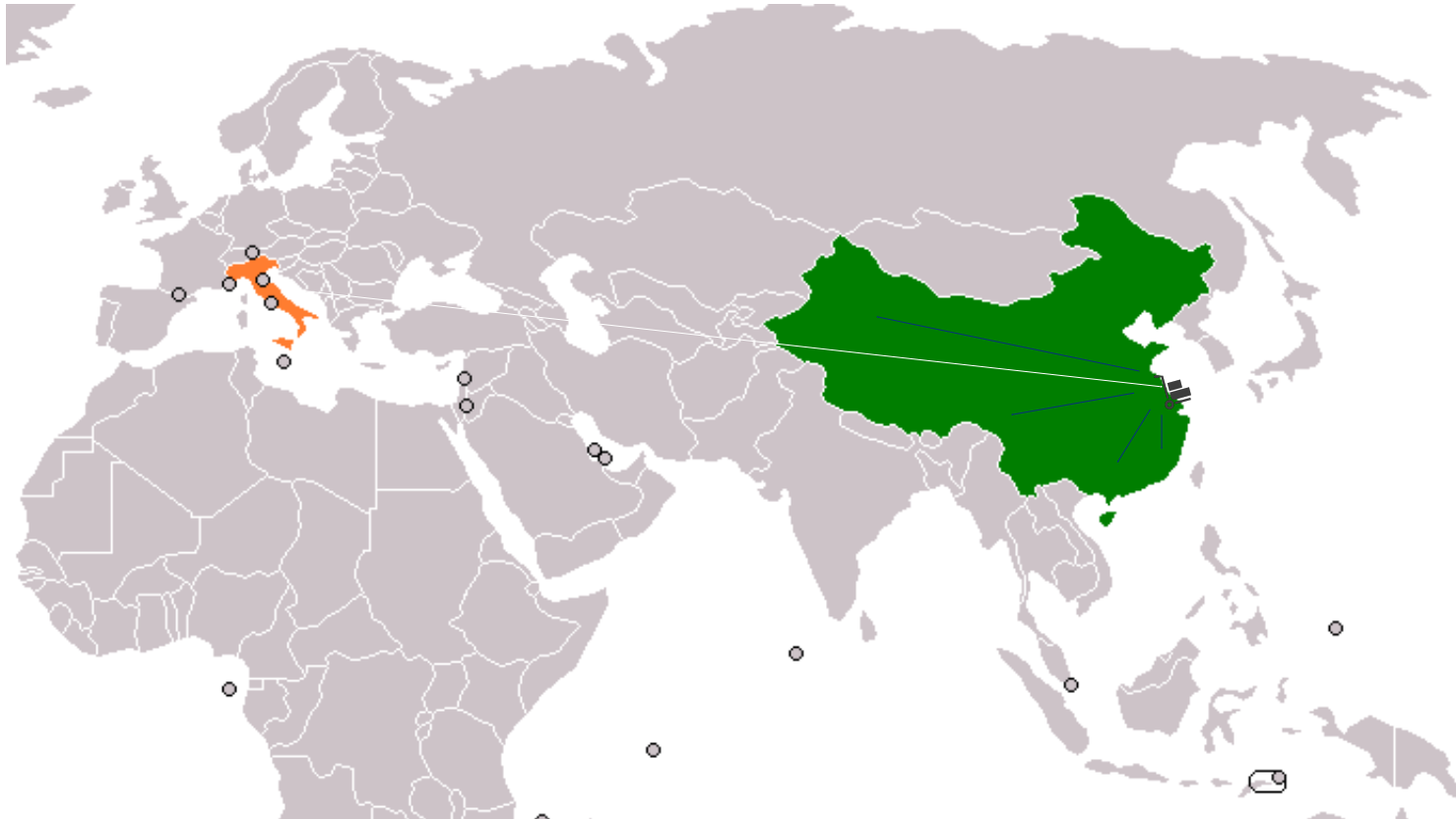
Flagship shops on TMALL.com and JD.com: how do they look like

