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GLOBAL BRANDING STRATEGY & FASHION INDUSTRY WHITE PAPER

SUSTAINABLE FASHION AND NEW CONSUMPTION
IN A GLOBAL STRATEGIC PERSPECTIVE

中国深度 全球广度
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PREFACE

In 2021, while the impact of COVID-19 continued to reverberate across the global economy, countries around the world began to recover from the economic shock at varying paces, adding impetus to global economic recovery.

According to the official report on gov.cn, the website of the Chinese government, China's GDP expanded 8.1% year on year in 2021, making it one of the fastest-growing major economies. The country's GDP stood at RMB 114.4 trillion, the second largest in the world, which is expected to account for over 18% of the global economy. China's rising economic status has buoyed up its consumer market. Take fashion consumption as an example. The reports by Common Thread and Statista showed that the sales of China's fashion market reached USD 284.3 billion in 2020, surpassing the combined total of the sales in the US (USD 126.5 billion), the UK (USD 32.5 billion), Japan (USD 23.9 billion), and Germany (USD 22.5 billion).

Shanghai, the epitome of modern China, is increasingly favored by fashion brands at home and abroad. Global fashion brands have flourished in China in the past four decades since China's reform and opening-up. Flagship stores and exclusive shops of luxury brands have sprung up across Shanghai with astonishing speed, building their presence in the Huaihai Road commercial area where Xintiandi is situated, four major shopping malls in Jing'an, Lujiazui financial hub in Pudong, and the business district in Hongqiao. Meanwhile, a growing number of local designer brands have emerged and thrived along with the development of Shanghai Fashion Week.

However, the repercussions of COVID-19 and China's rapidly evolving consumer market have posed new challenges to global fashion brands. As for China's homegrown brands, they have to compete with international peers by improving brand influence and asserting distinctive Chinese features. In the bigger picture, the global fashion industry faces two major challenges: how to pursue green transformation (such as China's pledge to reach peak emissions before 2030 and to achieve carbon neutrality by 2060), and how to gain deeper consumer insights in fast-changing markets.

CEIBS seized the opportunity to launch its latest five-year strategic plan in 2021, in which the school was committed to promoting China's social and economic development and building a platform for cooperation between China and the rest of the world. Unlike traditional real estate companies, Shui On is dedicated to building sustainable and premium urban communities to stimulate both business prosperity and a quality way of life for key cities across China. Through creative and pioneering cultural content, it empowers diverse social experiences and builds communities with resonance as well as a sense of belonging. It continues to actively promote the new force of young Chinese creators, implements the concepts of "Created-in-China," and builds a culturally urban community with creators from diverse fields.

It is in this context that the CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund was established to make the best use of the school's academic resources and Shui On's industrial advantages. The research fund will focus on academic research and case development while launching customized programmes and forums. Through these activities, it aims to bring together brands, companies, and platforms to gain deeper insights into the Chinese market, to boost core competencies of local brands by drawing experience from international fashion brands, and to facilitate communication in the fashion industry. In doing so, we hope to provide intellectual support for Shanghai's transformation into a city of charm and fashion with greater global influence and contribute to the prosperity of the global fashion industry and brands worldwide.



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INTRODUCTION

In 2021, the CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund focused its research on sustainable fashion and new consumption, two major concerns of fashion brands and companies.

The research fund conducted surveys to learn about consumers' sustainable consumption habits and ideas, and sound out public opinions on hot topics in new consumption trends such as experience economy, niche hobbies, and virtual idols. It also worked closely with brands, companies, and platforms on sustainable fashion. The research fund collaborated with the Shanghai Fashion Week Organizing Committee to hold the Symposium on Sustainable Fashion which was attended by business and government representatives and developed cases about sustainable fashion in partnership with Kering, Kane Top, and Melephant. The first CEIBS-Kering Acceleration Camp for Sustainable Innovation was also launched through the joint efforts of CEIBS and Kering. To look into young consumers and new consumption trends, the research fund partnered with Shui On Xintiandi to hold the forum Fashion Innovation Under the Rise of Young Chinese Consumers, and delved deeper into the virtual beings industry through follow-on research and interview.

Correspondingly, this white paper covers three main topics: consumer research report on the Chinese market, sustainable fashion, and new consumption. It contains one report on consumer surveys completed by the research fund over the past year, three CEIBS teaching cases, two forums held by the fund in partnership with the Shanghai Fashion Week Organizing Committee and Shui On Xintiandi, and recaps of relevant events such as the CEIBS-Kering Acceleration Camp for Sustainable Innovation.

We invite you to read the white paper as if visiting a fashion showroom. This showroom has three series represented by different theme colors: blue, green, and orange. They correspond to the three main chapters of the white paper.

Here is an overview of the showroom design, which will give you a general introduction to the white paper:

THE FIRST CHAPTER is represented by the theme color blue, indicating calm and objective insight. Focusing on consumers, this chapter presents the findings of three surveys in seven sections, covering topics such as consumers' income and savings, channels of shopping, purchase of domestic brands, live-stream shopping, experience consumption and niche hobbies, new consumptions related to technology, and sustainable consumption. By collecting and analyzing a total of nearly 4,000 consumer questionnaires, we hope to reflect the consumer psychology, attitudes, and behaviors in fashion consumption over the past year.

THE SECOND CHAPTER is represented by green, indicating sustainability and environmental protection. This chapter has two parts. The first part introduces the Symposium on Sustainable Fashion held by the research fund and the Shanghai Fashion Week Organizing Committee, followed by an article on sustainable fashion by Prof. Qi WANG, Professor of Marketing at CEIBS and Vice Chairman of the Executive Committee of CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund. The second part includes three CEIBS cases: "Kering: The Trailblazer in Crafting Sustainable Luxury", "Kane Top: Explorations in Supply Chain Sustainability", and the case about the winner of the first Kering Generation Award "Melephant: Forging Toward Sustainability".

THE THIRD CHAPTER is represented by orange, indicating a young and vibrant future. It also has two parts. The first part recaps the forum Fashion Innovation Under the Rise of Young Chinese Consumers held by the research fund and Shui On Xintiandi, and shares speakers' insights on various topics. The second part introduces the virtual beings industry and includes excerpts from an interview with the industry leader Ngcomic. Statistics from consumer surveys and analyses of both industry players and consumers can provide brands with useful references in formulating their virtual beings strategy.

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CONSUMPTION DYNAMICS IN THE POST-COVID ERA - CONSUMER RESEARCH REPORT ON THE CHINESE MARKET

Authors/Qi WANG Elaine LI Amber XU

Introduction

Since the establishment of the Research Fund, one of our key objectives has been to track and study consumer psychology, attitudes, and behaviors in each specific economic environment over time. This report focuses on research and analysis about the following four topics:

- (1) the impact of COVID-19 on consumer fashion consumption;
- (2) consumer psychology and attitudes toward local brands in China;
- (3) consumer attitudes toward the recent emergence of new consumption such as experience economy, niche hobbies, and virtual technology;
- (4) consumer attitudes and behaviors toward sustainable consumption.

This study is divided into seven subsections, which analyze and summarize the characteristics of consumers' income and savings, channels of shopping, purchase of domestic brands, live-stream shopping, experience consumption and niche hobbies, new consumptions related to technology, and sustainable consumption. We believe that the analysis can reflect the consumption trends truthfully and objectively in the past two years since the outbreak of COVID-19.

- Income and Savings
- Channels of Shopping
- Purchase of Domestic Brands
- Live-Stream Shopping
- Experience Consumption and Niche Hobbies
- New Consumptions Related to Technology
- Sustainable Consumption

INCOME AND SAVINGS

Compared to 2020, respondents' personal income shows an improvement in 2021

In the survey of consumers' income for two consecutive years in October 2020 and December 2021, we found an improvement in the self-reported personal income of 2021 respondents compared to 2020. 50.4% of respondents in 2020 had a lower personal income due to COVID-19. Compared to 2020, this percentage decreases to 27.4% in 2021. At the same time, the proportion of respondents with higher personal incomes increased from 18.5% to 45.1%.

Figure 1. Percentage of people with changes in personal income in 2020 vs. 2021

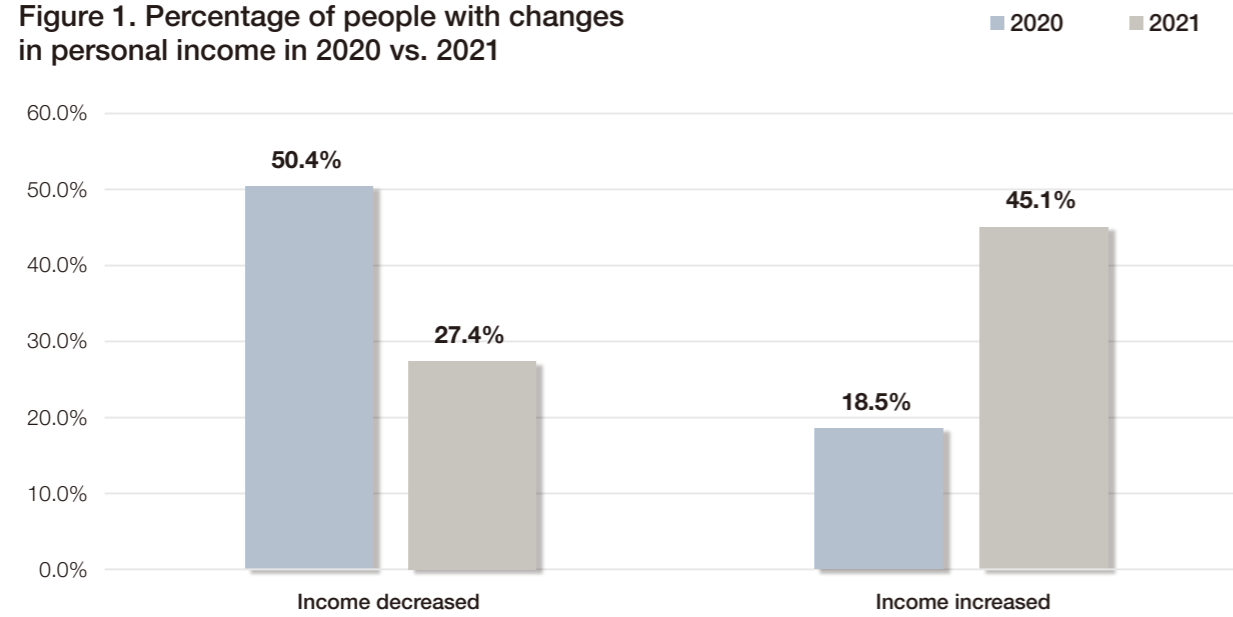


Figure 1 - Q: How has your personal income changed?

The percentage of respondents with an increased savings ratio in 2021 is greatly higher than that in 2020, indicating a further contraction in consumption

In terms of savings ratio (total saving as a percentage of total income), the percentage of respondents with a self-reported increased saving ratio in 2021 is significantly higher compared to 2020, with the percentage being as high as 47.4% in 2021. The percentage of people with an increased savings ratio is still high compared to the percentage of people with increased income. From this, it can be inferred that consumers' desire to spend in 2021 is weakening substantially.

Figure 2. Percentage of people with increased income and increased savings ratio in 2020 vs. 2021

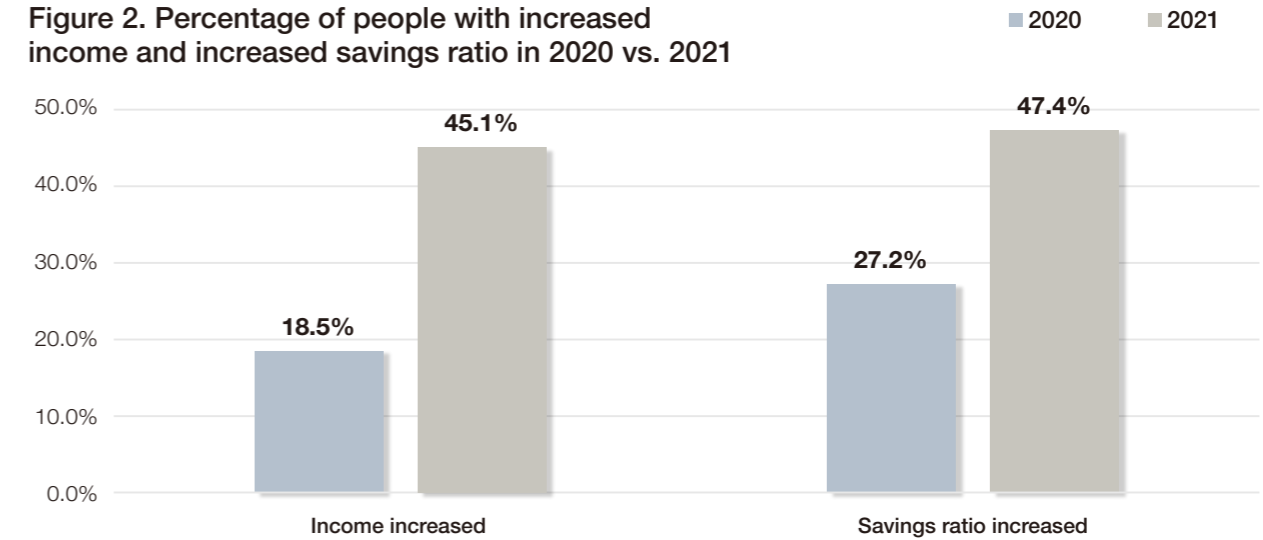


Figure 2 - Q: How has your income and savings ratio (total savings as a percentage of total income) changed?

In 2020-2021, the low-income group has a higher percentage of people with declined incomes

From the perspective of different income levels of respondents, the percentage of people with reduced income is generally higher among the low-income group than among the high-income group, while the percentage of people with increased income is much higher among the high-income group than among the low-income group. This indicates that the impact of COVID-19 on the low-income group is much larger than that on the high-income group.

Figure 3. Percentage of people with decreased incomes in 2020 vs. 2021

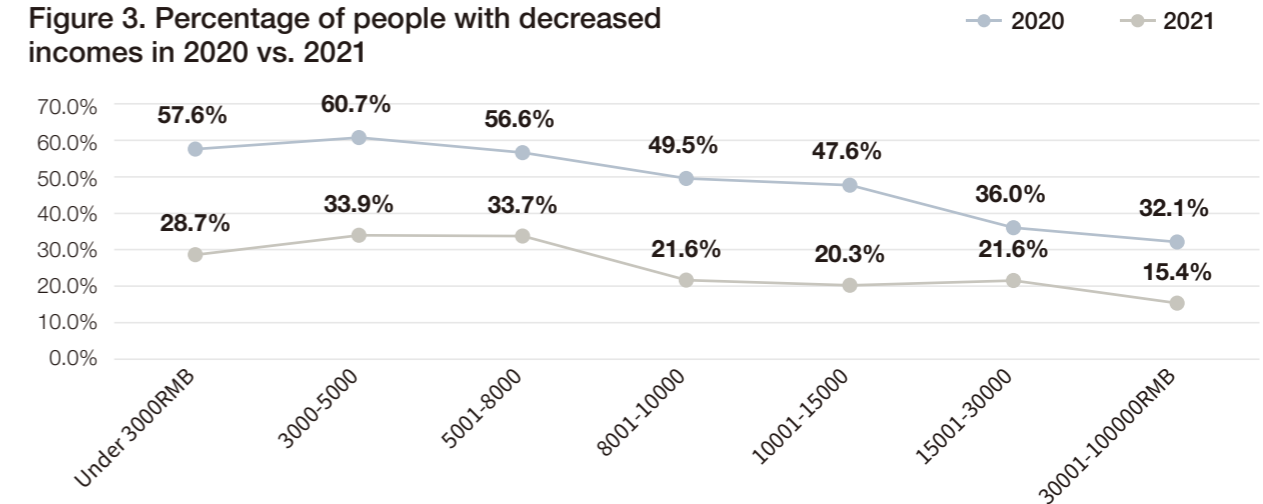


Figure 3 - Q: How has your personal income changed?

Figure 4. Percentage of people with increased incomes in 2020 vs. 2021

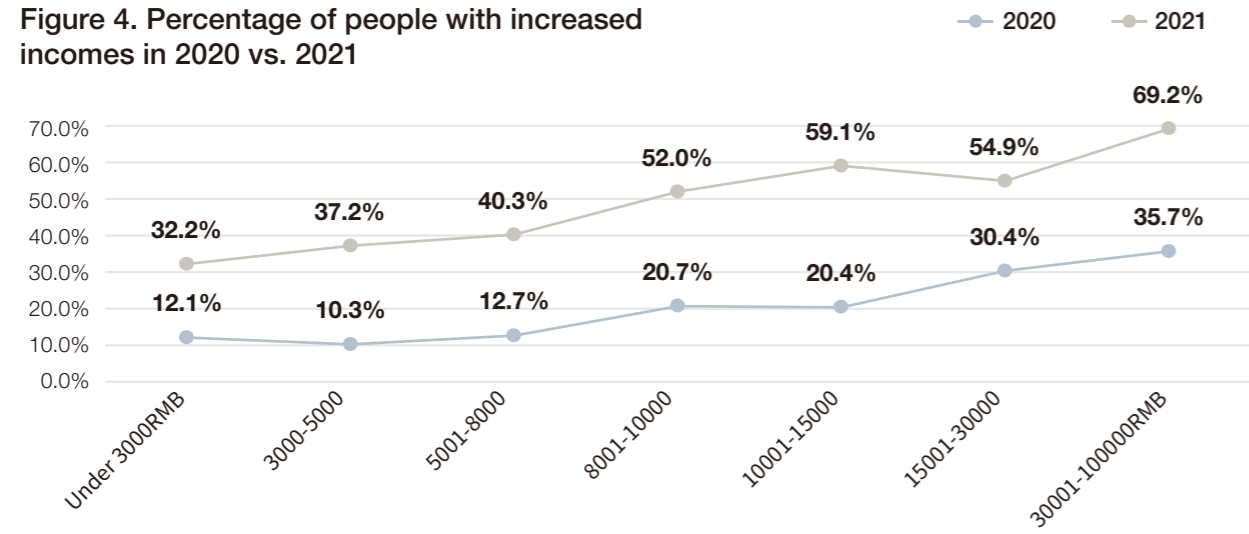


Figure 4 - Q: How has your personal income changed?

In terms of savings ratios, the percentage of people with increasing savings ratios is generally higher among high-income groups than among low-income groups. 2021, the percentage of people with higher savings ratios increases substantially, indicating that the desire to consume is weakening in all income brackets.

Figure 5. Comparison of the percentage of people whose savings ratio increases in 2020 vs. 2021

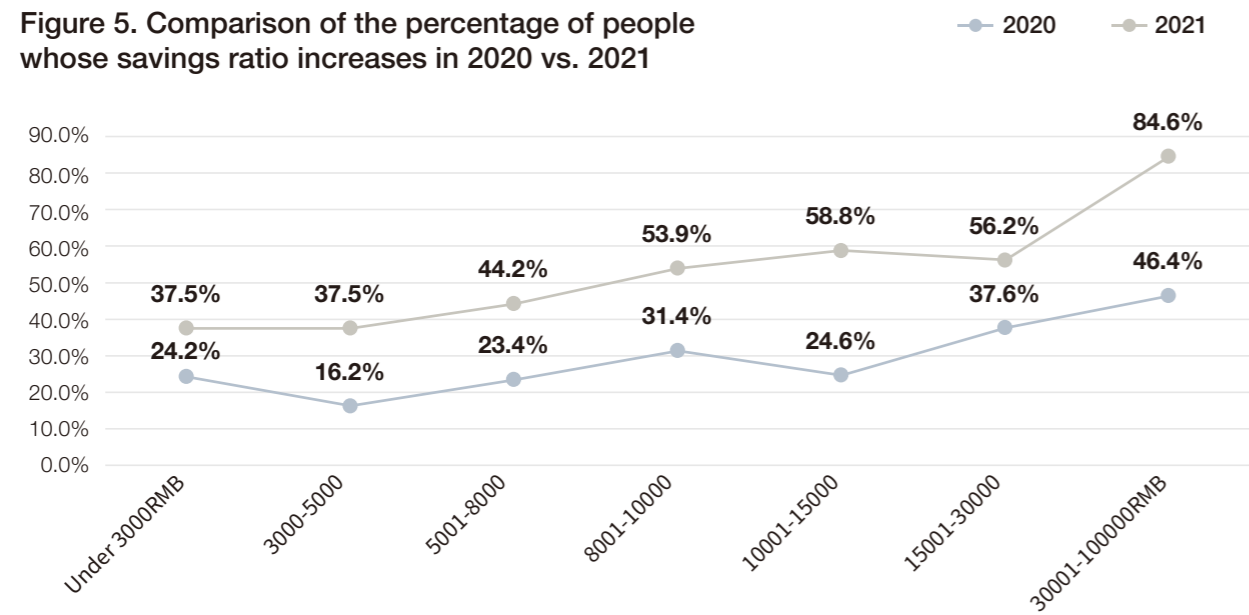


Figure 5 - Q: How has your savings ratio (total savings as a percentage of total income) changed?

CHANNELS OF SHOPPING

Approximately 50% of consumers in each category of fashion products report an increase in the frequency of their online purchases in 2021. A slightly lower percentage of people increase their online purchases of beauty and skincare products and shoes.

Figure 6. Percentage of people with increased online purchases in different fashion categories in 2021

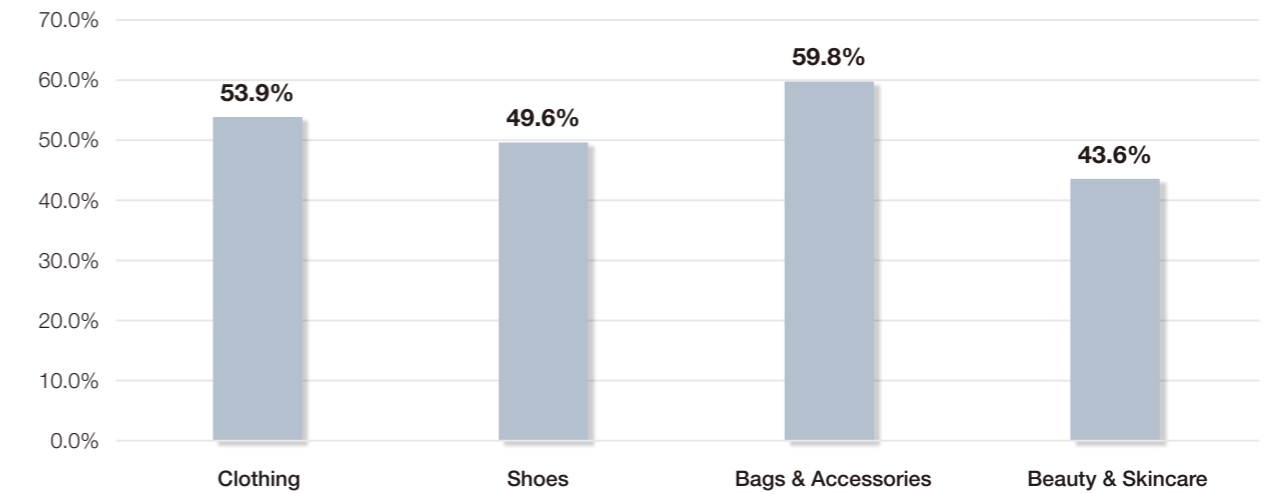


Figure 6 - Q: Since January 2021, how has your online shopping frequency in the following categories of fashion products changed compared to 2020?