Full integration of JD.com with WeChat: how does it look like



### 3 Overview of the logistic footprint

 Logistic partner's area of responsibility



#### General advantages of Free Trade Zones

- ◆ Custom clearance only after actual sales, postponing costs and simplifying product stocking
- ◆ Possibility to ship back unsold products
- ◆ Tax benefits for online sales

Products are shipped towards a Free Trade Zone



As they reach the FTZ, products are inspected, labeled, and stocked



Once a product has been successfully sold online (and paid), it is cleared by customs and delivered to the final client

### 3 Logistics partner selection: how do we work and where do we stand

Short listing

Offers collection

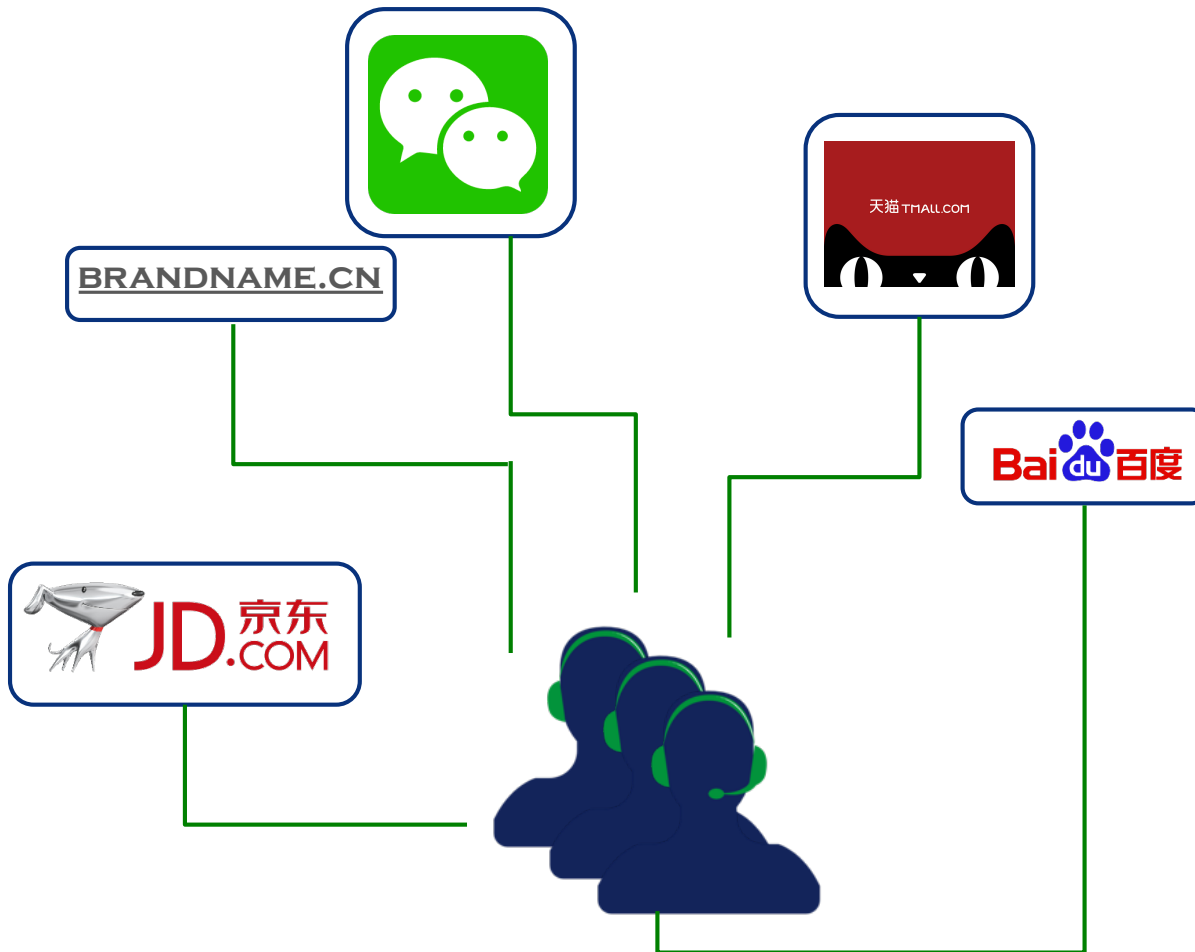
Operations set up

Step			Inspection and selection	
<b>Activities</b>	<ul style="list-style-type: none"> <li>◆ Collection of Client's requirements (expected volumes, size, weight,...)</li> <li>◆ Selection of 3-7 potential partners which meet given requirements</li> </ul>	<ul style="list-style-type: none"> <li>◆ Proactive 1-1 approach to each of the selected potential partners and deep dive</li> <li>◆ Collection of detailed offers from most appealing short listed partners</li> </ul>	<ul style="list-style-type: none"> <li>◆ Support Client in 1-1 conference calls with potential partners which presented most appropriate offers</li> <li>◆ On site visits</li> </ul>	<ul style="list-style-type: none"> <li>◆ Support Client in final negotiation and contract finalization</li> <li>◆ Work with selected partner and Client's logistic team to set up operations</li> </ul>
<b>End products</b>	<ul style="list-style-type: none"> <li>◆ Short list of potential partners</li> </ul>	<ul style="list-style-type: none"> <li>◆ List of concrete offers</li> </ul>	<ul style="list-style-type: none"> <li>◆ Deep dives and detailed offers</li> </ul>	<ul style="list-style-type: none"> <li>◆ Partner contracted</li> <li>◆ Operations in place</li> </ul>
<b>N. of potential partners</b>	<ul style="list-style-type: none"> <li>◆ 1.000</li> </ul>	<ul style="list-style-type: none"> <li>◆ 7</li> </ul>	<ul style="list-style-type: none"> <li>◆ 3</li> </ul>	<ul style="list-style-type: none"> <li>◆ 1</li> </ul>

## 4 Close relationship with client to ensure full consistency with brand standards and tone of voice

Step	Set up	Training	Delivery	Review