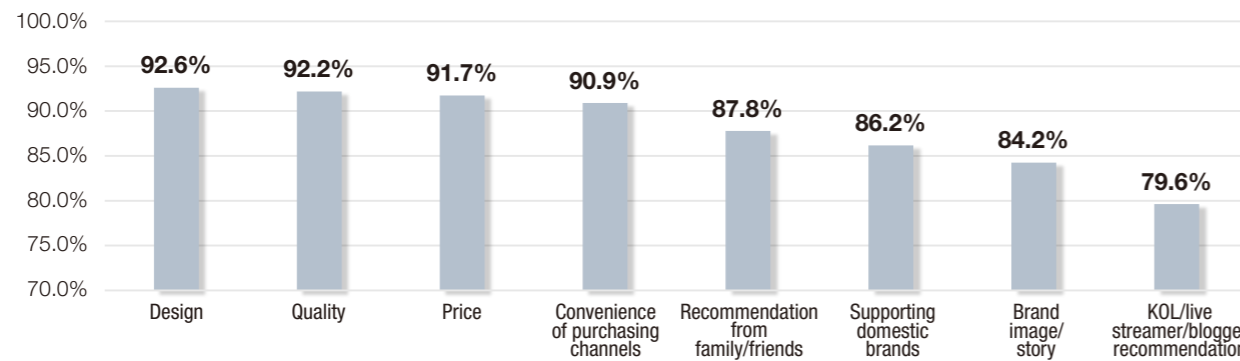
PURCHASE OF DOMESTIC BRANDS

Among the factors that influence consumers to purchase domestic fashion products, "supporting domestic products" became one of the top three influencing factors in 2021

We conducted two questionnaires in October 2020 and December 2021 to investigate the main factors that influence consumers to purchase domestic fashion products. The survey results show that in 2020, the top five factors that influence the consumption of domestic fashion products are "design", "quality", "price", "convenience of purchasing channels" and "recommendation from family/friends". In 2021, the top five factors change into "quality", "supporting domestic products", "price", "design", and "recommendation from family/friends". The comparison shows that the concept of "supporting domestic products" has become one of the top three factors that influence consumers to buy domestic fashion products in 2021.

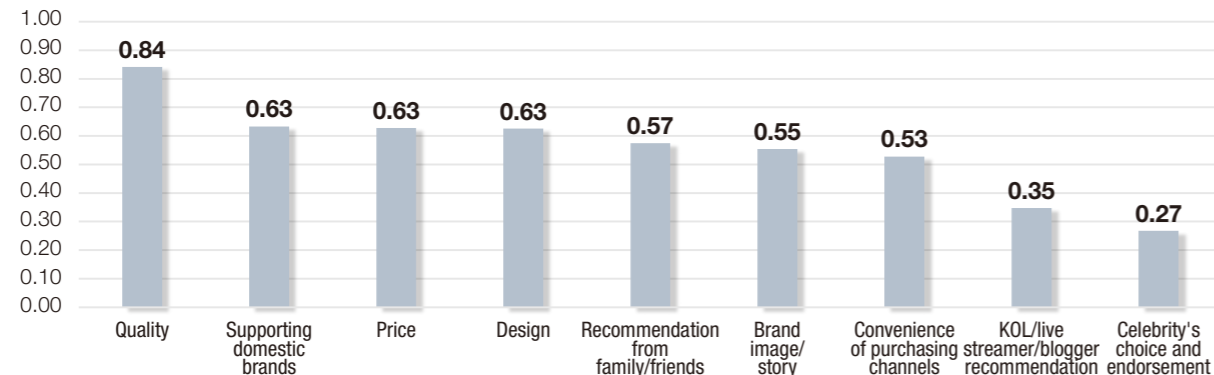
Surprisingly, in both 2020 and 2021, "KOL/live streamer/blogger recommendation" rank low among the factors that influence respondents' purchases of domestic fashion brands. In 2021, we add "celebrity's choice and endorsement" as an influencing factor, but its importance is also not significant compared to other factors.

Figure 7. Factors influencing consumers to buy domestic fashion products in 2020



Note: The numbers in the figure represent the percentage of people who think each factor influences their purchase of domestic fashion products
Figure 7 - Q: To what extent will the following factors influence your decision to purchase products from domestic fashion brands?

Figure 8. Factors influencing consumers to buy domestic fashion products in 2021 - average score of importance



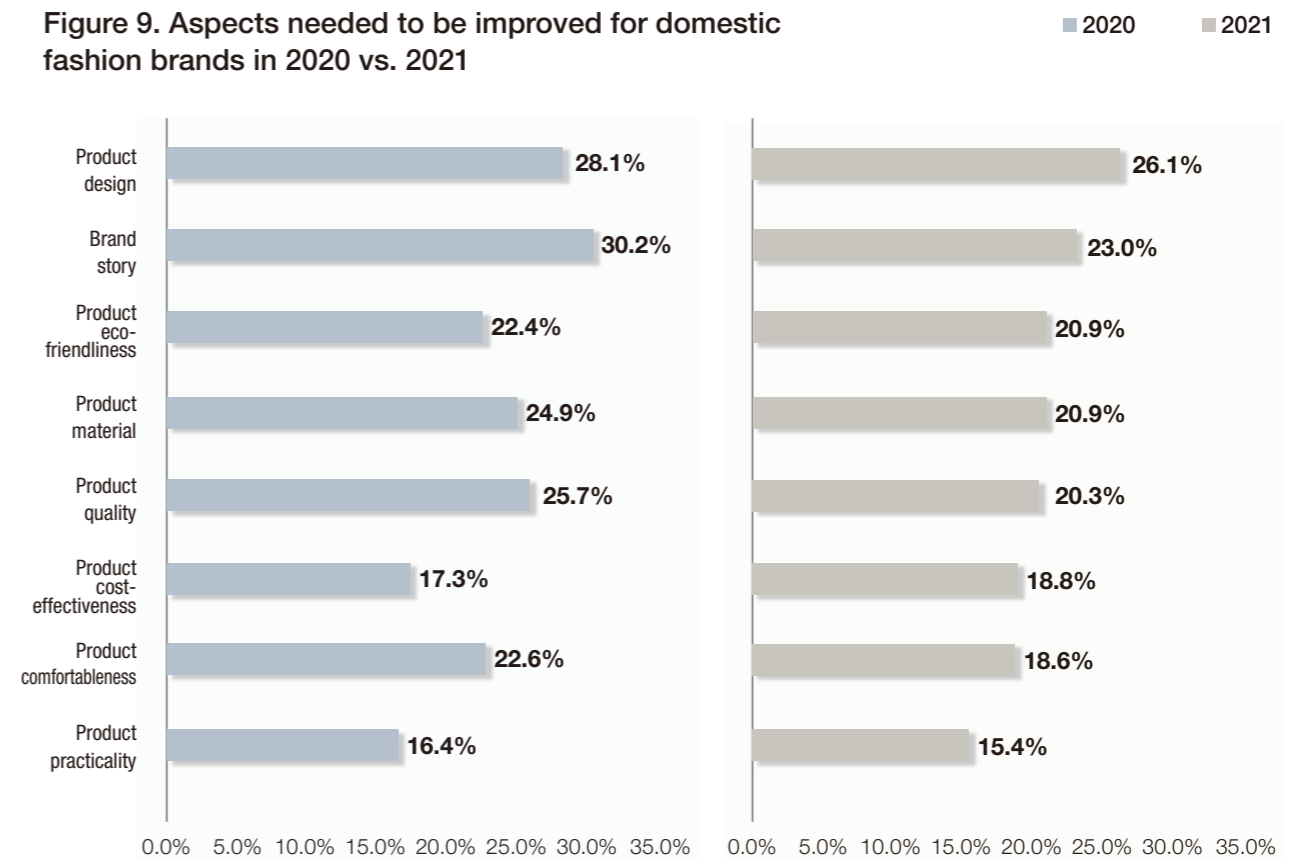
Note: The 2021 questionnaire changes the same question from a multiple-choice question to an importance ranking question. The numbers in the figure are the importance scores of each factor calculated based on the respondents' ranking of each influencing factor.

Figure 8 - Q: Please rank the following influencing factors based on your priorities when purchasing products from domestic fashion brands.

Consumers believe that product design and brand story are still the top two aspects that need to be improved for domestic fashion brands in 2021. Compared with aspects in 2020, product eco-friendliness in 2021 has become one of the top three aspects that needs improvement for domestic fashion brands, while the ranking of product quality drops from third to fifth

When consumers were asked what aspects of domestic fashion brands needed to be improved the most, in 2020, the top three aspects that respondents believe for Chinese brands are "brand story", "product design", and "product quality". In 2021, these three aspects became "product design", "brand story" and "product eco-friendliness", indicating that "product eco-friendliness" has attracted more attention from consumers and the quality of domestic fashion brands has been well recognized by consumers.

Figure 9. Aspects needed to be improved for domestic fashion brands in 2020 vs. 2021

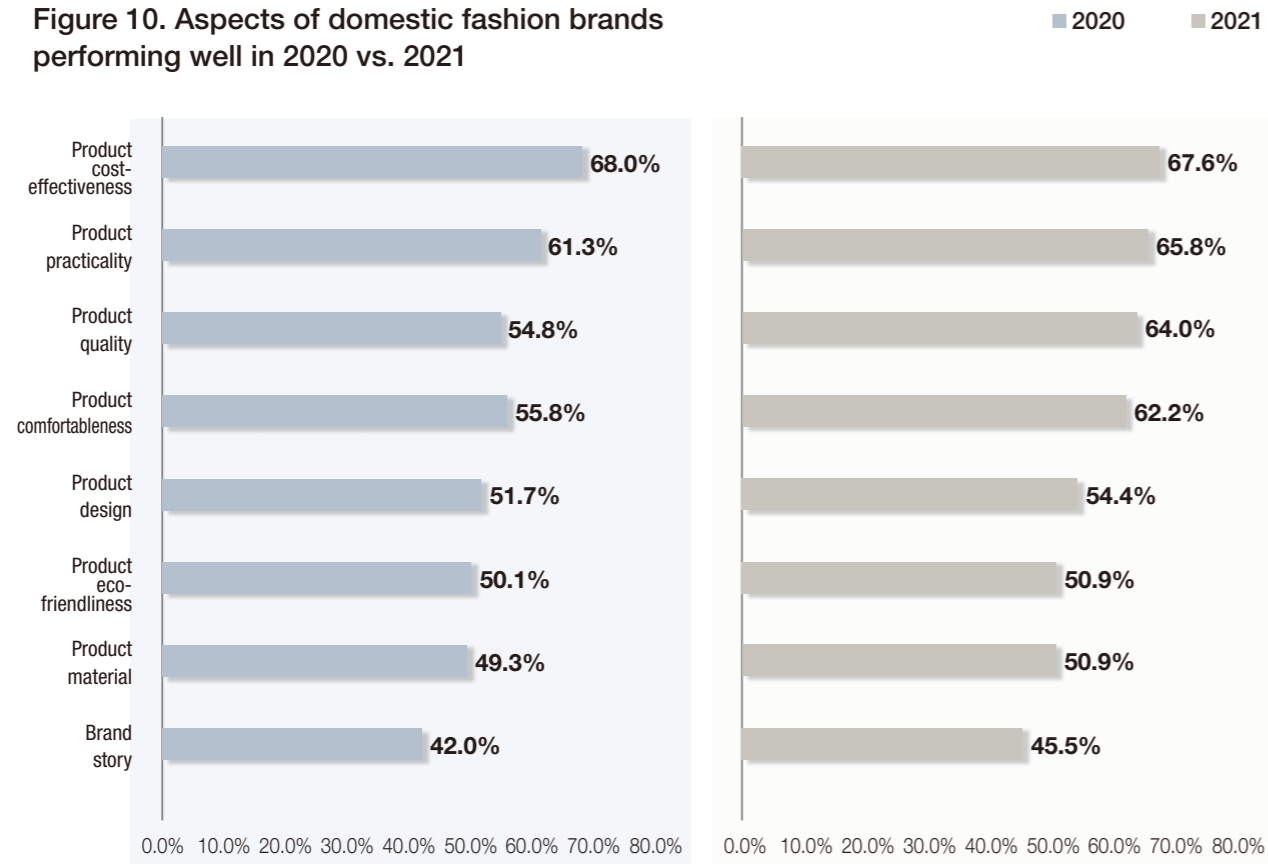


Note: The numbers in the figure represent the percentage of people who think that domestic fashion brands need to be improved in each aspect
Figure 9 - Q: Compared with foreign brands, do you think domestic fashion brands need improvements in the following aspects?

For two consecutive years in 2020 and 2021, cost-effectiveness and practicality are the two aspects that consumers consider to be the best performance of domestic fashion brands, while the quality of products enters the top three in the ranking of the best performance of domestic fashion brands in 2021

In response to the question of which aspects of domestic fashion brands perform well, in 2020, the three aspects where respondents think domestic brands are doing the best are “product cost-effectiveness”, “product practicality”, and “product comfortableness”. In 2021, the first two aspects remain unchanged, while the last one becomes “product quality”. These results further indicate that consumer satisfaction with the quality of domestic fashion brands is gradually improving.

Figure 10. Aspects of domestic fashion brands performing well in 2020 vs. 2021

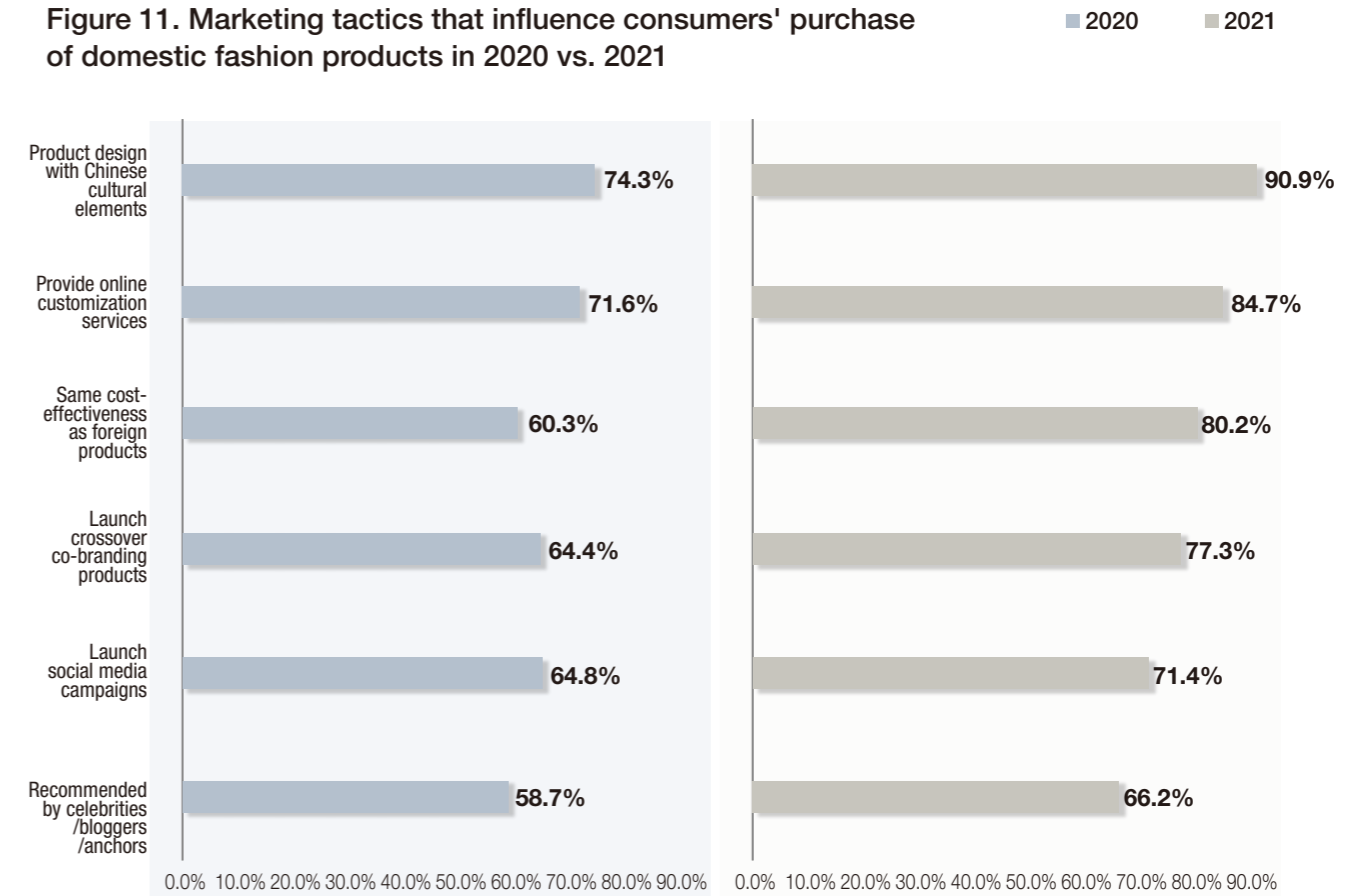


Note: The numbers in the figure represent the percentage of people who think that domestic fashion brands perform well in each aspect
Figure 10 - Q: Compared with foreign brands, do you think Chinese fashion brands perform well in the following aspects?

For two consecutive years in 2020 and 2021, consumers identified the launch of products with Chinese cultural elements and online customization services as the top two effective marketing tactics for domestic fashion brands to increase their willingness to purchase the products

Regarding the marketing tactics commonly used by brands, for two consecutive years in 2020 and 2021, respondents identify the launch of products with Chinese cultural elements and the provision of online customization services as the two top effective marketing tactics for domestic fashion brands to increase their willingness to purchase the products. The percentage of people holding these two views increases from 74.3% and 71.6% in 2020 to 90.9% and 84.7% in 2021, respectively.

Figure 11. Marketing tactics that influence consumers' purchase of domestic fashion products in 2020 vs. 2021



Note: The numbers in the figure represent the percentage of people who believe that each marketing tactic increases their willingness to buy domestic fashion products

Figure 11 - Q: Will you buy products from domestic fashion brands for the listed scenarios?

LIVE-STREAM SHOPPING

The percentage of respondents who prefer live-stream shopping in 2021 is significantly higher than in 2020

Consumer perceptions of live-stream shopping have also changed during the two years. The total percentage of consumers who slightly prefer, largely prefer, and absolutely prefer live-stream shopping in 2021 increases significantly from 45.0% in 2020 to 70.2% in 2021.

Figure 12. Percentage of people with different views on live-stream shopping in 2020 vs. 2021

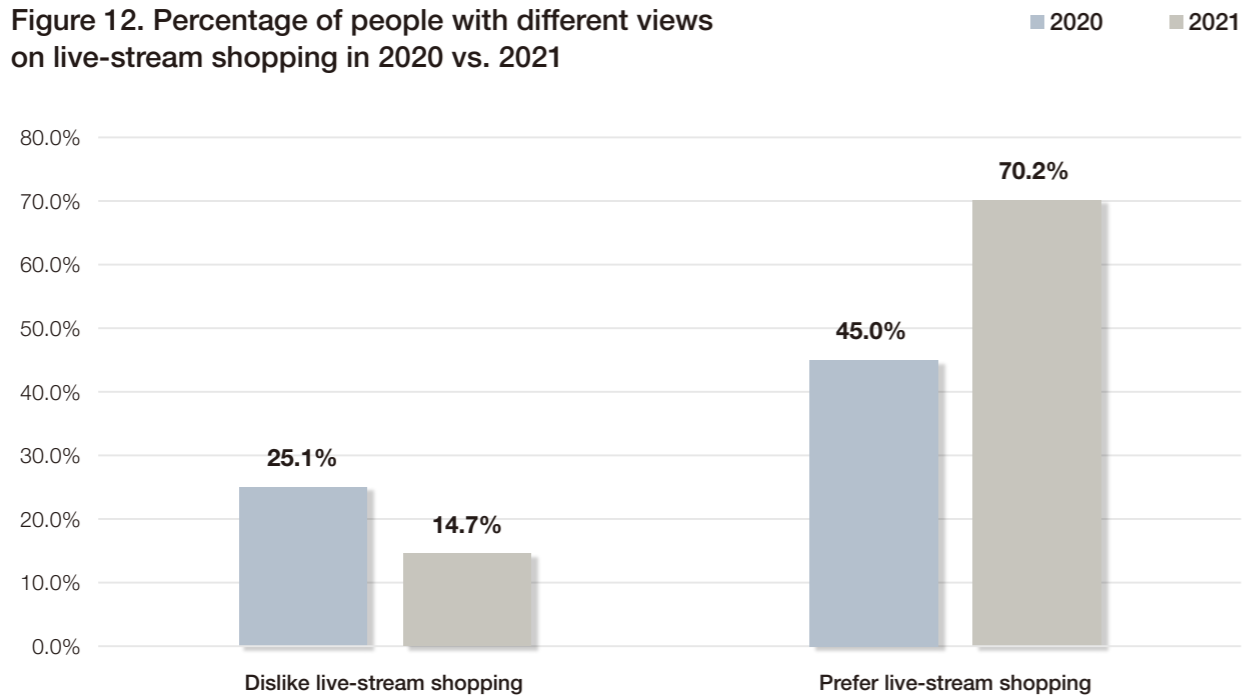
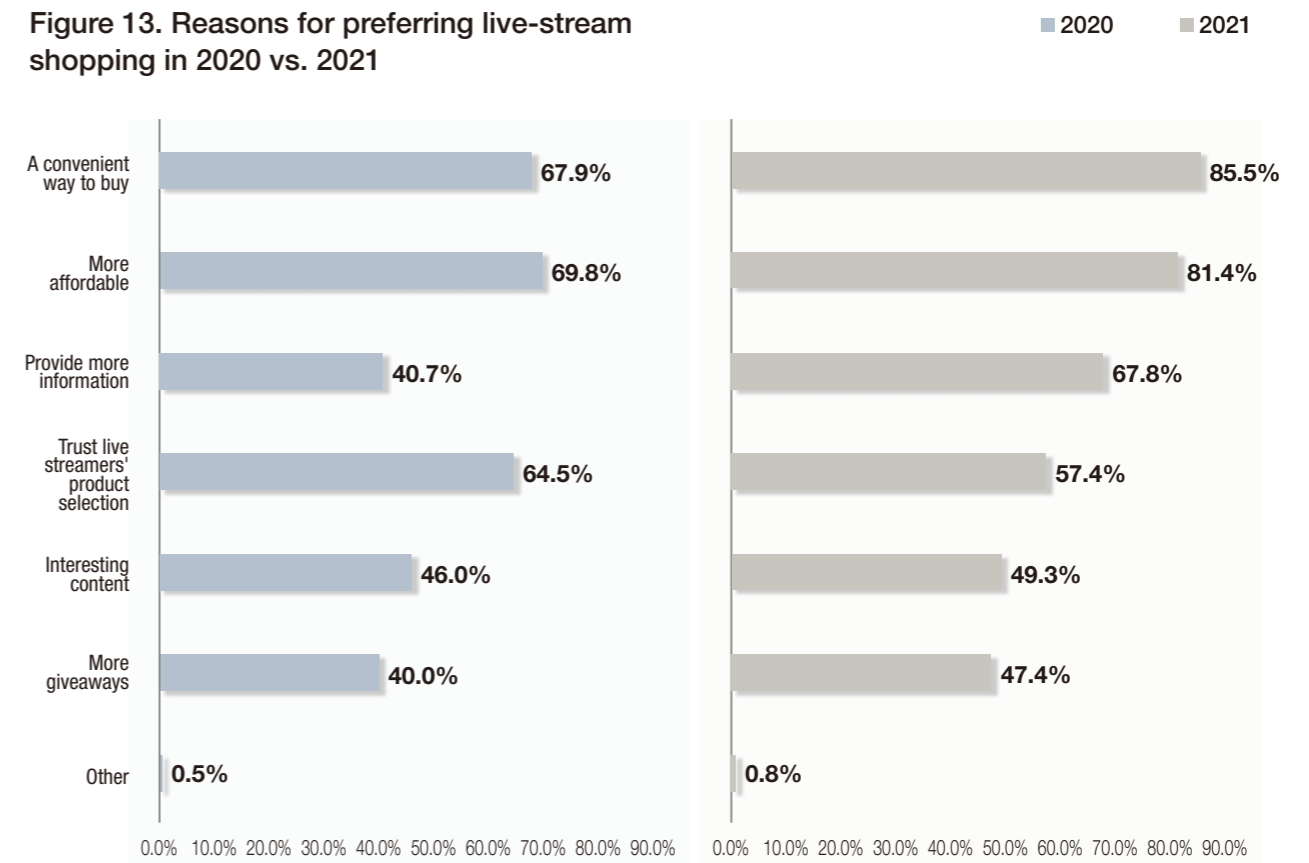


Figure 12 - Q: Do you prefer or dislike live-stream shopping over other ways of shopping? (Options: absolutely dislike live-stream shopping, largely dislike live-stream shopping, slightly dislike live-stream shopping, no difference, slightly prefer live-stream shopping, largely prefer live-stream shopping, absolutely prefer live-stream shopping)

In 2021, the percentage of respondents who believe that “live-stream shopping can provide more information” is significantly higher than in 2020

Regarding the reasons for preferring live-stream shopping, in 2020, the top three reasons for preferring live-stream shopping are “more affordable”, “a convenient way to buy”, and “trust in live streamers’ product selection”. In 2021, although “more affordable” and “a convenient way to buy” are still the two main reasons why respondents prefer live-stream shopping, the reason “trust in live streamers’ product selection” drops from third to fourth place. At the same time, we found that the proportion of people who think “live-stream shopping can provide more information” has increased significantly from 40.7% in 2020 to 67.8% in 2021.

Figure 13. Reasons for preferring live-stream shopping in 2020 vs. 2021



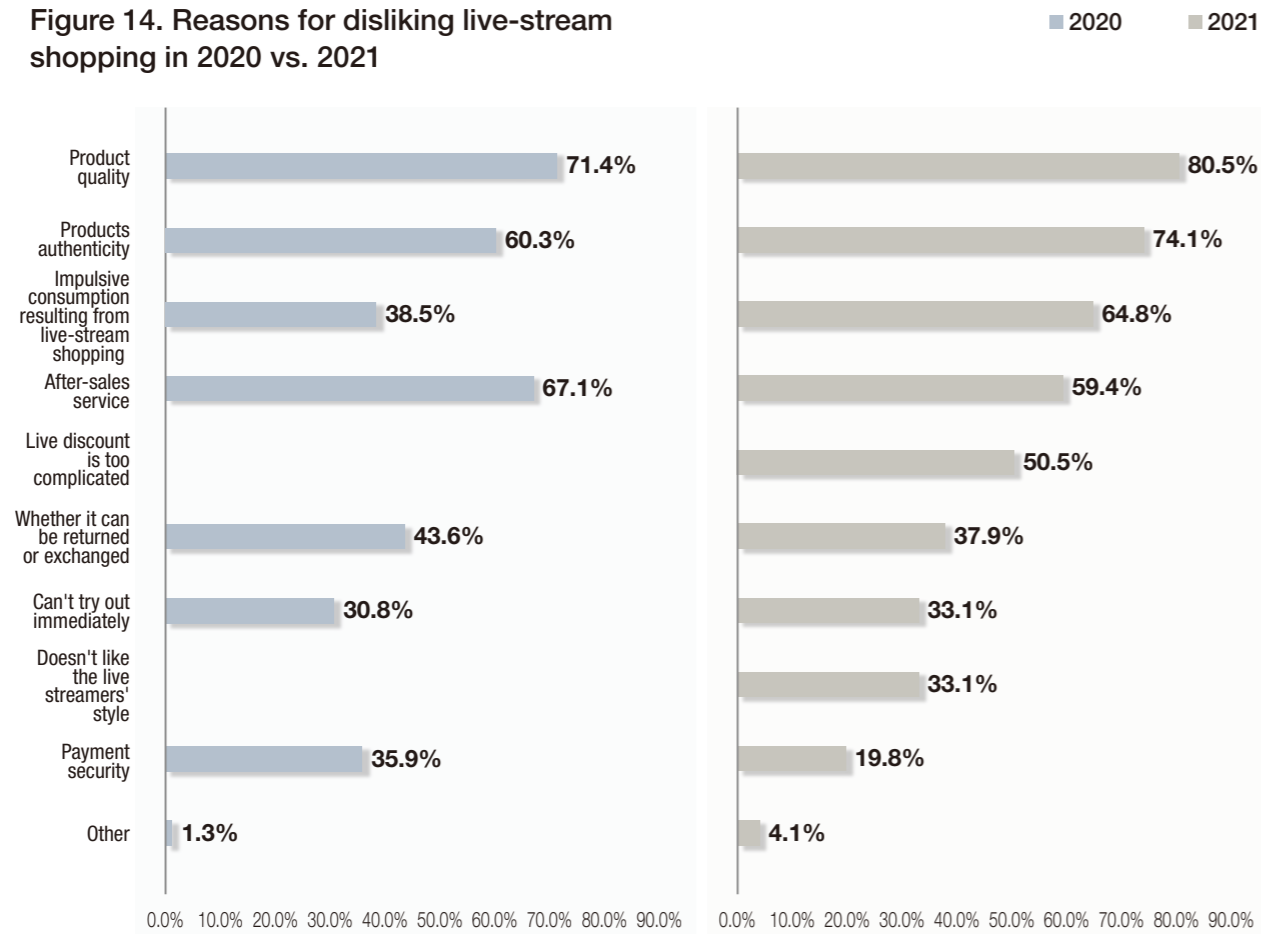
Note: The numbers in the figure represent the percentage of people who choose each reason for preferring live-stream shopping

Figure 13 - Q: Why do you prefer live-stream shopping?

In 2021, the percentage of respondents who believe that live streaming can easily lead to impulsive consumption is greatly higher than in 2020

Regarding the reasons for disliking live-stream shopping, in 2020, “product quality”, “after-sales service” and “product authenticity” are the top three reasons. In 2021, “product quality” and “products authenticity” are still the top reasons. It is worth noting that “impulsive consumption resulting from live-stream shopping” becomes the third most important reason for consumers to dislike live-stream shopping in 2021. This shows that consumers gradually recognize the “after-sales service” in live-stream shopping and an increasing number of consumers are becoming aware that live streaming can easily lead to impulsive consumption.

Figure 14. Reasons for disliking live-stream shopping in 2020 vs. 2021



Note: The numbers in the figure represent the percentage of people who choose each reason for disliking live-stream shopping. “Live discount is too complicated” and “Doesn't like the live streamers' style” are new options added for this question in 2021, no corresponding data in 2020

Figure 14 - Q: Why do you dislike live-stream shopping?

EXPERIENCE CONSUMPTION AND NICHE HOBBIES

In 2021, we add research on experience consumption and niche hobbies. Among the following niche hobbies, those who take niche music experience (music festivals, music restaurants, opera, etc.) as hobbies account for the highest proportion, which is about 60%.

Figure 15. Percentage of people willing to pay for different niche hobbies

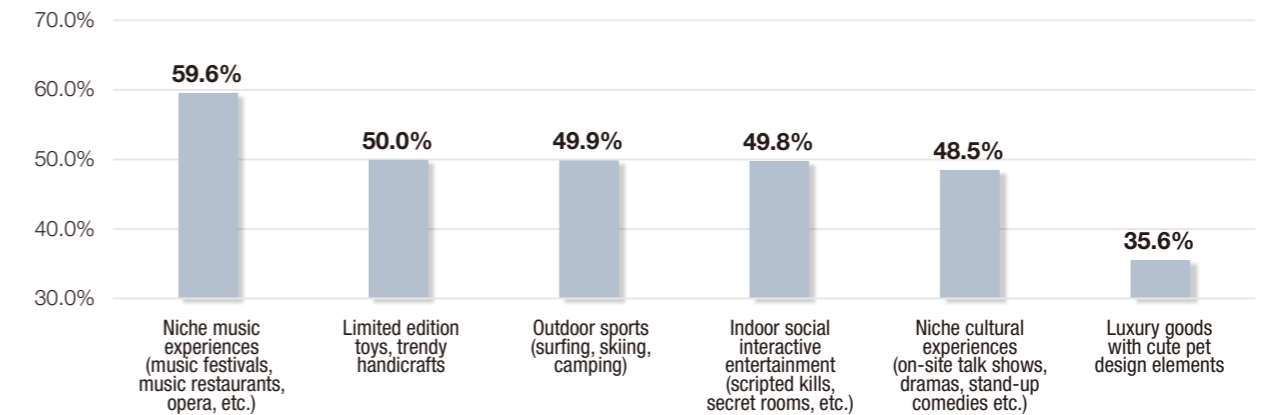
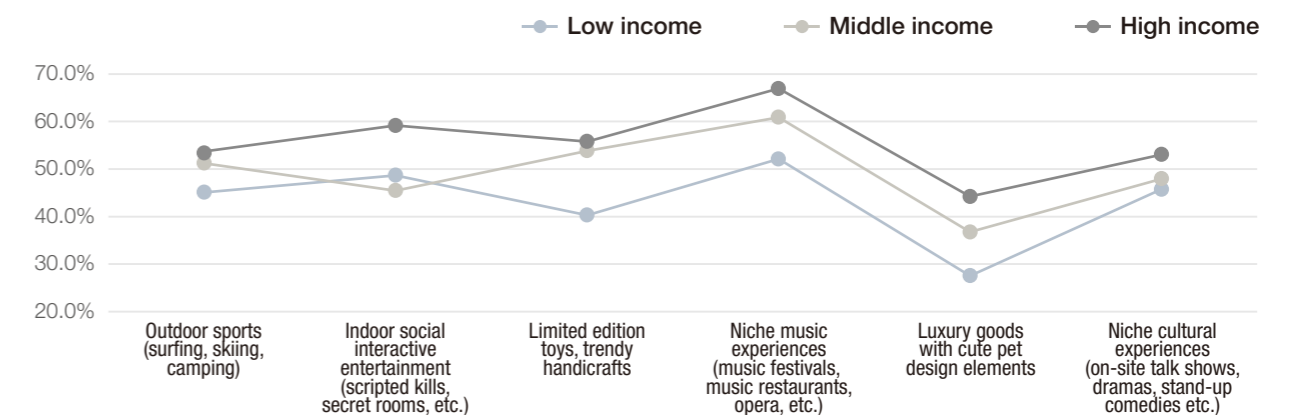


Figure 15 - Q: Which of the following niche hobbies would you be willing to pay for?

High-income people (monthly income of more than 10,000 RMB) are more willing to pay for various niche hobbies

Figure 16. Purchase willingness of different income groups for each niche hobby

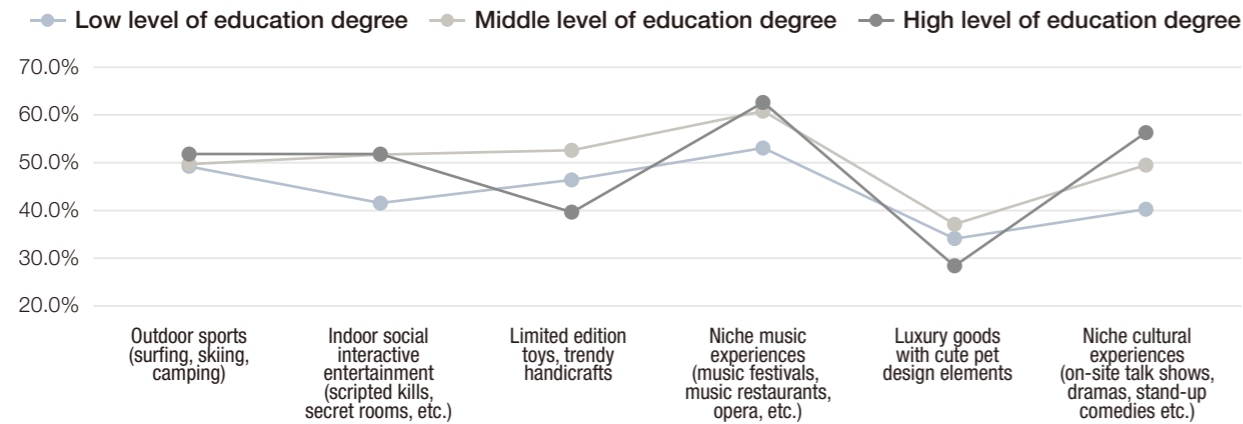


Note: The numbers in the figure represent the percentage of people in different income groups who are willing to pay for each niche hobby. Low income: monthly income of less than 5,000 RMB; Middle income: monthly income of 5,000-10,000 RMB; High income: monthly income of more than 10,000 RMB

Figure 16 - Q: Which of the following niche hobbies would you be willing to pay for?

People with high degrees (master's degree and above) are more rational when they face attractive marketing of limited-edition products or cute things, but they are more willing to pay for niche cultural experiences (on-site talk shows, dramas, stand-up comedies, etc.)

Figure 17. Purchase willingness of different education groups for each niche hobby



Note: The numbers in the figure represent the percentage of people in different education groups who are willing to pay for each niche hobby. Low level of education degree: vocational school, secondary education, or lower; Medium level of education degree: bachelor's degree; High level of education degree: master's degree and above

Figure 17 - Q: Which of the following niche hobbies would you be willing to pay for?

From the age perspective, youths (under 25 years old) prefer indoor social and recreational activities; young adults (25-34 years old) prefer to buy luxury goods with cute pet design elements; the middle-aged group (35-54 years old) has a high percentage of people who love outdoor sports. More men than women love outdoor sports, while more women than men like luxury goods with cute pet elements designed.

NEW CONSUMPTIONS RELATED TO TECHNOLOGY

Among all age groups, the group aged 25-44 has the highest percentage of people with experience with immersive technologies, such as AR, VR, and MR

In 2021, we add research on new consumption of technology about immersive experiences, virtual clothing, virtual idols, etc.

Figure 18. Percentage of people who have experienced AR/VR/MR

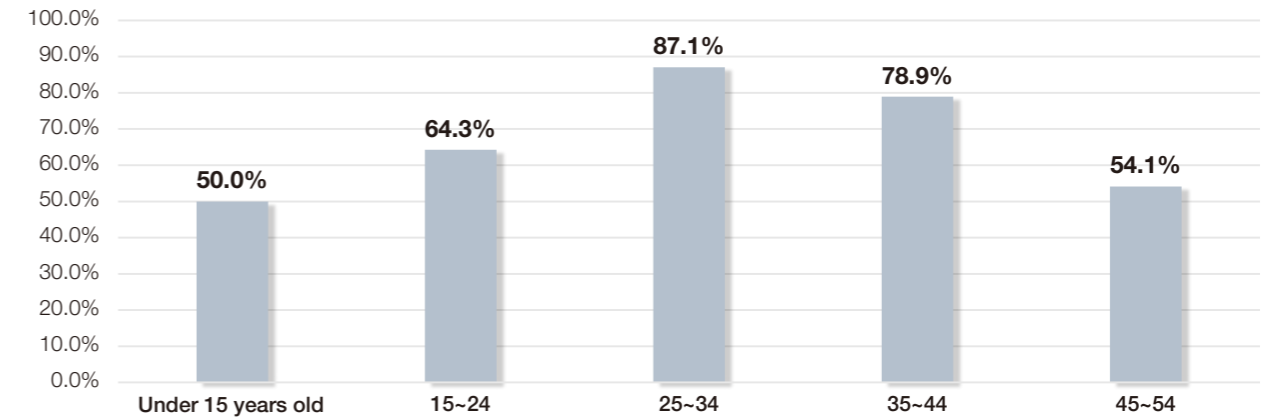


Figure 18 - Q: Do you have any immersive experience with AR (augmented reality), VR (virtual reality), or MR (mixed reality)? For example, immersive theater, immersive performance, immersive new media art, immersive live entertainment, virtual reality theme park, etc.

AR, VR, and MR technologies are normally well received by people who experienced them. Their cost-effectiveness is also consistent with consumers' expectations

Among all respondents who experienced AR, VR, and MR technologies, about 80% say they think such technologies provide an experience that is "good and immersive", or "novel and surreal"; only about 20% of respondents think such technologies are "immature", and about 9% of respondents regard such activities as "low cost-effectiveness".

Figure 19. Percentage of people who have experienced ar/vr/mr with different ratings

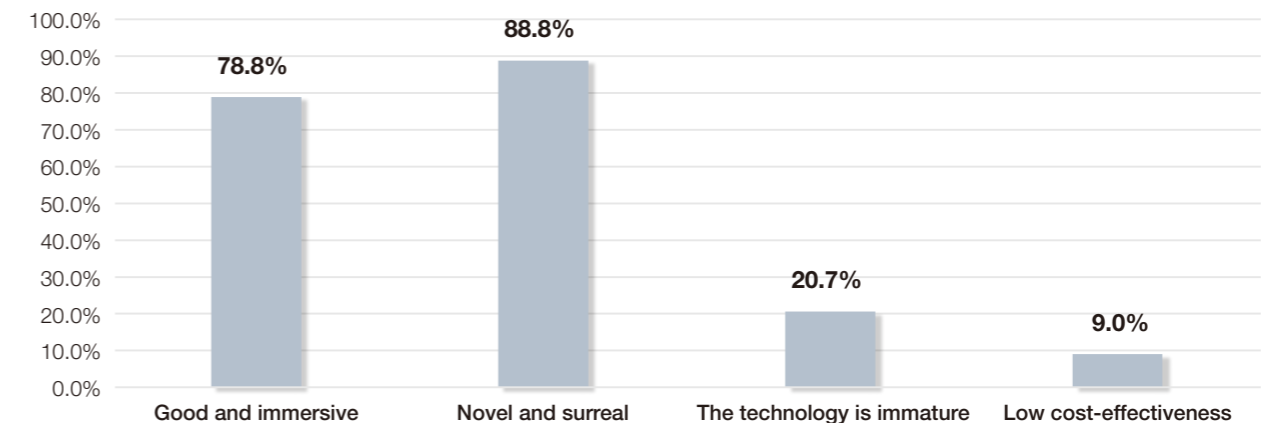


Figure 19 - Q: What is your opinion on the immersive experience with AR, VR, and MR?

Among respondents who never had any immersive experience with VR, AR, and MR, younger people show a higher interest in such activities

Figure 20. Percentage of people of all ages who have not experienced AR/VR/MR but are interested in them

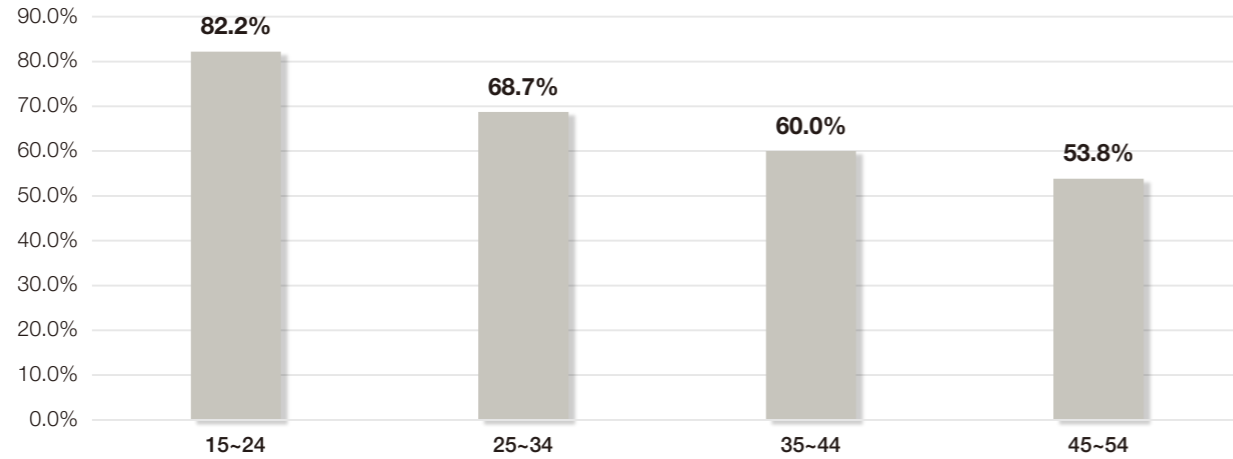
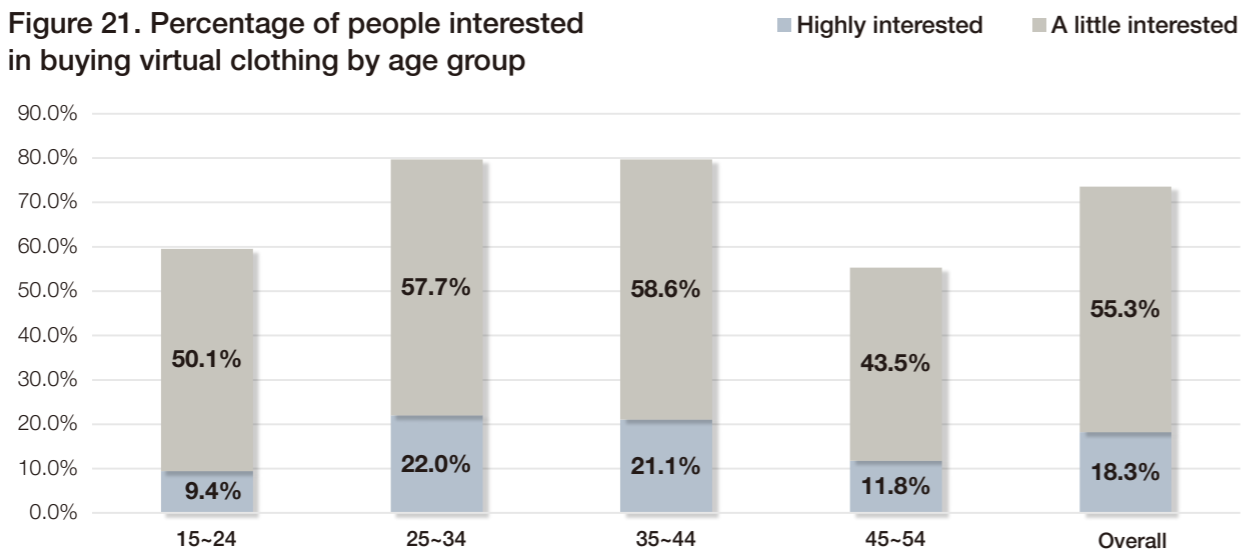


Figure 20 - Q: To what extent are you interested in immersive experiences of VR, AR, and MR?