<b>Activities</b>	<ul style="list-style-type: none"> <li>◆ Collection of:                             <ul style="list-style-type: none"> <li>* Client style guide (e.g., vocabulary, tone of voice, brand elements of distinctiveness, ...)</li> <li>* Standard Q&amp;A</li> </ul> </li> <li>◆ Definition of:                             <ul style="list-style-type: none"> <li>* Escalation procedures</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ Preparation of materials in Chinese (e.g., Q&amp;A, procedures, contacts, ...)</li> <li>◆ Training to Mili<sup>oo</sup>ne team in Shanghai</li> <li>◆ Role plan and test</li> </ul>	<ul style="list-style-type: none"> <li>◆ Active management of real customer requests</li> <li>◆ Daily monitoring of performances</li> <li>◆ Random quality checks and review with Client team in Italy</li> </ul>	<ul style="list-style-type: none"> <li>◆ Periodic review of achieved resultss (e.g., request volumes, hot topics)</li> <li>◆ Discussion on improvement possibilities</li> </ul>
<b>Resources involved</b>	<ul style="list-style-type: none"> <li>◆ Mili<sup>oo</sup>ne:                             <ul style="list-style-type: none"> <li>* Key Account Manager</li> <li>* Head of Delivery</li> <li>* Allocated members of the delivery team in Italy (Italian-Chinese speakers)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ Mili<sup>oo</sup>ne delivery team (Italy and Shanghai)</li> <li>◆ Client for approval</li> </ul>	<ul style="list-style-type: none"> <li>◆ Mili<sup>oo</sup>ne delivery team in Shanghai (customer support)</li> <li>◆ Mili<sup>oo</sup>ne Head of Delivery and Client (for quality checks)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Client's team</li> <li>◆ Mili<sup>oo</sup>ne:                             <ul style="list-style-type: none"> <li>* Key Account Manager</li> <li>* Head of Delivery</li> </ul> </li> </ul>

## 4 One team across all channels to ensure consistency, continuous learning and cost efficiency



- ◆ Our customer care team will manage requests coming from all activated channels, ensuring consistent quality and style
- ◆ Over time, thanks to our partnership with local services provider specialized in call center and digital customer care we could define a proper CRM strategy.
- ◆ Our solution can be collected and integrated with Client CRM system.

## 5 An organization designed to meet the real needs of each phase of the activity

	Milioone Italy	Milioone China	Logistics provider
Market strategy and governance	<ul style="list-style-type: none"> <li>◆ Overall strategy definition</li> <li>◆ Performance review and coordination with the Client</li> </ul>	<ul style="list-style-type: none"> <li>◆ Market analysis, benchmarking and customer survey</li> </ul>	<ul style="list-style-type: none"> <li>◆ Defined to meet business requirement</li> </ul>
Marketing & Sales	<ul style="list-style-type: none"> <li>◆ Marketing &amp; Sales activity planning &amp; coordination with the Client</li> <li>◆ Channels set up</li> <li>◆ Social media management</li> <li>◆ Creativity and tech development</li> <li>◆ Monitoring &amp; reporting</li> </ul>	<ul style="list-style-type: none"> <li>◆ Day by day activities management (<b>merchandising, store management, customer care, promotions, sales monitoring and reporting</b>)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Packaging</li> <li>◆ Last mile delivery service</li> <li>◆ Lost and refund</li> </ul>
Operations	<ul style="list-style-type: none"> <li>◆ Logistics partner selection</li> <li>◆ Support in the negotiation with the Client</li> <li>◆ Periodic review</li> </ul>	<ul style="list-style-type: none"> <li>◆ Coordination of day by day activities (order management, ...)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Warehouse management, stock products, pick and pack, handle returns and</li> <li>◆ Recondition returned products dresses, knitwear, other</li> </ul>



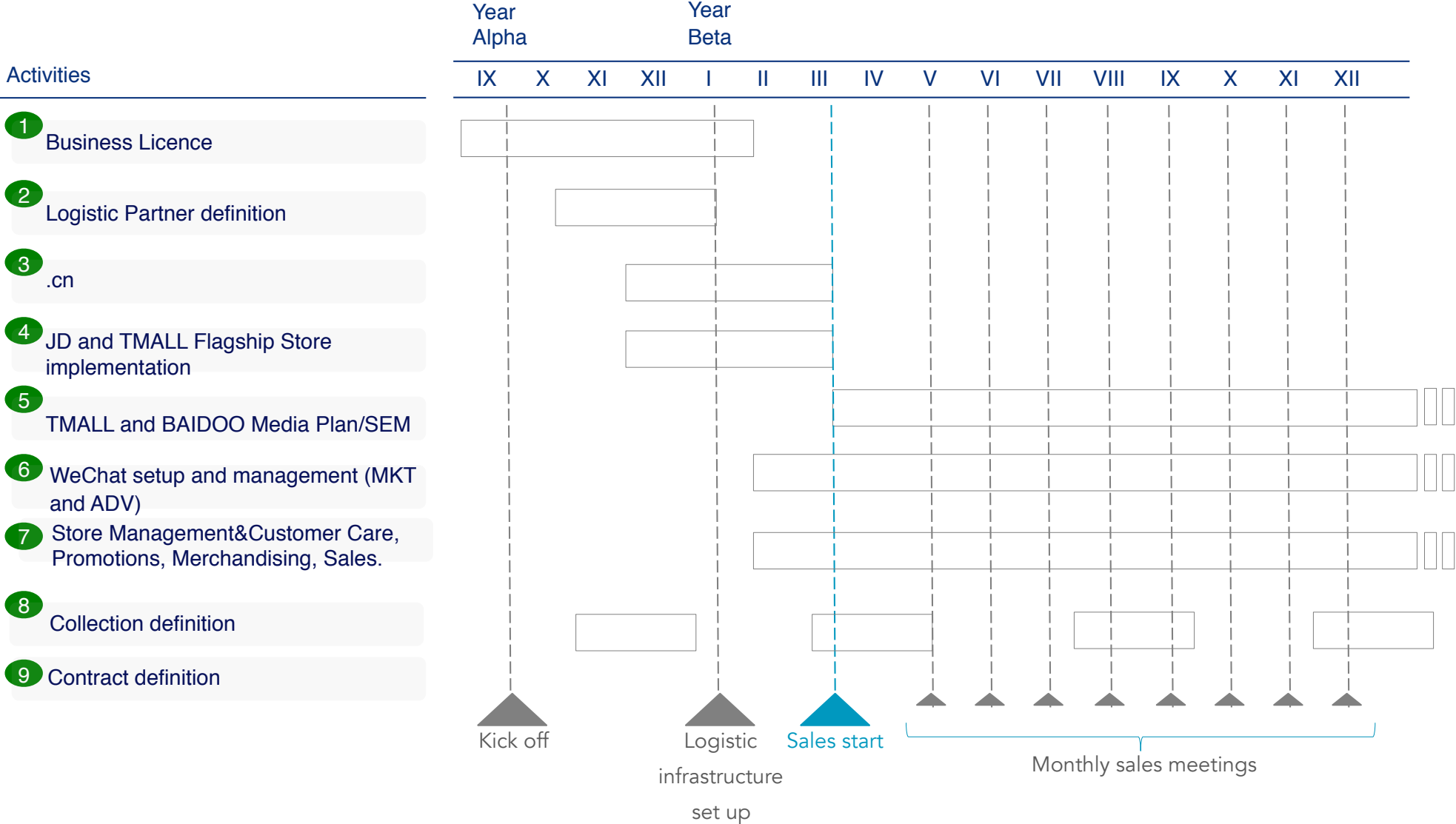
# Main reasons for setting a up a legal entity in China