Compared with other age groups, respondents aged 25-44 shows the highest interest in purchasing virtual clothing

Respondents aged 25-44 have the highest percentage of people who are interested in purchasing virtual clothing. Among them, about 21% say they are highly interested in purchasing virtual clothing and about 58% say they are a little interested in purchasing virtual clothing.

Figure 21. Percentage of people interested in buying virtual clothing by age group



Note: The numbers in the figure represent the percentage of people in different age groups who are interested in buying virtual clothing

Figure 21 - Q: To what extent are you interested in buying virtual clothing? (Virtual clothing refers to digital clothes made with computer simulation technology. Designers can add imaginative elements, materials, AR effects, and filters to the image of clothes that are impossible to achieve in real life)

The percentage of people who know about or like virtual idols is highest among respondents aged 25-34

Surveys show that the top eight virtual idols known or liked by respondents in order are (ranked from highest to lowest in terms of popularity): Luo Tianyi, Hatsune Miku, Liu Yexi, Ye Xiu, Oriental Gardenia, Hua Zhibing, Kizuna AI, and Ling. The two most popular characters, Luo Tianyi and Hatsune Miku are known to or liked by 40.5% and 23.2% of respondents, respectively.

Figure 22. Percentage of people with a familiar or favorite virtual idol by age group

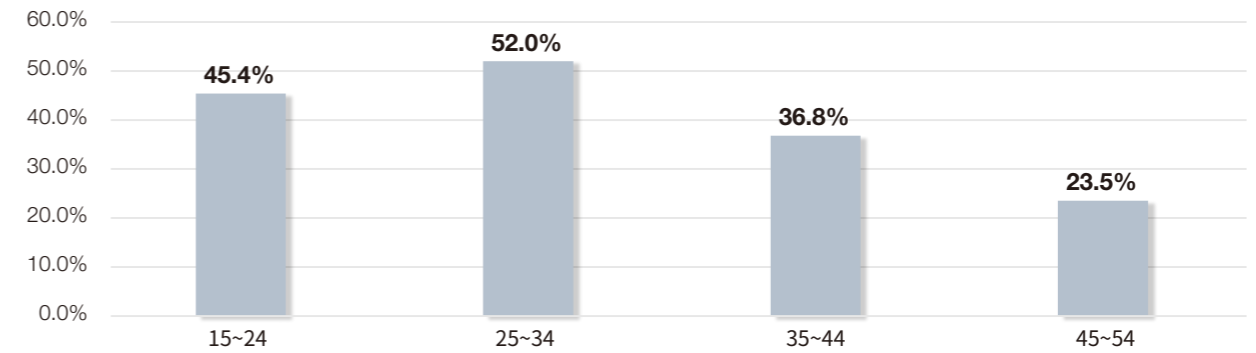
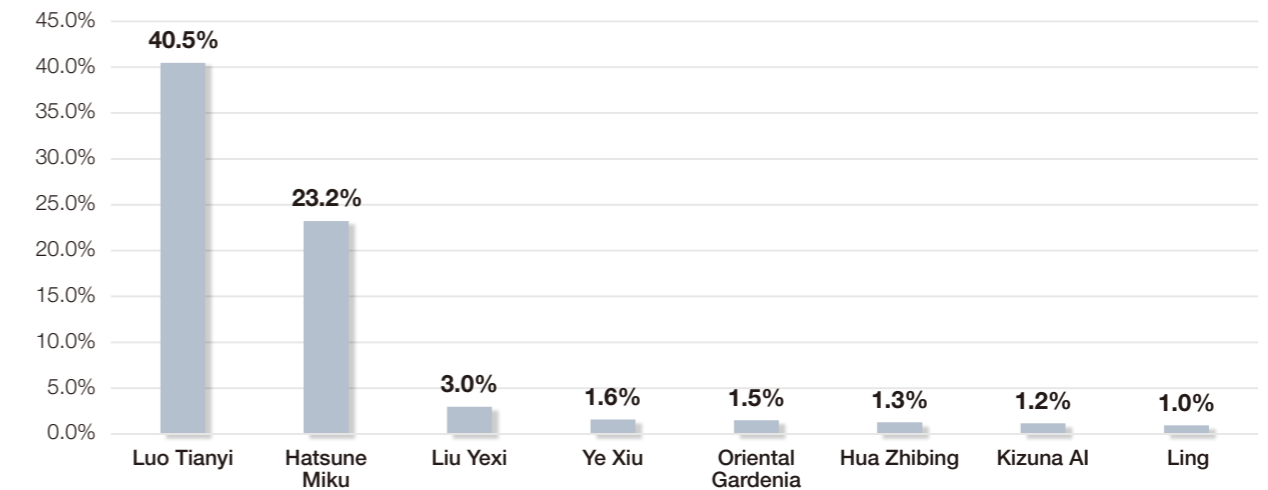


Figure 22 - Q: Is there any virtual idol that you are familiar with or like?

(Virtual Idol refers to image characters constructed by computer image processing technology, voice technology, digital reproduction technology, and Internet thinking.)

Luo Tianyi and Hatsune Miku are the two most popular among all virtual idols

Figure 23. Ranking of the most popularly known or liked virtual idols



Note: The numbers in the figure represent the percentage of people who are familiar with or like each virtual idol

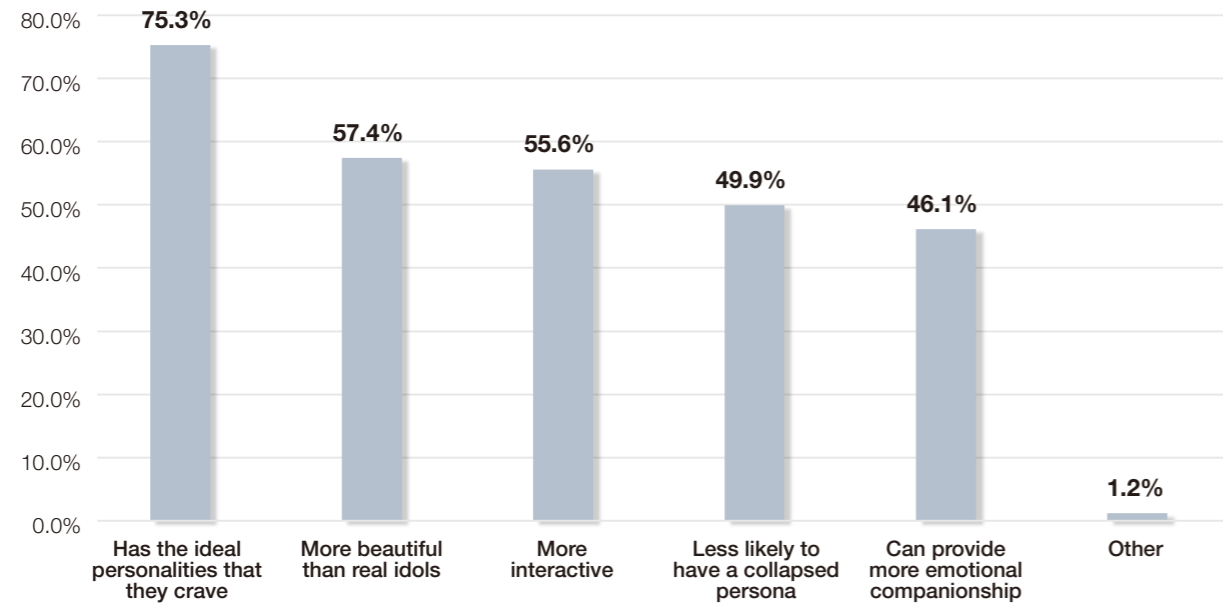
Figure 23 - Q: Is there any virtual idol that you are familiar with or like?

(Virtual Idol refers to image characters constructed by computer image processing technology, voice technology, digital reproduction technology, and Internet thinking.) If yes, please name a few virtual idols you know.

Having the ideal personalities that they crave is the most important reason why consumers like virtual idols

Among all respondents who have a virtual idol that they are familiar with or like, 75.3% say they love a virtual idol because it has the ideal personality that they crave. Other comments respondents make about virtual idols include: “more approachable”, “more convenient and without complicated operations”, “more interactive”, “able to generate effects beyond human capability”, “adorable”, “harboring more possibilities”, “able to produce excellent works”, “very mysterious and surreal”, and “more interesting”.

Figure 24. Reasons for liking virtual idols



Note: The numbers in the figure represent the percentage of people who have different reasons for liking virtual idols
 Figure 24 - Q: How do you consider the virtual idol(s) that you are familiar with or like?

The group with respondents aged 25-34 has the highest percentage of people who say they will be more likely to buy products from a brand just because their virtual idol becomes that brand's ambassador

When asked if consumers would buy products endorsed by virtual idols, the young adults (25-34 years old) were the most likely to buy such products. Nearly 60% of these respondents said they were more likely to buy them and about 10% said they would absolutely buy them.

Figure 25. Percentage of people who would buy products endorsed by virtual idol they liked

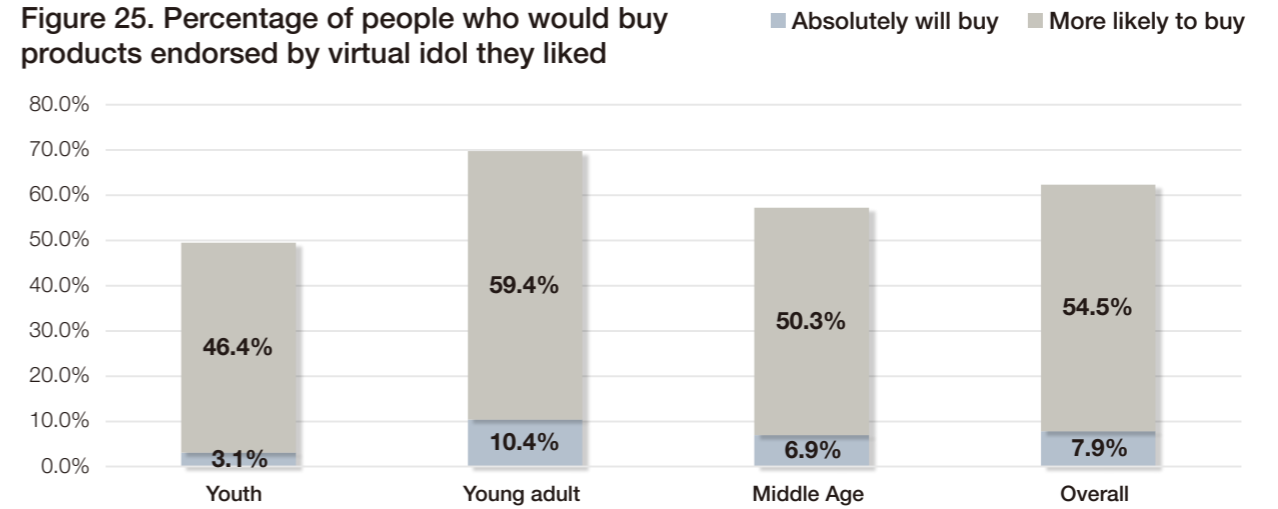
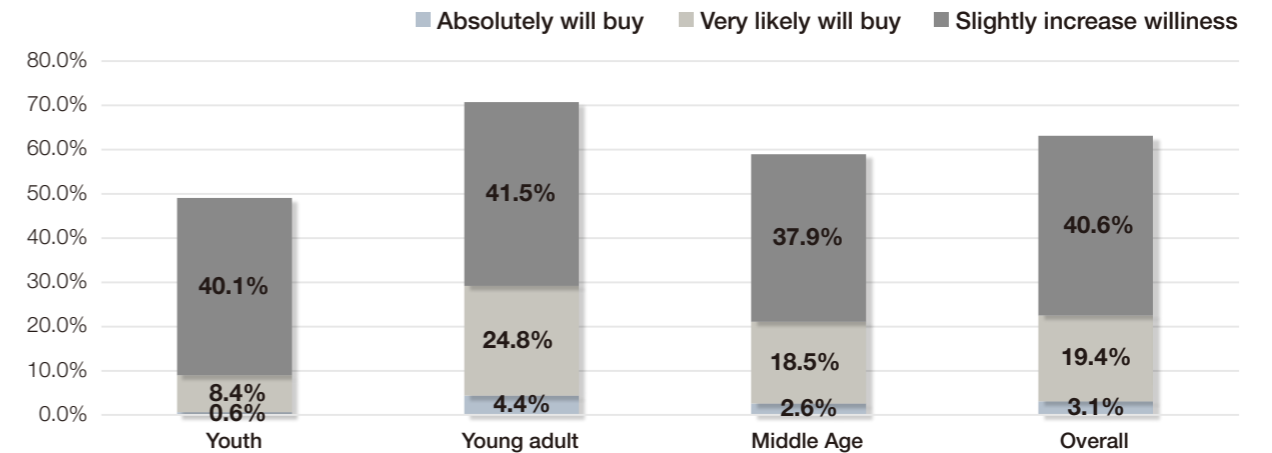


Figure 25 - Q: To what extent will you buy products from a brand just because your virtual idol becomes that brand's ambassador?

Over 58% of both respondents aged 25-34 and 35-54 say a brand's self-developed virtual beings will make them more willing to buy that brand's products

Similarly, among young adult respondents (25-34 years old), in the question of whether the release of a brand's virtual beings affects their willingness to buy the products, over 70% say a brand's self-developed virtual beings will make them more willing to buy that brand's products. This preference among middle-aged respondents (35-54 years old) also reaches 60%.

Figure 26. Percentage of people who would increase their likelihood of purchasing the product as a result of a brand launching virtual beings



Note: The numbers in the figure represent the percentage of people in each age group who said they would increase their purchase of the brand's products because the brand releases its virtual beings

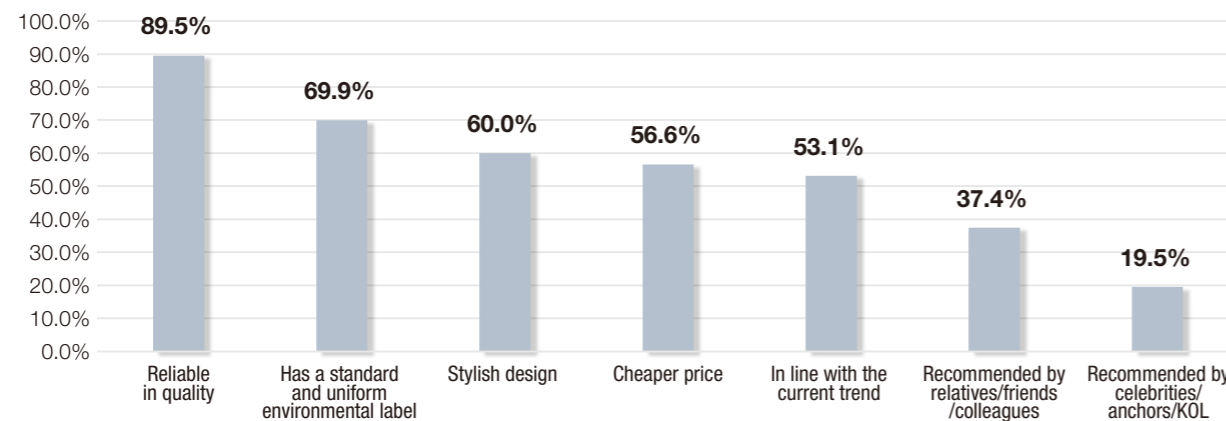
Figure 26 - Q: To what extent will a brand's newly launched self-developed virtual beings influence your purchase decision on that brand?

SUSTAINABLE CONSUMPTION

According to the survey, when purchasing sustainable fashion products, respondents' top demands on products are "reliable in quality" and "has a standard and uniform environmental label"

In addition to experience consumption, niche hobbies, and new consumptions related to technology, in 2021, we add a questionnaire survey on sustainable consumption. In our research on sustainable consumption, we first asked consumers about the main factors that influence their sustainable consumption. Among the many influences listed in the figure below, approximately 90% of respondents cited "reliable in quality" as the number one factor that would increase their willingness to purchase sustainable fashion products; about 70% cited "having a standard and uniform environmental label" as the second most important factor.

Figure 27. Consumers preference for sustainable fashion products in different scenarios

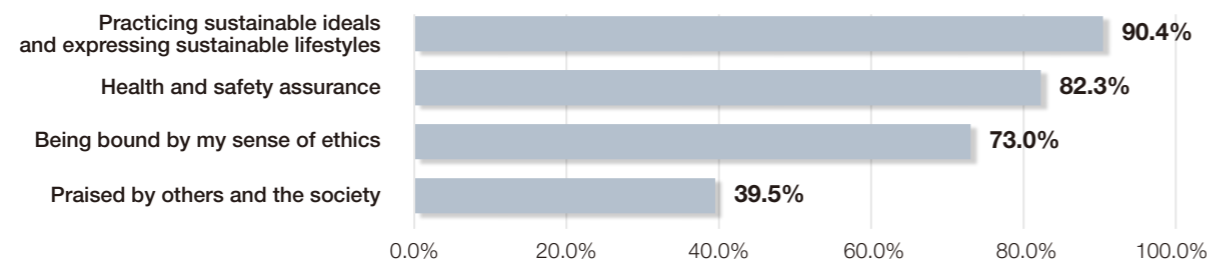


Note: The numbers in the figure represent the percentage of people who are more willing to purchase sustainable fashion products in different scenarios
Figure 27 - Scenario Questions: Can any of the following factors promote your willingness to purchase a sustainable fashion product?

About 90% of the respondents are motivated to buy sustainable fashion products as they are conscious of environment protection, while about 40% buy them as they desire to be praised by others or society

Consumers may be motivated to buy sustainable fashion products by social pressure or by their recognition of the concept of sustainability. About 90% of respondents buy sustainable fashion because they resonate with the concept of sustainability and express a sustainable lifestyle, while about 40% buy it because they desire to be praised by others or society.

Figure 28. Motivations for buying sustainable fashion products

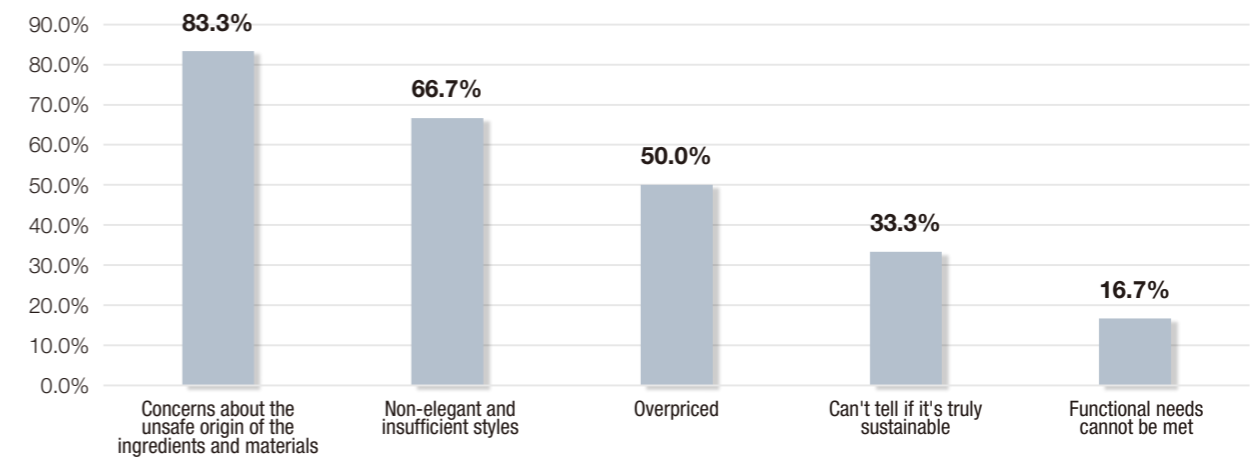


Note: The numbers in the figure represent the percentage of people who feel differently about buying sustainable fashion products
Figure 28 - Q: How does buying sustainable fashion products make you feel?

Survey shows that "unsafe origin of ingredients or material" is the most prominent reason for people not buying sustainable fashion products

In our research on the reasons that prevent consumers from purchasing sustainable fashion products, we find that about 83% of respondents choose not to purchase sustainable fashion products because they are concerned about the unsafe origin of the ingredients and materials, about 67% think the products are limited in style and not well designed, and about 50% think sustainable products are too expensive.

Figure 29. Reasons that prevent consumers from buying sustainable fashion products

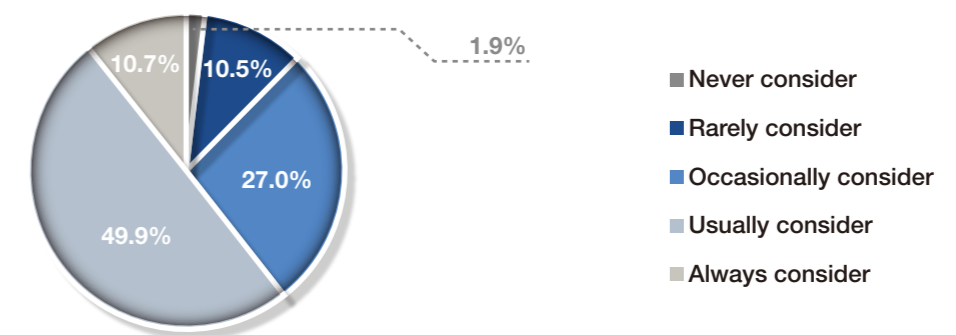


Note: The numbers in the figure represent the percentage of people with reserved reasons for not buying sustainable fashion products
Figure 29 - Q: What are your reasons for not buying sustainable fashion products?

About 60% of respondents say they "usually consider" or "always consider" the sustainability of a fashion product

Regarding whether consumers consider the sustainability of products when shopping daily, about 50% of the 1,000 respondents say they "usually consider" the sustainability of a fashion product, 10.7% of respondents say they "always consider" the sustainability of a fashion product, and only about 2% of respondents say they "never consider" the sustainability of a fashion product.

Figure 30. Do you consider the sustainability of fashion products when buying them?



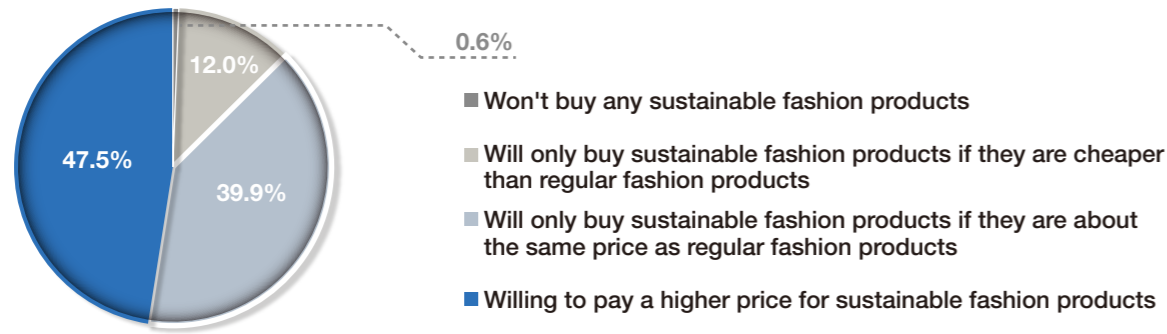
Note: The figures in the chart represent the percentage of people who consider the sustainability of fashion products at different frequencies when purchasing them

Figure 30 - Q: How often do you consider the sustainability of a fashion product when you purchase it?