	Main advantages	Weakness	Recommended option if...
No legal entity in Mainland China (cross-boarder)	<ul style="list-style-type: none"> <li>◆ Less bureaucracy on start up activity</li> <li>◆ No investment in local office</li> <li>◆ Use Tmall Global and JDworldwide</li> </ul>	<ul style="list-style-type: none"> <li>◆ Higher tax</li> <li>◆ No Bank account and No online payment system (Alipay, Tenpay, ecc...)</li> <li>◆ No delivery within 72h</li> </ul>	<ul style="list-style-type: none"> <li>◆ Luxury goods</li> <li>◆ Flash sales in China</li> <li>◆ Beta test for the Chinese e.commerce (Alipay, Tenpay, ecc...)</li> </ul>
Legal entity located in Hong Kong	<ul style="list-style-type: none"> <li>◆ Fiscal advantages</li> <li>◆ No duty untill effective sell</li> <li>◆ Use Tmall Global and JDworldwide</li> </ul>	<ul style="list-style-type: none"> <li>◆ No Bank account and No online payment system (Alipay, Tenpay, ecc...)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Beta test for the Chinese e.commerce</li> </ul>
Legal entity in other Mainland China locations	<ul style="list-style-type: none"> <li>◆ Fiscal advantages</li> <li>◆ Chinese bank account</li> <li>◆ Internet Content Provider (ICP)</li> <li>◆ Online payment system (Alipay, Tenpay, ecc.)</li> <li>◆ Direct contact with giant e.com mall JD, Tmall, ecc..</li> <li>◆ No duty untill effective sell.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Local office cost and management</li> </ul>	<ul style="list-style-type: none"> <li>◆ Strong business development in China</li> <li>◆ Online sales in China</li> <li>◆ Brand awareness in China</li> </ul>








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**the Timing**

# Roll-out plan



## Selected references related to the areas of activity discussed in this document

Client	Covered areas
 Luxury cars sport merchandising	◆ eCommerce
 Worldwide e-tailer	◆ eCommerce
 Global fashion brand	◆ eCommerce
 Luxury watchmaker	◆ Digital communication
 Global luxury fashion group	◆ WeChat development, digital communication
 Global fashion brand	◆ Digital communication, digital engagement
 Apparel global brand	◆ China digital development strategy
 Global fashion brand	◆ China online development strategy



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