Nearly 50% of respondents say they are willing to pay a premium for sustainable fashion products

Regarding consumers' willingness to accept relatively higher-priced sustainable fashion products, it appears that overall, about 40% of respondents say they would be willing to buy sustainable fashion products when the price of sustainable fashion products is equivalent to regular fashion products; about 48% say they would be willing to pay a higher price for sustainable fashion products.

Figure 31. Price that consumers can accept

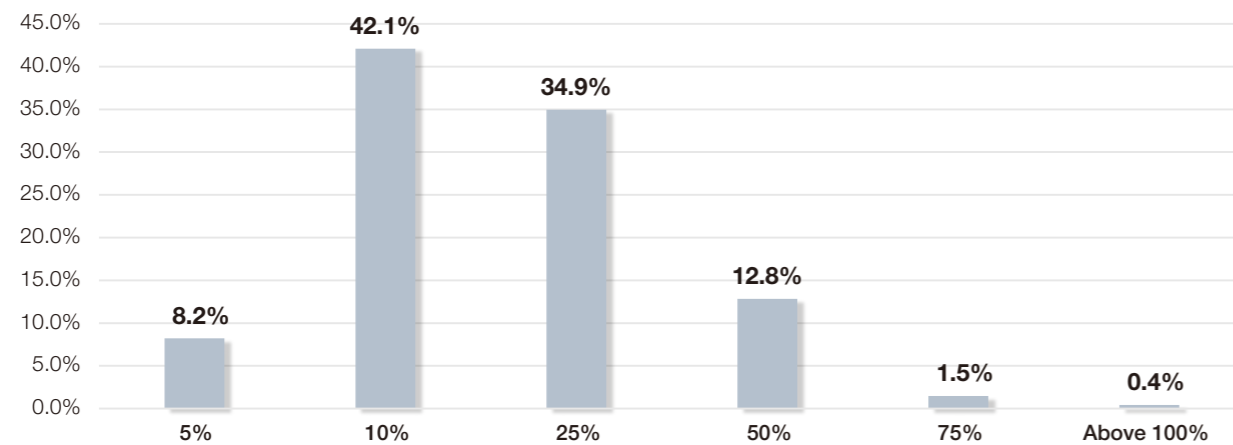


Note: The numbers in the figure represent the percentage of people with a different willingness for purchasing sustainable fashion products
 Figure 31 - Q: Which of the following descriptions most accurately expresses your willingness to purchase sustainable fashion products

When buying sustainable fashion products, about 44% of all respondents are willing to accept a 10% premium, and about 24% of all respondents accept a 25% premium for sustainable fashion products

For those respondents who say they could accept a premium for sustainable fashion products, we ask them further about the magnitude of the premium they could accept. About 92% of the respondents are able to accept a 10% premium, and about 50% are able to accept a 25% premium. Considering that 47.5% of all respondents could accept a premium for sustainable fashion products, about 44% of all respondents could accept a 10% premium and about 24% of all respondents could accept a 25% premium.

Figure 32. Acceptable price premiums for consumers to purchase sustainable fashion products

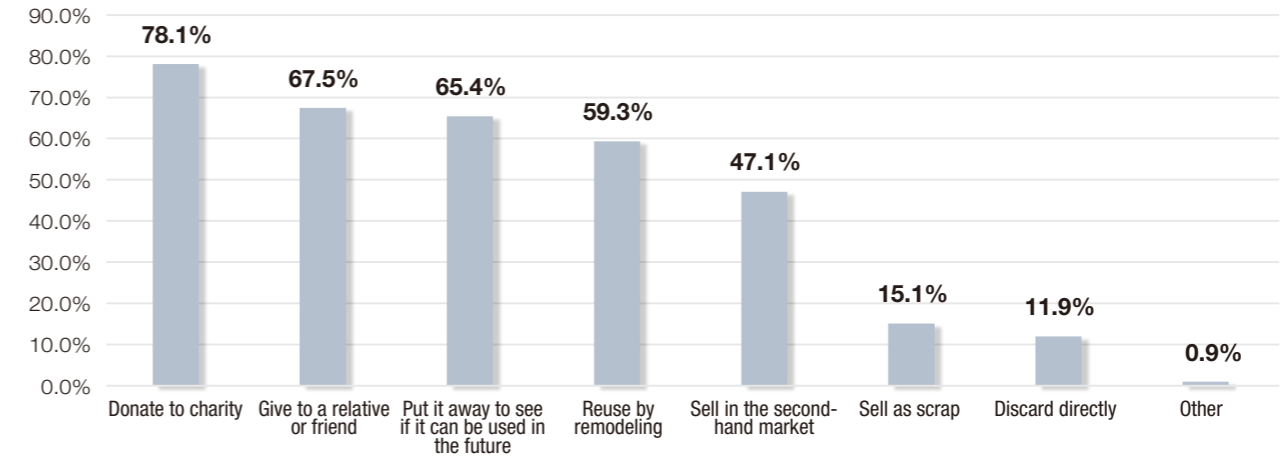


Note: The numbers in the figure represent the percentage of people who are willing to accept different price premiums when purchasing sustainable fashion products
 Figure 32 - Q: Which of the following descriptions most accurately expresses your willingness to purchase sustainable fashion products

Nearly 80% of all respondents will donate unused clothing to charity

Through consumers' responses to questions about how to dispose of unused clothing and the places or organizations known to dispose of unused clothing, we find that about 80% of all respondents will donate unused clothing to charity. The proportion of respondents who would sell clothing as scrap or discard it directly is only 15.1% and 11.9%, respectively.

Figure 33. Different ways for disposing of unused clothing

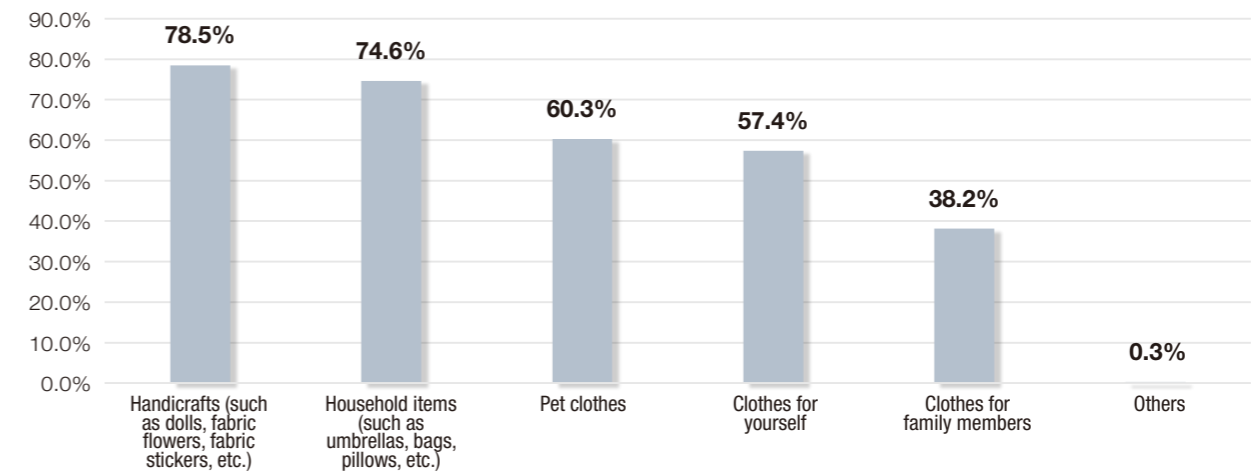


Note: The numbers in the figure represent the percentage of people who take different ways to dispose of their unused clothing
 Figure 33 - Q: How do you usually dispose of your unused clothing?

Consumers are more willing to re-make old clothing into items that are not worn close to their body

For the willingness to re-make old clothes, 78.5% of respondents say they are willing to make their old clothes into handicrafts (such as dolls, fabric flowers, fabric stickers); 74.6% of respondents say they would like to turn old clothes into household items (such as umbrellas, bags, pillows); 60.3% of respondents prefer to convert their old clothes into pet clothes. Only a few respondents choose to re-make their old clothes into clothes of their own or their family's.

Figure 34. Different ways that customers are willing to re-make old clothes

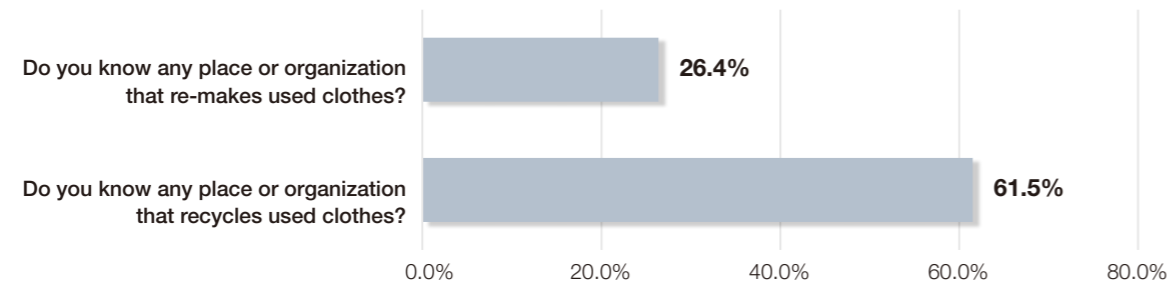


Note: The numbers in the figure represent the percentage of people who are willing to accept different methods for re-making old clothes
 Figure 34 - Q: How will you re-make your old clothes?

The survey shows that 61.5% of respondents know about places or organizations that recycle used clothes, while only 26.4% know where to re-make their old clothes into new ones

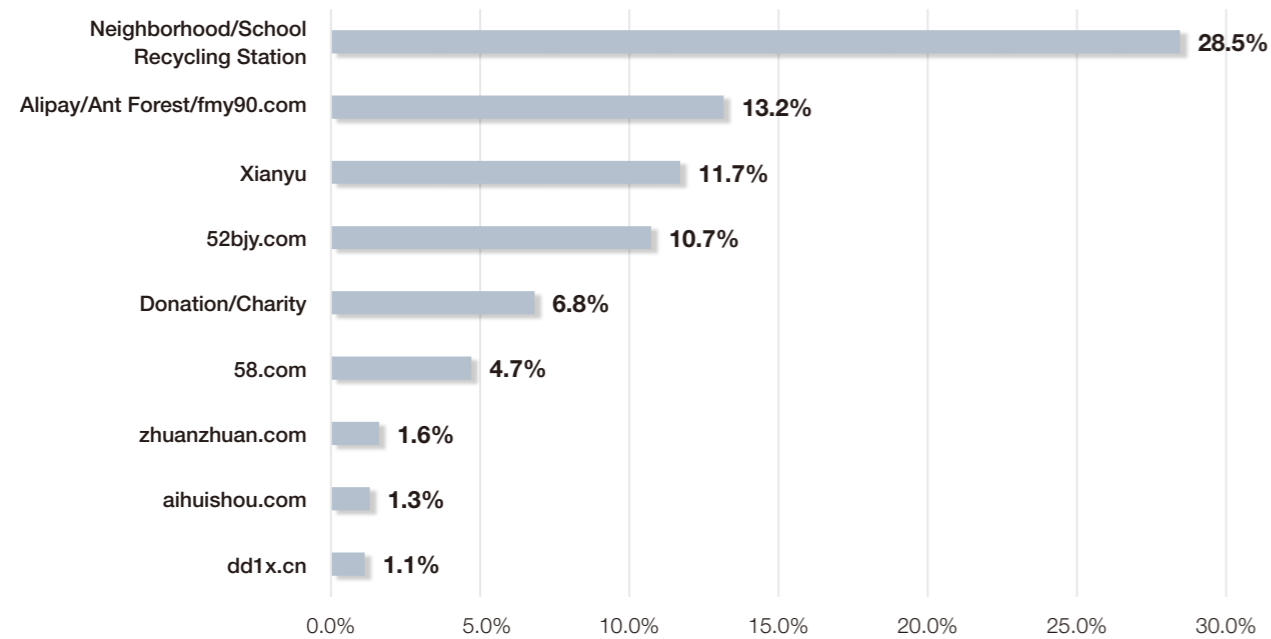
Most respondents go to the recycling station in the neighborhood or school to recycle their old clothes. Some people also use Alipay, Ant Forest, fmy90.com, Xianyu, and 52bjy.com to recycle old clothes. In the clothes old-to-new service, respondents normally send their old clothes to three places, 52bjy.com, Yi Gai Wang Xi, and Old Clothes New Life.

Figure 35. Whether consumers know the corresponding place or organization



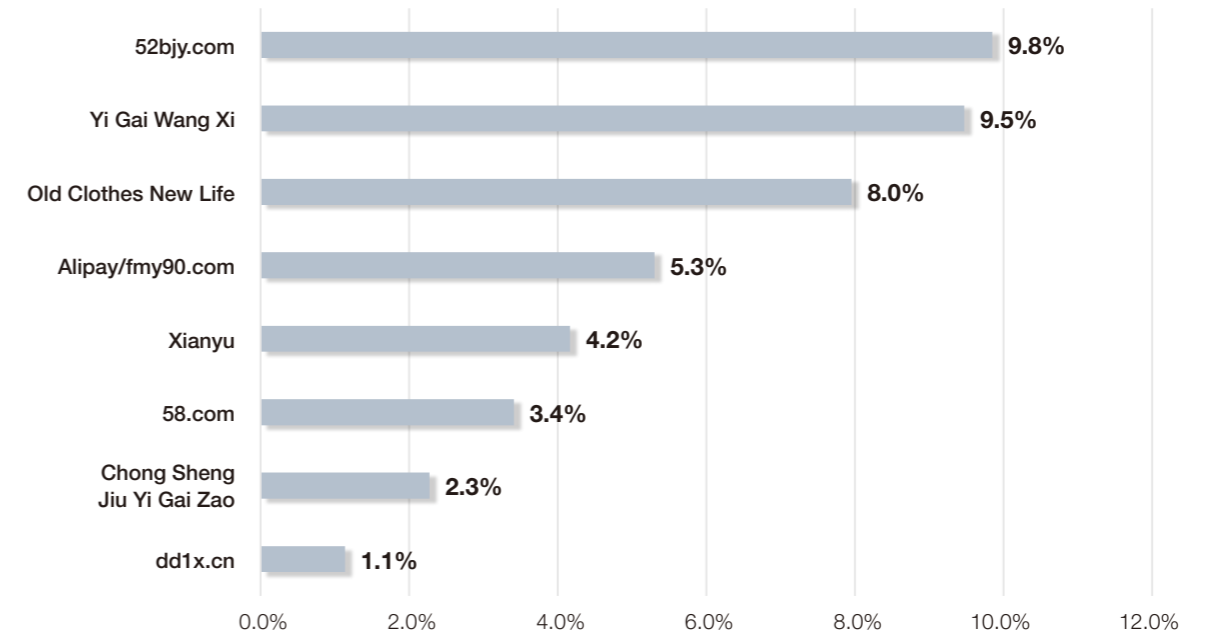
Note: The numbers in the figure represent the percentage of people who know the corresponding place or organization

Figure 36. Different place/organization for used clothes recycling known by consumers



Note: The numbers in the figure represent the percentage of people who know about each used clothes recycling place or organization
Figure 36 - Q: Do you know any place or organization that recycles used clothes?

Figure 37. Different place/organization for clothes re-making known by consumers



Note: The numbers in the figure represent the percentage of people who know about each used clothes re-making place or organization

Figure 37 - Q: Do you know any place or organization that re-makes used clothes?

About 65% of respondents purchased second-hand clothes in 2021

For possible business models in the circular economy, we researched consumers' willingness to purchase and experience second-hand apparel, re-made clothing, and fashion products in rental models.

Figure 38. Percentage of people who buy second-hand clothes at different frequencies

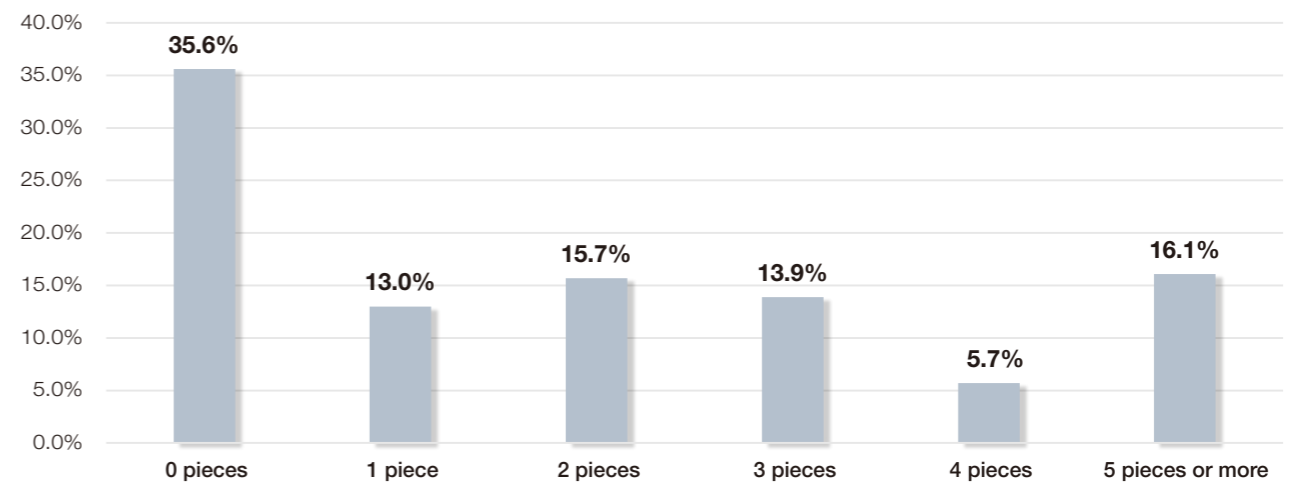


Figure 38 - Q: How many pieces of second-hand clothes have you purchased in the past year?

70.8% of respondents express their willingness to buy clothes re-made from old clothes, while 17.5% of respondents say they will never buy clothes re-made from old clothes

Figure 39. Percentage of people who say they would like to purchase clothes re-made from recycled clothes

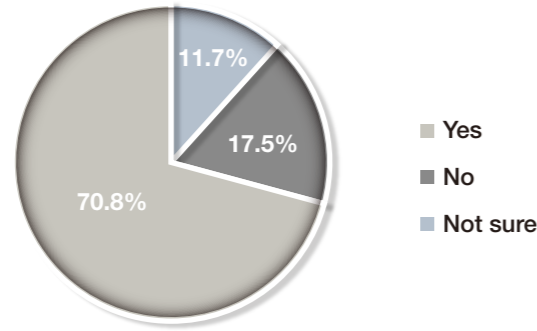


Figure 39 - Q: Will you purchase clothes re-made from recycled clothes?

Among different categories of fashion items, people are most reluctant to rent shoes

Regarding renting different categories of fashion items, more than 70% of respondents are willing to rent clothing, bags, and jewelry, while about 60% of respondents say they are unwilling to rent shoes.

Figure 40. Percentage of people willing to rent each of the following categories of fashion products

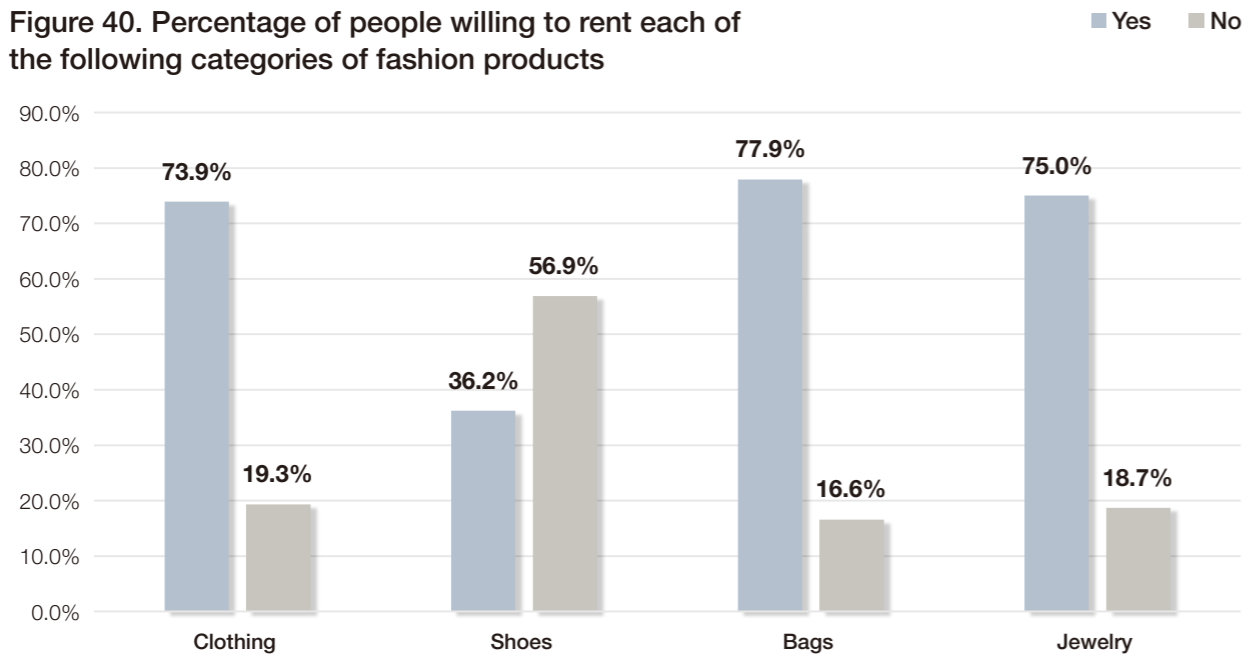


Figure 40 - Q: Would you like to rent the following categories of fashion products?

Appendix: Research Methodology

- This report uses market survey methods in the form of questionnaires
- Nearly 4,000 responses are collected in three surveys, all from Credamo, an integrated data platform for research and modeling
- All three surveys are distributed to respondents from nearly 30 provinces or municipalities
- In all three surveys, about 60% of respondents are between the ages of 25 and 35
- In all three surveys, the ratio of men to women among the respondents is nearly 2:3
- All three surveys include respondents from more than 20 different industries
- About 20% of respondents in questionnaire 3 have an overseas study or work experience
- Some of the questions divide respondents into different age groups: Youth (under 25 years old), Young adult (25-34 years old), and Middle-aged people (35-54 years old)

有才·有料, 循环·共生——关于可持续时尚发展的探索

A Symposium on Sustainable Fashion by CEIBS-Shui On
Global Branding Strategy & Fashion Industry Research Fund



CEIBS
中欧国际工商学院

上海时装周
SHANGHAI
FASHION
WEEK

中欧国际工商学院 CHINA EUROPE INTERNATIONAL BUSINESS SCHOOL

承办机构: 中欧-瑞安全球品牌战略与时尚产业研究基金
Undertaker: CEIBS-Shui On Global Branding Strategy
& Fashion Industry Research Fund

SUSTAINABLE FASHION

- Shanghai Fashion Week
- Kering
- Kane Top
- Melephant

SHANGHAI FASHION WEEK

Symposium on Sustainable Fashion

Author/CEIBS Marketing and Communications Hana ZHANG

上海时装周
SHANGHAI
FASHION
WEEK



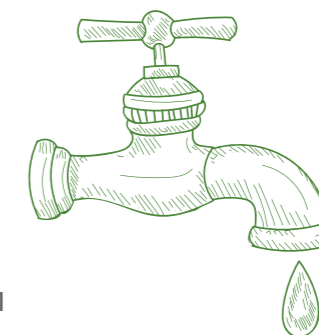
On April 7, 2021, the Symposium on Sustainable Fashion was held at the MODE Shanghai Fashion Trade Show during the 2021 Autumn/Winter Shanghai Fashion Week. The event was co-organized by CEIBS and the Shanghai Fashion Week Organizing Committee and hosted by the CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund. Focused on sustainability in the fashion industry, the symposium sought to raise awareness about sustainable fashion among trade associations and government departments and encourage the formulation and improvement of relevant policies.

The event was attended by a range of fashion industry stakeholders, including Min LIU, Deputy Director of the Shanghai Municipal Commission of Commerce, Hao CHENG, Deputy Director of the Industry Department at the China National Textile and Apparel Council, Bin XU, Professor of Economics and Finance at CEIBS, Qi WANG, Professor of Marketing and Vice Chairman of the Executive Committee of CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund, Allan ZHANG, Chief Executive Officer of Shui On Xintiandi and Vice Chairman of the Executive Committee of CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund, and Jinqing CAI, President of Kering Greater China. Attendees discussed their own progress and challenges in pursuing sustainable fashion. The event also brought together nearly one hundred representatives from government departments, well-known fashion brands, and luxury brands, as well as CEIBS professors and alumni, and was covered by over 20 media outlets.



Can Fashion Really be Sustainable?

Authors/Qi WANG Hana ZHANG Iris XUE Elaine LI



Introduction

When you ask people what is the most polluting industry in the world, most will guess the petrochemical, thermal power, steel, coal, cement, or aluminum smelting industries. They would be correct to include the petrochemical industry, which is indeed the world's biggest polluter, but they might be surprised to learn that the world's second biggest polluter is in fact the fashion industry. The fashion industry produces mountains of waste and dumps vast quantities of printing and dyeing wastewater into rivers and oceans every year. The ugly truth of this industry that is devoted to beauty has prompted many to reflect on how to make it more sustainable. Following decades of rapid growth, China has overtaken the United States as the world's largest apparel market, valued at nearly USD 300 billion. Yet despite fashion driving economic growth, China's determination to reach peak emissions before 2030 and achieve carbon neutrality by 2060 is now placing growing pressure on the industry to clean up its act. China's fashion industry currently faces four major sustainability challenges.

1

The fashion industry generates considerable carbon emissions that account for a significant proportion of the earth's carbon budget. If the industry continues to grow at its current rate, it is expected to use 25–30% of the world's remaining carbon budget by 2050. China's per capita consumption of textile fiber hit 22.4 kg in 2018, more than 20 times higher than at the establishment of the PRC in 1949. Given China's large population of 1.4 billion people, the fashion industry is likely to take up a significant share of the country's emissions quota.

2

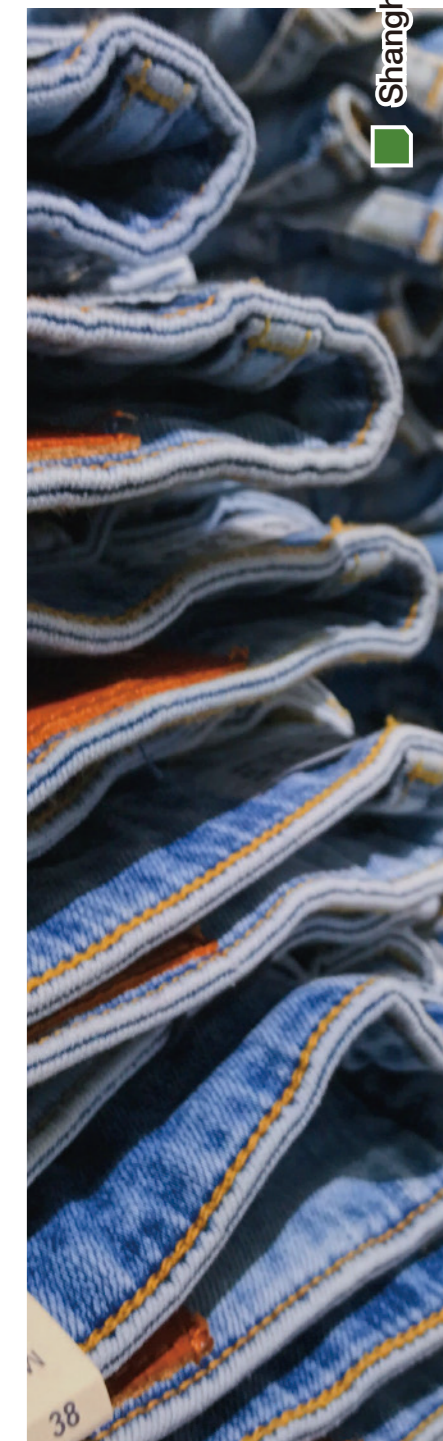
The fashion industry's rapid turnover generates tremendous waste. The global apparel industry produces 92 million tonnes of waste each year. Most textiles are discarded after three to five years, and more than 50% of fast fashion items are thrown away after just one or two years. Shorter product life cycles generate huge amounts of fashion waste that needs to be disposed of.

3

The raw materials used to make fashion products typically cannot be recycled, and do not biodegrade. Almost 70% of fashion products are made from synthetic fibers that are produced using non-renewable energy sources such as crude oil. Of the six million tonnes of textile waste produced in China every year, 80% is composed of chemical fibers that are not readily biodegradable.

4

The industry is highly water-intensive and causes water pollution. The water needed to produce one white cotton shirt is enough for one person to drink eight cups of water per day for three-and-a-half years, while the water needed for a pair of jeans is about ten years' worth of drinking water. In addition, more than 400 of the 3,500 chemicals used by the apparel industry are harmful to the environment. About 20% of water pollution is caused by hazardous chemicals used in textile wet processing such as dyeing and finishing, while garments made of synthetic fibers are responsible for 35% of global microplastic pollution.



Transitioning to Sustainable Fashion

Sustainable fashion is a movement that seeks to foster change in fashion products and the fashion system toward greater ecological integrity and social justice. The movement aims to address the serious pollution issues in the fashion industry and manage changes to the industry's social, cultural, business innovation, and financial systems, which are interdependent. While it is essential to raise awareness about sustainable fashion among brands, designers, and supply chains, it is also necessary to garner support from governments, industry associations, investors, and even universities and research institutions, and to step up consumer education in this regard (see figure below).



1. Changing consumer perceptions

Traditionally, fashion brands expressed their design philosophy and artistic taste through their products, which consumers purchased not only as items of clothing, but also as works of art. But how can consumers depart from this emphasis on ownership, and instead see themselves as users of clothing, which they can later pass on to other users as secondhand garments? One way to achieve this would be for brands to change their marketing strategies to encourage consumers to pay for the right to wear garments for a time, before returning them to the brand for resale. Changing consumer perceptions is a key step in building a more sustainable fashion industry.

2. Innovating business models

How is it possible for brands to pursue sales growth while encouraging consumers to consume less in the name of sustainability? To solve this paradox, in addition to changing consumer perceptions, brands need to explore new ways of doing business and rethink their relationships with consumers. Some brands have devised several innovative models.



1) Circular fashion model

Knickey, a foreign startup, offers free shipping labels and a new pair of undergarments to anyone who sends the company their unwanted underwear and socks. Collected items are passed on to a nonprofit for recycling and the company can claim a tax deduction. Reclothing Bank is a Chinese brand that makes garments out of recycled fabrics, and is working with supply chain partners to build its own sustainable production line. It has launched over ten collections and more than 800 sustainable fashion designs at Shanghai Fashion Week. However, these innovative fashion recycling brands are still relatively rare and have only a limited impact. To establish a truly circular fashion ecosystem, investment from new players will be needed to create a supply chain that can sort, classify, clean, and recycle used garments.

2) Rental model

Some platforms adopt a rental or pre-ordering model under which consumers pay a monthly fee for access to the latest styles, which they can return to the platform at a later date. RealReal and Farfetch, valued at over USD 2 billion respectively, are emblematic of this model. Mudseller is another similar platform that offers jeans for rental.

3) Blind box model

By using blind box marketing (where consumers buy a package containing unknown products from a brand), fashion brands can offer consumers trendy designs with an element of surprise. For example, URBN (owner of Anthropologie, Urban Outfitters, and Free People) launched its rental service called Nuuly in the summer of 2019. For a monthly fee of USD 88, customers receive a box of six items selected from hundreds of popular brands including Ralph Lauren, Cynthia Rowley, and Reebok.

4) Sharing model

The sharing economy has had a transformative effect on many sectors of the economy, but it is unclear whether or not it can transfer across to the fashion industry. Of course, if products are attractive and well designed, it is possible that a garment sharing model could prove popular with customers. Fundamentally, sharing models provide an alternative to garment ownership by charging instead for usage. However, if sharing models are to work, technological and government support will be indispensable to achieve the required innovation in business models, manufacturing techniques, and production processes.

3. Technological innovation

The sustainable fashion movement may boost the fashion industry by delivering disruptive innovation and transformation. Equipped with new materials, technologies, and production processes, brands can turn waste into biodegradable or recyclable materials, reduce or eliminate pollution from printing and dyeing processes, and introduce sustainability standards that are conducive to greener sourcing and manufacturing decisions. On the sales side, brands may be motivated to alter their sales message to showcase their sustainable values to consumers.

Technological advances have already made it possible for brands, designers, and supply chains to recycle and reuse materials. However, there is still a lack of coordination between different points in the supply chain. Further efforts are needed to pool resources, share information, and step up cooperation among different stakeholders to drive the sustainable development of the fashion industry.



4. Policy initiatives

1) Pilot of an extended producer responsibility system to enable closed-loop supply chain management

Authorities in Shanghai have established a system for the collection, disassembling, disposal, and reuse of scrap metal, electronic waste, scrap cars, plastic waste, and glass waste. However, no such processes currently exist for textile waste. Looking to international practice, the French National Assembly passed a bill in 2021 to pilot a “CO₂ score” label in the apparel and textile industry. This initiative was designed to inform consumers of the carbon emissions generated during raw material processing, manufacturing, packaging, and transportation of textile products, and to urge brands and producers to align their actions with the country’s environmental protection requirements. Prior to that, France had introduced an extended producer responsibility (EPR) scheme for end-of-use clothing, linen, and leather products, which raised the collection rate for reuse and recycling from 18% in 2009 to 36% in 2017. China can draw on similar experience to pilot its own extended producer responsibility system that would hold companies responsible not only for the production, but also the selling, recycling, and reuse of their products.

2) Expedited formulation of nationwide certification standards to encourage green development and consumption

Standards directly shape and regulate the development of an industry. China has a vast domestic market and comprehensive supply chain. However, for these to reach their true potential, it is necessary to develop national-level, unified standards. At present, there is a pressing need for China’s fashion industry to formulate national green certification standards. Such standards would help to encourage industry players that are committed to sustainability, while steering consumers towards green consumption. This would lay the foundation for a more sustainable fashion market.

3) Leveraging a mixture of financial and tax policies to support the green transformation of the fashion industry

First, offering green financial support: At the end of 2020, China’s outstanding green loans amounted to nearly RMB 12 trillion and outstanding green bonds RMB 813.2 billion, contributing substantially to green transformation of local businesses. However, more can be done to improve the green loan system. For example, companies could be granted low-interest or interest-free loans for meeting annual emissions or recycling targets and face higher interest rates or other penalties should they under deliver. In addition, soft loans, low-interest or interest-free loans, and loan guarantees could be provided for investment in energy-efficient equipment or development of green technologies. The government could also draw on international experience by encouraging large companies to issue sustainability bonds. For example, the British brand Burberry issued a EUR 300 million sustainability bond, the proceeds of which will be used to finance its investments in energy-efficient buildings, sourcing of sustainable packaging and labeling materials, and procurement of sustainably produced cotton. The French label

Chanel also issued a EUR 600 million bond, whose terms were tied to its environmental goals. The brand must pay a premium if it fails to meet its own internal and supply chain emission reduction goals by the time the bond matures.

Second, channeling investment into green technologies: To achieve sustainable development, the fashion industry needs USD 10–15 billion of investment per year at the start (raw materials) and end (reuse and recycling) of the value chain, but such financing needs have not been met. Only a small proportion of investment has focused on fashion and textile technologies, leaving many innovators struggling to secure funds for the development and scaling up of their innovations. In response, the government can take the initiative to launch a sustainable fashion “fund of funds” that would lead investment in technologies that can drive the industry’s sustainable growth.

Third, providing tax incentives and green subsidies: To encourage the fashion industry’s transition to the circular economy model, the government can support companies that specialize in the recycling, cleaning, repairing, and remaking of used garments through favorable tax policies. Tax breaks can be offered to garment re-makers and secondhand retailers that pay VAT on their sales, or businesses that pay taxes for products made of recycled materials. The government can also release a list of energy-efficient equipment and technologies, and grant tax benefits to companies that purchase the equipment or adopt the technologies on the list. In recent years, a growing number of countries have introduced carbon taxes as another effective tool to reduce emissions. The government can weigh the costs and benefits of imposing a carbon tax on the fashion industry against other fiscal policies. In addition, subsidized loans or direct subsidies can be provided for R&D projects that involve eco-friendly materials, sustainable dyeing technologies, and recycling and reuse of waste textiles.

4) Building an open platform for green policies to raise awareness and facilitate policy execution

To support the sustainable growth of the fashion industry, the Chinese government has made huge strides in developing relevant standards, tax regulations, five-year plans, and key technologies. However, these efforts have failed to produce tangible results due to a lack of synergy with the industry. Meanwhile, a number of innovative green practices pioneered by China’s fashion industry went unheeded because of poor publicity, preventing them from being scaled up or replicated. For example, the China National Textile and Apparel Council found ways to reduce the use of microplastics in apparel manufacturing, made technological breakthroughs in cotton production in Xinjiang, and awarded recognition for business excellence to apparel makers in Zhejiang Province that achieved zero wastewater discharge. In light of this, more efforts should be made to publicize what China has achieved on its path to sustainable development, so that business pioneers that use eco-friendly materials and production models are motivated to embrace the circular economy. Furthermore, governments at all levels should work together to build an open platform that assembles a range of policies for green development, with a view to building policy awareness and facilitating policy implementation.

KERING

Kering: The Trailblazer in Crafting Sustainable Luxury

Authors/Jinyu HE Iris XUE

K E R I N G



CASE INTRODUCTION

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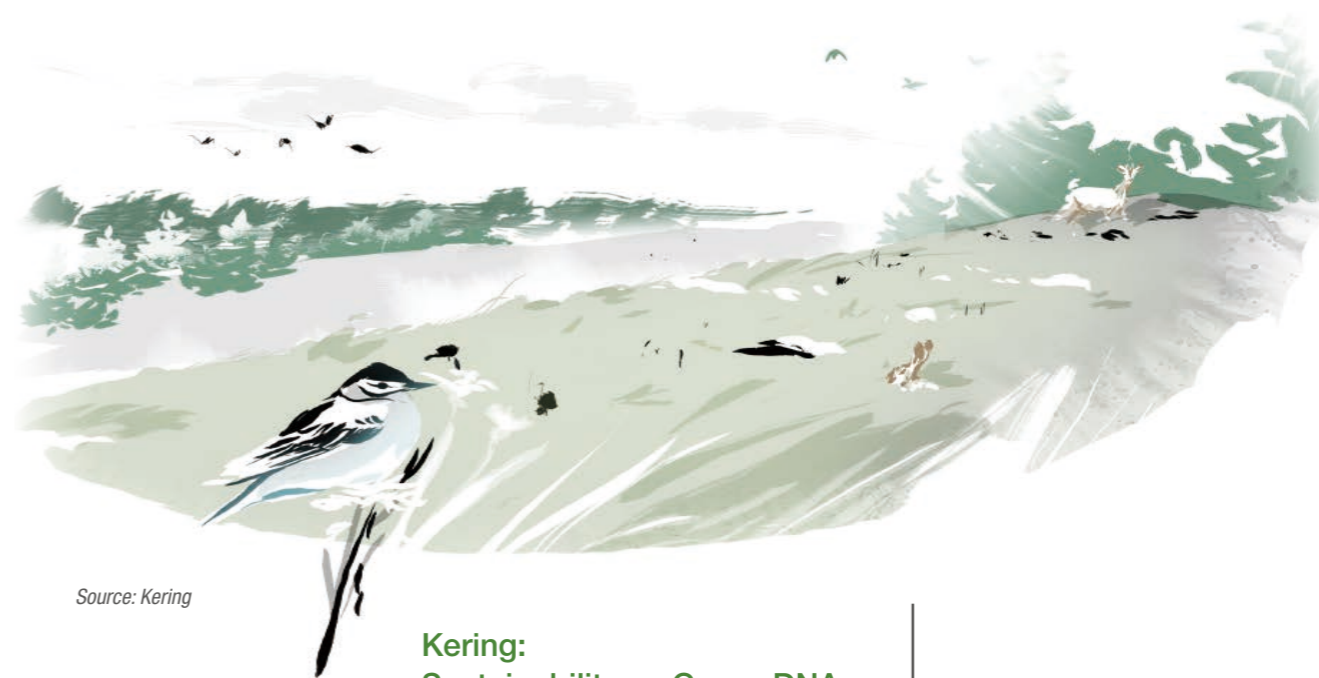


Introduction

Luxury and sustainability seemed to be a pair of antonyms. People kept skeptical about the source of materials, waste that occurred from production and delivery, as well as the excessive consumption. However, more and more premium brands and luxury maisons devoted themselves to activities that benefited the earth and society. Hermès started to apply mushroom leather as a sustainable leather alternative; Chanel issued the first public bond that was linked to its sustainability objectives;

Prada partnered with Italian yarn producer Aquafil to launch a new regenerated nylon which was made of recycled plastic collected from landfill sites and oceans; In 2021, Gucci developed a groundbreaking new material, Demetra, derived primarily from sustainable, renewable, and bio-based raw materials. Unlike many new materials being developed, there are no impediments to scalability or limitations on volume and thus it is able to meet the brand's

requirement of large production quantities. In the spirit of open innovation, Gucci will make Demetra available to the fashion industry; Stella McCartney increased the amount of recycled polyester in production, which had a 75% lower carbon footprint and 90% less water usage than virgin polyester...Could luxury and sustainability coexist? If so, how should companies and brands design their strategy accordingly?



Source: Kering

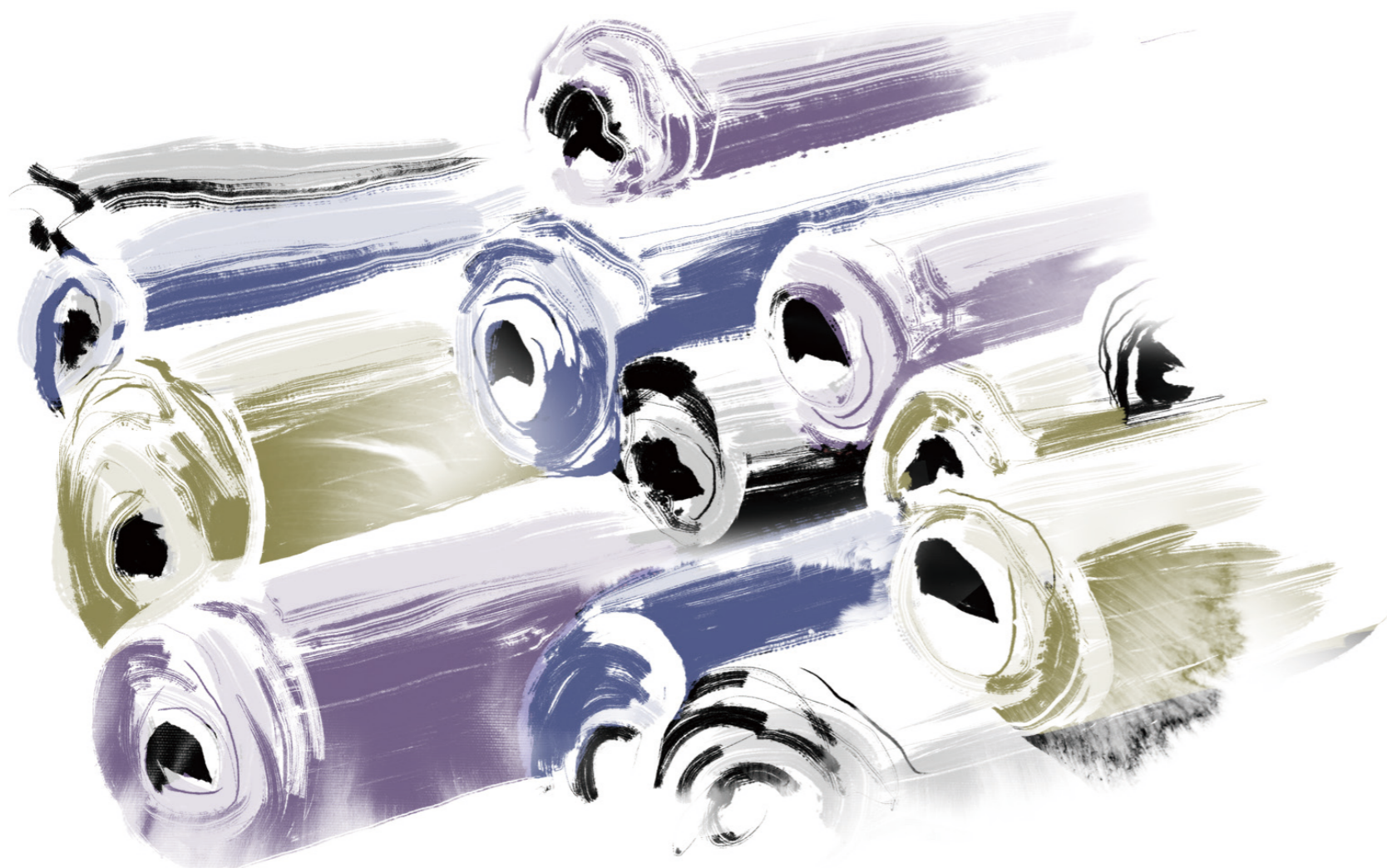
Kering: Sustainability as Group DNA

“Luxury and sustainability are one and the same” had been one of the most famous quotes in the fashion industry. The person who said that was François-Henri Pinault, Chairman and CEO of Kering. Sustainability had been embedded in Kering’s DNA and implemented as one of the core strategies for more than two decades. Organization-wise, the sustainability department was established in 2003. Strategy-wise, in 2017, Kering unveiled the second chapter of its sustainability strategy, with 2025 targets and underpinned by three pillars: CARE, for the planet; COLLABORATE, with people; and CREATE, new business models and innovations.

The achievement of this sustainability trailblazer was widely recognized. Kering had been ranked first in the Clothing and Retail category in Corporate Knights’ Global 100 ranking for five consecutive years. For the ninth time in a row, the Group was included in the Dow Jones Sustainability World Index.



Many Chief Ethics and Compliance Officers (CECO) were set up for failure due to deficient resources, inadequate preparation, or insufficient authority, but that was not the case in Kering. Marie-Claire Daveu, Chief Sustainability and Institutional Affairs Officer of Kering, is also member of the group’s Executive Committee. The Committee serves as the group’s key operational body that steered transformation in an integrated manner, including sustainability issues. Each brand of Kering also equipped itself with a sustainability team, who is in charge of implementing the sustainability strategy within the brand.



Picture. Rouleau

Source: Kering



Business Innovation on Sustainability

“Green” had become not only a popular term but also often misused concept that claimed to incorporate everything from new material, packaging design to recycling methods. It sounded trendy for fashion brands to convey messages about protecting the world and fulfilling social responsibility, but the risk of greenwashing rocketed higher than ever. If companies just scratched the surface of the issue, took a few risks or put a fair amount of money, at the end of the day, the impact on the environment would only be marginally different than if nothing had been done at all. Thus, innovation and disruption had been regarded as the critical lesson for sustainability practices.

Jinqing CAI, President of Kering Greater China, believed that sustainability had been the core of Kering’s strategy, reflecting that the Group hunted for opportunities to transform, disrupt and reinvent the entire luxury industry. Kering’s sustainability went beyond CSR, cause marketing or philanthropic initiatives, and became the key innovation and value creation driver. One of the major differences between Kering’s sustainability strategy and those of other fashion groups was the systematic measurement and quantitative goals rather than qualitative concepts or catchwords. To illustrate, the Group targeted to reduce its environmental impact by 40% and control carbon emissions compared to 2015 and to ensure 100% traceability for Kering’s primary raw materials. Apart from quantitative measurement, leveraging innovation represented another primary differentiation. From the Material Innovation Lab that identified responsible alternatives to the “Plug and Play - Fashion for Good” accelerator, the Group explored the possibilities with the frontier talents and cutting-edge technology together.

Kering already calculated that even if they applied less impactful materials like organic cotton or recycled polyester at an even larger scale, the overall goal to reduce environmental impact by 40% would only be around half done (since 2015, Kering reduced the Group’s overall environmental impacts by 33% by EP&L). The other half required disruptive innovation, including new technologies in production, manufacturing processes, and traceability along the supply chain, and new services, such as secondhand items and rentals. Correspondingly, Kering invested in the London-based handbag rental service Cocoon and the French secondhand fashion e-tailer Vestiaire Collective. Another crucial resource that Kering leveraged was innovators. The Group actively scouted for potential talents through collaboration with start-up accelerators and incubators. Once the Group identified promising talents, their ideas and concept would be further piloted and matched with the Material Innovation Lab for fabrics/textiles and the Sustainable Innovation Lab for the watches and jewelry items.



Kering

Measurement – Environmental Profit & Loss (EP&L)

Some French companies seemed to attach more importance to measuring and solving ethical and sustainability issues, in contrast to other companies which reactively reported their environmental, social, and governance (ESG) activities just because their investors urged them to do so. To illustrate, L'Oréal deployed the eco-design tool "Sustainable Product Optimization Tool (SPOT)" since 2017 to evaluate and quantify the impact on the environment and society, as well as monitor and identify the measures for improvement. Mars introduced the concept "Economy of Mutuality", a methodology that assessed the financial, natural, social, and human capital of business performance to find the right level of profit. Kering's Environmental Profit & Loss predated all such initiatives a decade ago. EP&L evolved to a comprehensive methodology that evaluated emissions and use of resources, environmental changes and effect on well-being in terms of GHGs, water consumption and pollution, land use, air emissions and waste across the entire value chain from operations and stores, final assembly, preparation of sub-components, processing and production of raw materials.



EP&L not only measured Kering's environmental impacts on natural capital throughout its value chain and monetized them, but also represented a new way that assessed the raw materials used in production and designing. More importantly, this tool directed the whole group towards more sustainable sourcing solutions, innovative technologies and new materials development. Internally, the approach embedded sustainability in the business of all Kering's houses. Externally, the approach surpassed a typical ESG disclosure style that reactively reported based on requests by investors or regulators, symbolizing a proactive attitude that provided the full picture of environmental impact to all key stakeholders.

Kering embedded four strategic purposes of the EP&L. First and foremost, it served as a change management tool to raise awareness about environmental impact at the group level. Second, EP&L offered the group a pair of business intelligence lenses to evaluate the entire supply chain, where things came from, and how they were made. The luxury industry usually cared more about whether a brand was famous or the product sold well. The supply chain only catches eyes when there's a problem. EP&L allowed the Group to learn things it never had the chance to look at, like a cotton land or a cattle ranch, a silkworm farmer or mines for the jewelries. Third, EP&L monetized the footprint beyond

tracking ecological impact with the common business language that all brands used in daily work. Even though climate changes and carbon neutrality occupied the headline of mainstream media, C-suites seldom feel the connection with themselves, or link the environmental impacts into their own business. Empowered by the EP&L methodology, senior leaders could better interweave the sustainability practice with their business strategy and unravel out the complicated correlation between each gram of carbon dioxide and each euro or dollar or yuan. On top of being a change management tool, a risk control dimension and a business language translator, EP&L also had the value to facilitate the collaboration and benchmarking within the house and compare environmental impacts between different units and various locations.

As an open-source tool, EP&L is still in the early stages of development and further verification of data's standardization and reliability for carbon, and other indicators is needed. What we also need to think about is how to integrate the measurement of social impact against economic and environmental impact? Should companies prioritize the well-being of the communities or the possible financial benefit to the communities?

Sustainability strategy has been at the heart of Kering's mission and vision. Each brand has already carried it out in their daily work and pilot projects: On top of launching Gucci Off The Grid, the first circular design collection with regenerated materials and textiles to reduce waste, Gucci also invented a new material Demetra, an animal-free raw material that came from renewable and bio-based sources; Saint Laurent increased the efficiency of leather cutting and used cutoffs to produce small leather goods; Bottega Veneta sent its design team to attend the training course on circular fashion, introduced biodegradable polymer and recycled plastics in its shoe collections, and used recycled nylon in its leather garments and goods; Balenciaga combined the launch of men's and women's collections and designed collections for two seasons at the same time to maximize fabric utilization; Alexander McQueen partnered with Vestiaire Collective to launch the "Brand Approved" service, offering an innovative buy-back circular solution for brands; Pomellato used the traditional kintsugi technique of mending broken pieces with gold to repair and upcycle damaged gemstones.

With the practice over the decades, Kering kept proving that luxury and sustainability can not only coexist but also made the other better.

Kering Generation Award

Authors/Jinyu HE Iris XUE Frieda WANG Hana ZHANG



Since 2017, Kering became the founding partner of “Plug and Play - Fashion for Good” accelerator, a platform to foster coalition and creation in the luxury and apparel industry. The partnership helped facilitate the dialogue and engagement among the Group, the investors and the start-ups on bringing positive environmental and social. In 2018 when Jinqing CAI was appointed as President of Kering Greater China, she immediately prioritized this innovation coalition. In one Bazaar interview, Cai spoke highly of the startups and the innovation ecosystem in China, “Chinese start-ups can bring endless possibilities for innovation and support the transformational change. Creative innovation can be executed quickly in the Chinese market and brought profound impact on the fashion industry, especially the supply chain side.” After assessing the external environment and internal capacity, Kering partnered with Plug and Play China and invited a panel of experts to launch the Kering Generation Award. The award handpicked the most promising Chinese innovators in pursuing alternative raw materials, green supply chain, retail & use and the circular economy, and established an open-source platform that

increased the awareness of corporate citizenship and environmental protection. Stakeholders from start-ups, upstream suppliers, downstream brands, policymakers, NGOs and industry associations were all target audiences. The Kering Generation Award also offered generous benefits to the winners, including a €100,000 prize for the top winner and opportunities to meet industry leaders for mentoring and networking.

Kering held four roadshows in Beijing, Shanghai, Shenzhen and Hong Kong for the award. The panel selected three winning start-ups from fifty shortlisted companies, which were announced at the Kering Generation Award Talks & Award Ceremony held at the Shanghai Fashion Week in October 2019. François-Henri Pinault, Chairman and CEO of Kering, attended the ceremony and remarked, “China is not only the most important supplier of raw materials for the fashion industry — it’s also the most important market for the fashion industry for all fashion brands. We have the consumers, the producers in the middle, and the government altogether, which are willing to move progressively towards sustainability.” The Kering

Generation Award helped the Group find three outstanding winners. First awardee Melephant offered natural dyes from organic waste based on a circular methodology. Second awardee Heyuan innovated water treatment technology for printing and dyeing. Third awardee FeiLiu Tech optimized the supply chain via AI technology to enable small batch runs to avoid over-production. The prizewinners went to Europe for two weeks to meet fashion brand houses and hold workshops with industrial investors and experts. More importantly, the Chinese startups had the chance to build a relationship with the fashion community and develop a partnership with Italian producers to pilot their technology.

The second Kering Generation Award was launched in April 2021 via strategic collaboration with the old partner Plug and Play, who again organized the roadshow of the finalists, and the new partner China Europe International Business School, who co-organized the customized entrepreneurship workshop for the participants. The jury board of the second Kering Generation Award was also diverse and professional. New members such as the Founding Editor-in-Chief of Vogue

China, Head for Asia Pacific with the United Nations Global Compact, and Executive Director of Center for Nature and Society of Peking University also joined the panel to look for the startups committed to restoring and protecting biodiversity. At the end of the Symposium on Sustainable Fashion held at the 2021 Autumn/Winter Shanghai Fashion Week, Bin XU, professor of economics and finance at CEIBS, Jinqing CAI, President of Kering Greater China, and Jieping XU, Managing Partner and CEO of Plug and Play China (CEIBS EMBA 2006), announced the launch of the second Kering Generation Award. Prof. Xu urged companies to participate in the competition and noted, “Today’s theme focuses on both business and value. Apart from pursuing business value, you should dedicate yourself to something that gives meaning to your life.” Ms. Cai shared the overseas experience of a global luxury group in sustainable development, as well as its efforts and achievements in promoting sustainable development in mainland China. Mr. Xu introduced the selection criteria of the award, “The first is innovation; the second is relevance to sustainability; the third is social benefit; the fourth is environmental benefit; and the last

criterion is sound ROI, which shows the company’s ability to strike a balance between costs and benefits.”

The award ceremony was held at the Museum of Art Pudong (MAP) on December 6, 2021. The event was organized by Kering and Plug and Play China, and supported by CEIBS. Prof. Yuan DING, CEIBS Vice President and Dean, attended the ceremony and presented the award to the top winner Peelsphere, a Chinese start-up addressing sustainability challenges with innovative materials based on renewable seaweed, plant and fruit waste. As the award’s academic partner, CEIBS provided support in terms of start-up selection, case development and by equipping the top 10 finalist companies via an acceleration camp programme to enhance their entrepreneurial capabilities.

CEIBS has always attached great importance to corporate social responsibilities (CSR) and has made CSR/sustainability one of the school’s four signature research areas, which investigates how businesses respond to increased expectations from customers to reduce their negative impact on society and the environment and

how they become pioneering forces for sustainable development. Prof. Ding said, “We are glad to collaborate with Kering Group and Plug and Play China on the second Kering Generation Award. CEIBS is committed to cultivating socially responsible business leaders, and we hope to empower sustainable fashion with our abundant teaching resources and strong research capacities.”

The acceleration camp was held at the CEIBS Shanghai campus on October 14-15. During the camp, Jinyu HE, professor of strategy, Qi WANG, professor of marketing, and Taiyuan WANG, associate professor of entrepreneurship, offered know-how and insights to help finalists present their entrepreneurial ideas and developments to the advisory panel and jury board. Prof. Jinyu HE and Prof. Qi WANG both served on the advisory board for this award. CEIBS professors have also worked with the school’s Case Center team to develop cases on sustainable development for Kering and Melephant (the winner of the first Kering Generation Award).

KANE TOP

Explorations in Supply Chain Sustainability

Authors/Qi WANG Jinyu HE Luis LIU



CASE INTRODUCTION

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Founded in 1984 and headquartered in Kowloon, Hong Kong, Kane Top Group Co., Ltd. (hereinafter “Kane Top”) is a leading player in China’s clothing industry. It owns a vertically integrated supply chain and manufacturing processes which extend from product design and development, to procurement, and production. Its clients include Calvin Klein, Tommy Hilfinger, Roots, Burberry and Armani Exchange, among other world-famous apparel brands and retailers. In 2003, Kane Top set up a subsidiary, Shanghai E-Top Textile Co., Ltd. (hereinafter “E-Top”), in Jinshan District as its center for R&D, technology, exhibition, design, production, materials control, quality control, and logistics. (see Exhibit 1)

Exhibit 1: Kane Top Group and its affiliates



Starting in 2018, Kane Top CEO Macy YAU made sustainable development part of corporate strategy, and promoted sustainability practices across the industry chain. In addition, she initiated digital supply chain transformation and launched the company’s own brand, in a bid to create a synergistic, virtuous business ecosystem.

Kane Top’s sustainability transformation had been well-received by industry insiders and the general public. That success story ended in 2020 as challenges arose both within and outside the company: Kane Top refused to do business with those having poor or dubious sustainability performance, setting limits on its own development; the global outbreak of the coronavirus strand, Covid-19, dealt a blow to raw materials supply and market demand.

Macy had to endure a declining rate of sustainable materials utilization. She did follow an unorthodox path by creating a “green” brand, but the path was fraught with uncertainties. As sustainable fashion models became more diverse, Kane Top faced more options and challenges.

Kane Top’s sustainability strategy

Macy decided to redefine corporate strategy after receiving a phone call from her daughter Shiyun HE on May 4, 2018.

At that time, Shiyun just returned from the third annual China Fashion Gala in New York City, where Yue-Sai Kan, the host of the event, asserted that “sustainable fashion represents the future of the industry”.

Deeply touched by Yue-Sai Kan, Shiyun said excitedly on the call, “In the future, an unsustainable business model will be doomed to failure... We should carve out a sustainable development path. Leaving aside how great the undertaking is, we can reap immediate rewards from sustainability initiatives. The key to brand value creation is to do what others cannot do.”

Shiyun was studying at Parsons School of Design, the best art and design school in the U.S., to prepare herself for the future takeover at Kane Top. Naturally, Macy heeded her advice.

Previously, Kane Top saw trendiness as a chief selling point for its products. Macy did not pay particular attention to sustainability, let alone implement sustainability practices systematically.

Exhibit 2: Circular economy manifested in sustainable fashion

MODELS	KEY BRANDS
Natural new materials	Pinatex, Orange Fiber
Renewable materials	Sateri
Reconstructed clothing	Reclothing Bank
Long-lasting clothes	Patagonia, Klee Klee
Smart customization and 3D printing	Data Dress, Eletroloom
Clothing rental (as a short-term or monthly paid service)	Rent the Runway, YCloset
Reselling	Duo Zhuayu, Xianyu (Idle Fish)

Source: Case authors



Sustainable fashion

Sustainable fashion is a movement and process of fostering change to fashion products and the fashion system towards greater ecological integrity and social justice. In 1987, World Commission on Environment and Development (WCED) coined the concept of sustainable development: “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” In early 2000s, a growing number of consumers and those pursuing a career in fashion came to realize the industry’s deficiencies in energy consumption and social equity. They then started to set their sights on sustainable development, which gave rise to “sustainable fashion”.

Sustainable fashion is not only linked to fashion products or textiles, but to the whole fashion world (involving the interdependent social, cultural, ecological, and financial systems). Sustainable fashion takes into consideration the interests of various stakeholders, e.g. consumers, producers, biological species, and present and future generations.

Sustainable fashion has two goals: Firstly, to build a prosperous ecosystem and community by increasing production/product value, extending the life cycle of materials, adding value to durable clothes, reducing waste, and minimizing harm to the environment resulting from production and consumption. Secondly, to promote the concept of “green consumers” to encourage environmentally friendly behavior.

Sustainable fashion has different manifestations: natural new materials, renewable materials, reconstructed clothing, long-lasting clothes, clothing rental (as a short-term or monthly paid service), reselling, smart customization, 3D printing, and other innovations. (see Exhibit 2)

Fast fashion

The crazes for “fast fashion” and “sustainable fashion” began at around the same time. “Fast fashion” follows on latest trends by mimicking high-end fashion designs from top international brands and churning out cheap knock-off garments. Since 2000, “fast fashion” has disrupted the clothing industry, attracting those with lower purchasing power, such as students and white-collar workers. Fast fashion brands have taken the world by storm, and penetrated most consumer markets.

Fast fashion is characterized by low pricing, a wide range of styles, and low inventory levels. Its fast turnaround time is synonymous with quick elimination from the market; average quality implies a short lifespan of clothes; and affordable prices encourage consumers to make fast purchases. Fast fashion produces waste throughout key processes including design, production, marketing and after-sales services, running counter to sustainability principles.

Industry-wide sustainability efforts

Given growing environmental awareness and mounting pressure from public opinion, more and more fast fashion brands have stepped up their sustainability efforts.

Raw materials: Fast fashion brands such as Walmart, C&A, Nike, People Tree, H&M and ZARA have increased the use of organic cotton. Regenerated fibers are widely used by local and foreign brands during product development. Upcycling, the simplest and most direct way to implement sustainability practices, has also started to catch on. Upcycling involves deconstruction, reconstruction, quilting, patchwork, knitting, and other processes by which old clothes are re-purposed and get a second life.

Design: New York Fashion Week 2009 went “green”, while London Fashion Week 2010 featured a sustainable catwalk show. About a third of designers had worked eco-sustainably by 2013. Shanghai Fashion Week has

hosted sustainability-themed exhibitions and forums annually since 2019. Furthermore, the Academy of Arts & Design, Tsinghua University, the London College of Fashion, and ESMOD Berlin International University of Art for Fashion now offer courses in sustainable fashion. Design companies stopped competing against each other and forged strategic alliances instead, in light of the growing appetite for green fashion. The Cradle to Cradle (C2C, also referred to as regenerative design) certification program was launched.

Production: Almost all major Swedish clothing firms introduced sustainability programs (typically with emphasis on green production). Sustainability managers of big American garment companies publicly discussed how to adjust existing business models, production processes, and store concepts for greater sustainability. In 2019, ahead of the G7 meeting, Kering brought together 32 leading fashion companies (roughly 150 brands in the coalition) to make sustainability commitments in the form of a Fashion Pact. Subsequently, sustainable fashion gained momentum on a global scale.

Consumers: Consumers no longer made simply usability-based buying decisions, but instead had more environmental and moral concerns. According to a 2018 global survey conducted by Unilever among 11,000 consumers, 68% tended to purchase environmentally friendly items. Millennials (born 1981-1996) overtook Gen X-ers (born 1965-1980) as the largest consumer group in the U.S. clothing and home textile market. Growing up in an era where global warming, environmental protection, and sustainable development came to widespread public attention, U.S. Millennials were far more likely to be sustainably-minded than their older cohorts. 83% of them admitted it was extremely important for companies to implement programs to protect the environment, while 75% said they might change their consumption habits to reduce their impact on the environment. In 2019, the Office for Social Responsibility of the China National Textile and Apparel Council (CNTAC) surveyed 5,002 randomly selected Chinese consumers, and found that over 67% of them were favorably disposed to greener

products, while around 26% went further to actually make green purchases. An AliResearch report suggested most sustainable shoppers were young: In 2019, 41% of “green-minded” buyers on Tmall and Taobao were young people born in the 90s.

Differentiation

Macy was aware of sustainability issues faced by the clothing industry as early as 2000, when reconstructed clothes were available at Macy’s department stores. But since Macy’s lacked the technology base then to restore the used fabrics’ original texture, consumers were reluctant to pay more.

E-Top was founded in 2003, and landed its first client A&F, a U.S. fashion brand. A&F leveraged its marketing strength to evolve quickly into a brand with market dominance in the U.S. and influence in the world. Its focus or selling point was not sustainability, but clever tailoring that can flatter the figures of young boys and girls.

Macy used to perceive A&F as a good partner. Adidas also intended to turn E-Top into its exclusive OEM partner, but Macy had an instinctive antipathy towards the “inhuman” lean manufacturing. After visiting a lean manufacturing facility, she said, “I heard the hissing sound there, quite different from the click-click-click in my own factory. With machines working non-stop and employees not even have proper toilet breaks, the model was not sustainable!”

In 2018, many fast fashion brands embarked on a sustainable development path. That same year, Macy attended Tommy Hilfiger’s annual meeting in Amsterdam. It had never occurred to her that “sustainable” and “green” would be the most frequently used words at the meeting. So, she assumed Tommy Hilfiger was a sustainability advocate. However, none of the businesses in its supply chain had set sustainability goals.

Shortly afterwards, Macy received the phone call from her

daughter, and was spurred on to formulate a systematic sustainability strategy. Based on in-depth research, she and other senior executives set out the company vision of “taking the lead in building a more sustainable supply chain”.

In 2019, Macy strongly felt that ecological consciousness was no longer a fringe interest: Calvin Klein planned to sustainably source 100% of materials by 2025; Wal-Mart was targeting to source 50% recycled polyester and 100% organic cotton for its apparel products; the China Council for the Promotion of International Trade (CCPIT) defined 2019 as the Year of Sustainability, and anticipated that in the next decade, brands would put a value on environmental protection to satisfy consumer preferences for green products.

In reality, all parties concerned were accelerating sustainability plans. On the one hand, downstream brand owners called for fashion sustainability. On the other hand, upstream suppliers of sustainable raw materials were mushrooming. Macy believed the tactile feel of reconstructed clothing was a reality two decades ago. As third parties like HSBC empowered their clients to go green, and more designers and consumers became sustainability-conscious, fashion sustainability moved from the fringe to the mainstream. Players in the industry ushered in a new era of green growth, which was completely different from 20 years ago. Some brands took a tough stand on sustainability, claiming they would never use unsustainable materials.

Kane Top realized it should seize the moment to create differentiation. Eventually, Kane Top transformed itself into a sustainability advocate and implementer in 12 months.

Shaping sustainability values

As Kane Top operated on an “OEM+ODM” basis, how could it create a cascade of sustainability practices that flowed smoothly throughout the clothing value chain?

Source: Kane Top

• Internal stakeholders

Macy chose the philosophy of sustainability over business logic. As an idealistic person, she insisted on applying that philosophy to solve pain points in logic, instead of abandoning the philosophy if it went against logic.

“A founder and business leader should feel genuine responsibility to devise a sustainability strategy.” Macy saw that her values as a founder were the most powerful, since values were disseminated top-down.

Kane Top is a flat company, with 4-5 people in its core management team. There was basically no resistance to sustainability values from mid and high-level employees. As a result, all its employees got to know these values so well that they can recite them from memory. Those who did not share these values left, whereas those who identified with the values stayed. In reality, almost no one cited values issues as his/her main reason for leaving the company. At the time of writing this case, one-fifth employees had been with Kane Top for more than 10 years. (see Exhibit 3)

Most staff, mainly born between 1983 and 1988, had a strong sense of well-being. Their salaries were above the industry average: managers could earn an annual ¥250,000^①, and supervisors, ¥180,000. Furthermore, they had the possibility of earning up to half this annual salary again in bonuses. Even fresh graduates in junior positions could expect ¥7,000 per month in wages. Kane Top also offered free food and accommodation, leaving its staff almost nothing to spend money on. Jinshan District is a

suburban district of southwestern Shanghai. Average rentals near E-Top were around ¥1,000 per month. So, many employees preferred to live near the company and drive to work.

Macy resisted “grinding her staff into the ground”. A worker in a lean manufacturing facility generally has to make 100 pieces of clothing a day. By contrast, Kane Top only demanded a dozen or sometimes even three pieces a day so long as delivery was on time.

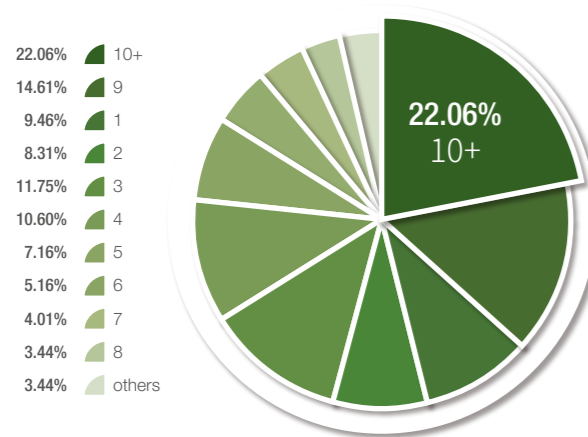
Kane Top applied not only the Labor Laws of the People’s Republic of China, but also International Human Rights Law, and International Labor Law to protect the rights of its workers. Employees working overtime were paid at a maximum overtime rate: if they worked more than eight hours a day, they were paid 1.5 times their wages, and if they worked on a weekend or a statutory holiday, they were paid double or triple wages. Moreover, Kane Top introduced safety standards to meet international client expectations.

Kane Top also worked with third-party testers such as SGS^②, Intertek and ETL^③ to ensure compliance.

In addition, up to the time of writing this, E-Top had never experienced a labor dispute: an internal survey conducted at the end of 2020 showed that 90% of its staff were eager to learn, fearing that they might become a drag on the company. That year, E-Top recorded zero staff turnover.

Kane Top

Exhibit 3: Length of service of E-Top employees (in years)



Source: Kane Top

^①¥ = CNY = Chinese yuan renminbi; ¥1 = approximately US\$0.1566 on November 19, 2021.

^②SGS (formerly Société Générale de Surveillance) is the world’s leading inspection, verification, testing and certification company.

^③Intertek Testing Services is a world leader in testing, inspecting and certifying consumer goods. It has a worldwide reputation for technical expertise, high-quality service, and honesty. ETL is a division of Intertek. The ETL Mark is proof of product compliance to North American safety standards and market requirements.

External stakeholders

At the time of writing, Kane Top had chosen to partner with influential brands. More often than not, big brands value sustainable development, and impose sustainability requirements on suppliers. Their emphasis on sustainability dovetailed neatly with Kane Top's philosophy and competence, according to Macy.

Working with big brands was obviously a financial bonus for Kane Top. For example, it made the company eligible for Supply Chain Finance (SCF) solutions (reverse factoring) because big brands have good credit ratings. It also meant Kane Top was paid within 3-7 days of deliveries, keeping receivables at zero. "If you are a high-quality supplier that serves big brands, you can always get paid early", said Macy.

Kane Top asked third parties to regularly examine raw material supplier compliance with its sustainability standards. This mechanism was still in its infancy, and certified organic cotton was still Kane Top's chief gauge of a supplier's sustainability performance. Going forward, the company hopes to trace the origins of its cotton, because a sustainable supply chain demands "transparency, visibility, and traceability". In addition, consumers were increasingly willing to pay for "transparency", "good materials" and "high quality". Kane Top had 39 certified raw material suppliers scrambling to develop green materials to create greater brand value, including Toray, Itochu, DuPont, Lycra and Gunzetal.

Kane Top had also designated a due diligence officer to inspect supplier factories, with a view to sniffing out their values. Besides "finding out about their thoughts through communication", the designated person sometimes recorded conversations for Macy's review. "Some suppliers will adopt sustainability standards to secure orders, but others are arrogant—they have enough existing orders, and aren't interested in meeting our sustainability requirements, so we don't work with them. That's why Kane Top is always short of suppliers", said Macy. The reason why Kane Top never pursued legal actions against its suppliers for breach of contract was because it had never partnered with any factory engaged in speculative activities in the first place.

Kane Top encouraged sustainability practices among its suppliers by inculcating the company's philosophy, improving their inspection mechanism, and checking products before acceptance. For example, in the case of two suppliers in Tongxiang, Zhejiang—a cloth factory and a dyeing factory—the cloth factory took the initiative of sending someone to the dyeing factory to go through everything on the inspection checklist, including raw materials, warehousing, crafts, and wastewater discharge. The cloth factory did so spontaneously, rather than wait for the inspections, because it was afraid that the lower-tier supplier would adversely impact its own sustainability performance.

Macy believed, however, that having a common aspiration was not enough for long-term partnership success, and that it was necessary to make all stakeholders see the benefits of sustainable development. Therefore, Kane Top mirrored the favorable terms it had from large brands with its lower-tier suppliers: Kane Top paid supplier factories on a monthly basis. More than that, Kane Top was able to predict fashion trends based on the information collected from its lower-tier suppliers, as well as its own expertise in fabrics and patterns, to help brands get a boost in sales. A case in point: Calvin Klein's sales revenue was up 30% from the previous year in the pandemic-hit apparel market. This would not have been possible without the huge support of its supply chain.

Every link in the value chain was geared to contribute to sustainable development. There was a problem however—who should pay the premium for green products? Pricing was key to popularizing sustainable fashion among the masses, and many people think green products deserve higher prices, but Macy voiced objection to this principle. She even took a combination of measures to avoid passing on the extra cost:

She aligned the price of organic cotton with the price of other cotton through consultation and bulk buying.

She upgraded technology, improved efficiency, and embraced the digital world to keep costs down. For instance, she spent ¥4 million on a solar powered electricity generation system, cutting the company's average electric bill from ¥130,000 to below ¥60,000 per month. Thanks to government subsidies, she recovered the costs in the space of just two and a half years. Such expenditure was counted as investment in financial statements. As Macy put it, "If we include it in costs, we might be disappointed by no immediate returns."

Above all, E-Top set up its factory on private land which had dozens of acres of unoccupied land.

At Kane Top, usage rate of sustainable materials such as organic cotton, regenerated cotton, and recycled polyester soared from 30-40% in 2019 to 80% in 2020. On the downside, costs climbed by 10% between 2019 and 2020, and a further 30% in the first half of 2021 (in the aftermath of the Covid-19 pandemic).

In September 2020, Kane Top became the first Shanghai-based national textile company that made the MIIT⁴ Green Manufacturing List (fifth batch) for green supply chain management. Due to sustainability efforts in day-to-day operations, Kane Top received certification in just 45 days with almost no special preparation.

⁴MIIT is the abbreviation for the Ministry of Industry and Information Technology of the People's Republic of China.

Supply chain management and digital transformation

Typically, fast fashion brands test the popularity of new products before asking suppliers to mass produce the bestselling ones. Therefore, they may begin with an order for 500 pieces of clothing. This is followed with a large order for around 50,000 pieces, to be delivered in 30 days or even 15 days. In one extreme case, Kane Top was given a seven-day turnaround.

"Quick response" is grounded in a profound understanding of long-term partners: Only when a supplier prepares all possible "elements" in advance can it extract certain "elements" swiftly and "assemble" them in time to satisfy the demands of its clients. Kane Top adopted a two-pronged approach: first, they tried a pilot a digital production platform; second, they forged interdependent, mutually beneficial partnerships with supplier factories.

Digital transformation

"Quick response" can generate higher demand because of lower costs and supply chain efficiency, but technology can also be a powerful enabler. Kane Top built a digital team as a complement to its administrative structure to accelerate digital transformation, and incorporate "technology-driven production & craftsmanship" into its value proposition.

Kane Top's digital transformation was enabled by an independently developed cloud codeless collaboration software TreeLab. TreeLab was a "visible" combination of the flexible Excel and the structured Enterprise Resource Planning (ERP) & Manufacturing Execution System (MES), supporting business applications concerning recruitment, project management, sales, and supply chain. Kane Top leveraged TreeLab to create upstream and downstream synergies in the clothing supply chain.

Downstream clients: Kane Top rolled out samples in 7,000 styles annually. TreeLab automatically recorded information about samples, including product names, identification numbers, fashion sketches and fabrics, and produced data sheets tailored to meet client-specific demands. In this way, clients provided feedback item by item in real time, free from mailing, e-mails, and phone calls. Better still, this practice reduced input into the ERP system and file sharing. If clients renewed their orders, TreeLab simply had to access the relevant information (e.g. quotes, fabrics, and colors) to estimate material specifications, amounts of materials needed, and turnaround times, thereby expediting the fulfillment of orders.

Upstream suppliers: Kane Top used TreeLab's built-in feature to collect information from its suppliers worldwide. When developing the supplier plan for 2021, Kane Top asked supplier factories to scan a QR code or click a link to access and fill out a form, so as to collect contact, address, vacation information for the Spring Festival holiday, number of lathe workers, production processes, and monthly scheduling. Kane Top thus avoided significant amounts of back and forth correspondence and data sorting, moving straight to production scheduling. (see Exhibit 4)

Exhibit 4: TreeLab interface



Exhibit 5: 3D digital design platform

Exhibit 5.1: Interface of 3D design platform

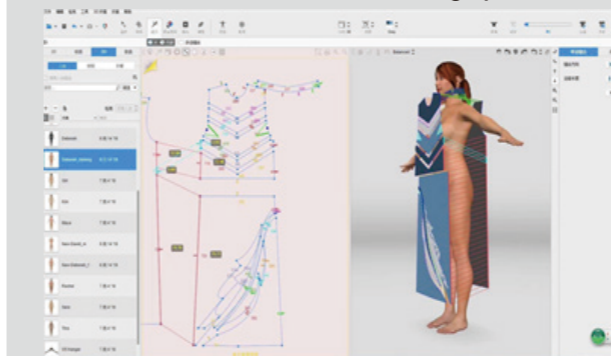


Exhibit 5.2: 3D digital design processes



Kane Top also installed the Israeli 3D design software Browzwear and the Chinese fashion design software Style3D to develop 3D samples based on 2D sketches, saving itself time and money. An ever-growing 3D database also provided strong support to its business. (see Exhibit 5)

Source: Kane Top

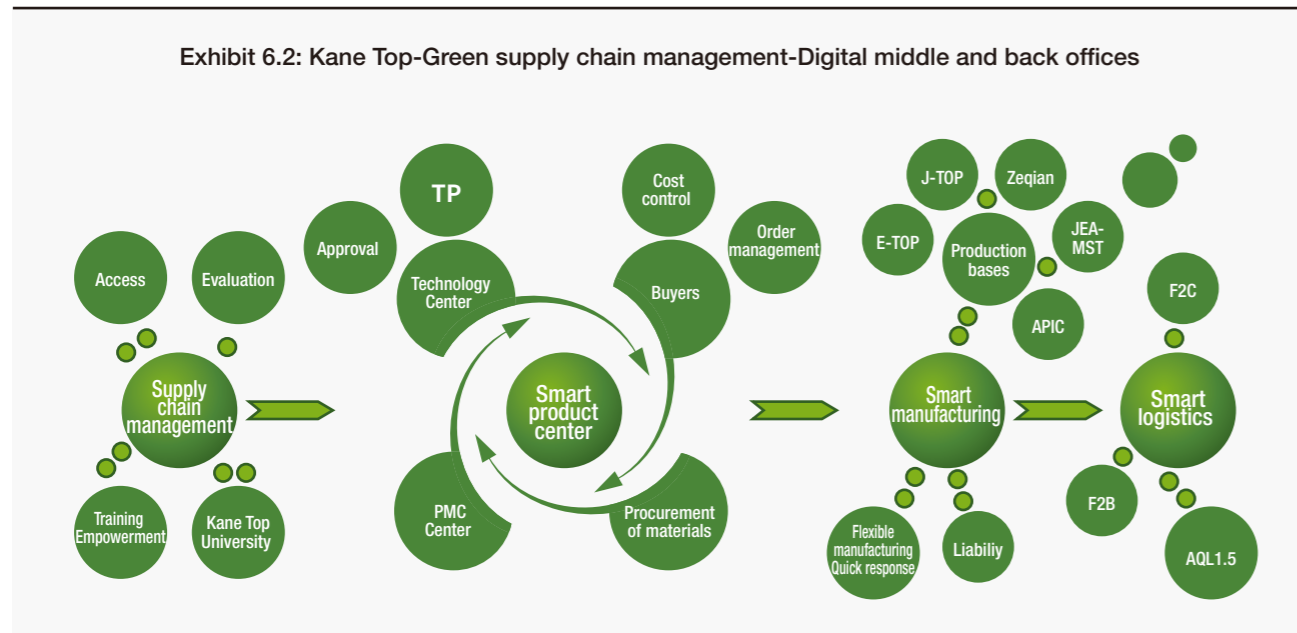
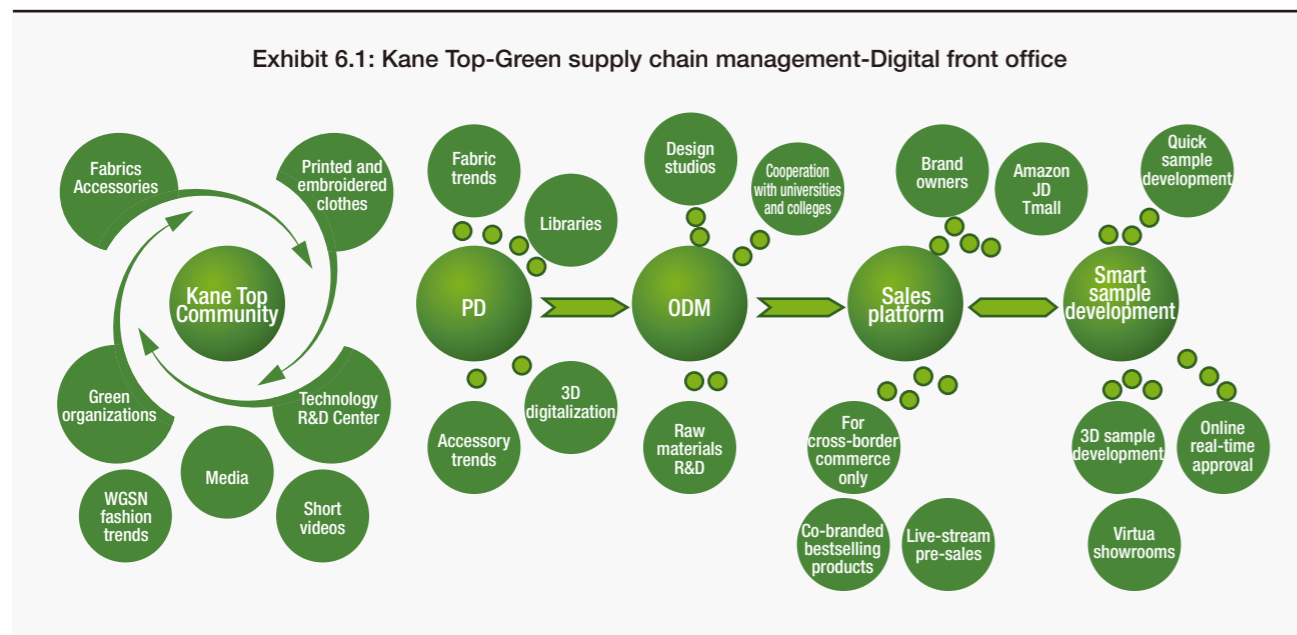
This technological advantage allowed Kane Top to keep much closer track of renewal orders, and run on zero inventory.

Kane Top employed Israeli Direct-to-Garment (DTG) digital T-shirt printers and GOTS (Global Organic Textile Standard) inks to deliver on its commitment to net-zero water-waste custom tailoring.

Its digital team then began developing virtual showrooms to allow clients to make factory visits and cherry-pick samples remotely.

At the time of writing, despite these advances, Kane Top's digital transformation was still in its early stages (see Exhibit 6). TreeLab provided digital yet non-intelligent solutions to data flow and collaboration issues; production scheduling remained a massive job; day-long cross-departmental meetings were taking place almost every day... There was still plenty to improve.

Exhibit 6: Conception of Kane Top's digital platform



Source: Kane Top



Source: Kane Top

Sustainable supply network

Although digital tools improved collaboration and management, production lines were in factories, where machines and workers were key. Hence, the management and empowerment of supplier factories was identified as being central to Kane Top's sustainability strategy.

However, Kane Top's original rush to find suppliers did not always end in success: at the end of 2018, Macy visited a clothing factory in Liaocheng, Shandong, and decided to form a close partnership with it. Unfortunately, it turned out to be a front: the factory owner had bought the property on credit, and had planned to repay the debt after fulfilling orders placed by Kane Top. The factory owner further borrowed a total of ¥1.3 million from Kane Top to cover startup costs (¥1 million) and salary payments (¥300,000), as a temporary solution. After a year the reality was revealed when factory workers started demanding payment of unpaid wages, and the scam fell apart. Macy felt sorry for the workers, and gave them ¥900,000 as a gesture.

Macy drew lessons from this bitter experience, and resolved to foster mutually beneficial relations with supplier factories: "For us, the importance of values cannot be overstated. We should make concerted efforts to replace a profit-driven value chain with a sustainable supply network."

Kane Top learnt from this

experience and now spent more time in bringing supplier factories up to standard on a three-year timescale:

1st year: Running in—In order to tackle absenteeism, Kane Top seeks to align the supplier factory's values, management style, and corporate culture with its own values. Kane Top had a stake in an Anhui-based factory where attendance rate was 60-70%, and workers were working in a perfunctory manner without realizing their impact on factory capacity or production scheduling. In the circumstances, COO Bin ZHOU was dispatched to Anhui to introduce Kane Top's management philosophy. Finally, absenteeism fell, bringing participation at work to 95%.

2nd year: Empowerment. Kane Top sends technicians and QC personnel to the supplier factory to improve production standards. During this period, losses incurred are borne by Kane Top. In the event of any production-related problem, Kane Top does not hold factory liable. Instead, Kane Top sends someone on site to help solve the problem.

3rd year: Output. In the final stage, factories become a source of profit for Kane Top.

Macy defined this as the "Credit Card Theory": "To break even, I only need seven out of ten supplier factories to generate profits." Accordingly, she planned to channel resources into two or three supplier factories every year.

At the time of writing, Kane Top boasted 20-plus supplier factories, including two in Anhui and two in Vietnam in which it had stakes. Kane Top sent orders to supplier factories according to their fields of expertise (e.g. T-Shirts, hoodies; tailoring, printing, embroidery, sewing, and packaging) and reserved production capacity. This was a nerve-wracking job—Let's imagine there was a pie, but no one knew how big it was, how many people would eat it, or how much people can eat. From time to time, brands may place new orders when every factory was running at full capacity, or cut orders when a factory had spare capacity. Therefore, Kane Top should make sure that the pie was properly divided up between its own factories and supplier factories, as well as among supplier factories.

Even though production scheduling might be powered by AI in the future, Macy anticipated that Kane Top should still leave 20% of the work to employees—they would not do numerical calculations, but would identify replacements, substitutes, problem-solvers, and saviors.

At the time of writing, E-Top employed over 1,000 staff, and developed dozens of times more clothing styles than OEMs of Adidas, Nike and Uniqlo. Its On-Time Delivery (OTD) rate was 98.52% (2020). (see Exhibit 7) Kane Top's responsiveness was pretty much second to none, taking into account its business volume.

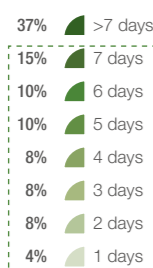
Exhibit 7: Kane Top's quick response

Styles developed and orders fulfilled in 2019 and 2020

	Number of styles developed	Number of orders	Number of styles ordered	Average number of pieces per style	Average number of pieces per order	OTD rate
2019	5187	6572	1110	4315	828	97%
2020	6397	12337	1889	3162	482	98.52%

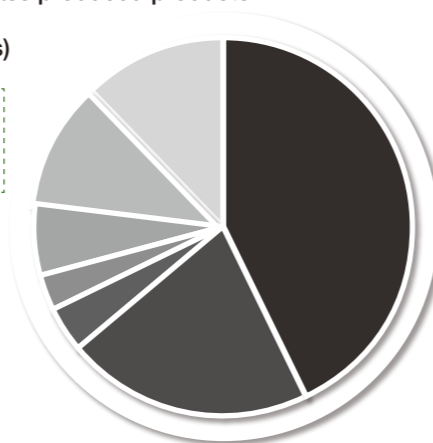
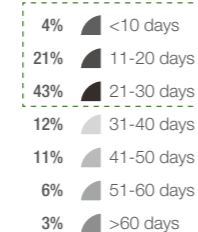
Lead time for samples

(64% < 7 days)



Lead time for mass produced products

(68.14% < 30 days)



Source: Kane Top

Branding

To respond to fast-shifting consumer demands, players in the textile industry tend to complete core processes for brands with supply chains in developing countries. As a result, suppliers are stereotyped as “doing nothing but manufacturing”. Kane Top wanted to differentiate itself from competitors by introducing a vertically integrated business model. More specifically, Kane Top engaged in business activities ranging from design, production to sales.

Macy believed Kane Top had both the desire and ability to build up its brand. For one thing, it could win over consumers by disseminating the philosophy of sustainability. For another, it could embrace the B2C model at a later time.

When it came to “desire”, Macy thought Kane Top should set an example by spreading green practices throughout the supply network, because the product life cycle involved stakeholders along the entire value chain, all of which can have environmental impact.

Fashion was already the second most polluting industry in the world. Globally, 92 million tons of textile waste was produced every year. In other words, a truckload of old clothes were sent to landfills every second. As of 2020, Kane Top had a total of over 300,000 pieces of B-rated clothes⁵ and scrap fabrics in its inventory⁶.

Kane Top suggested stitching these pieces together to produce reconstructed clothes, but brand owners were

reluctant to give it a go. Kane Top therefore simply removed original labels to sell reconstructed pieces under its own brand.

On the subject of “ability”, Kane Top transitioned from a “responder” to an “initiator” through philosophy innovation and digital transformation.

Kane Top had built a huge database of fabrics and styles over the past three decades, better positioned than brand owners to gauge fashion trends. “We are now ahead of the trends. Finally, it’s our turn to enlighten brand owners”, said Macy.

Kane Top believed designers should play a crucial role in branding. The sustainability journey begins with design—Designers come up with classic designs, and supply chains realize design ideas. Suppliers make sustainability part and parcel of product DNA by using green raw materials and implementing green manufacturing practices. More importantly, they can create a virtuous, closed-loop system where “manufacturing and design reinforce each other.”

More designers realized that insufficient supply chain support was the main culprit behind the failure of designer brands. Moving forward, Kane Top would share underlying data in raw material database and style database with designers, help designers spot unmet needs in the marketplace, and create new products in collaboration with designers to fill the gap.

As a co-branding campaign was always an adventure, Kane Top invested prudently. “We can only take a wait-and-see attitude. But one thing is for sure—our tolerance for failure is time-limited”, said Macy.

Kane Top had joined hands with the avant-garde fashion designer Angel Chen, renowned British sustainable fashion designer Stephanie Lawson and Wan Fang, a lecturer at College of Fashion and Design, Donghua University, to regenerate its B-rated clothes. They applied design thinking to basic clothing items, turning by-products, waste materials, and useless or unwanted products into new products with greater artistic or environmental value.

Macy was pondering over the following three paths to branding: first, OBM. Kane Top had created Cozy&Co, and was preparing for marketing promotions. Second, acquisition. The company was looking to acquire a number of clothing brands. Third, crossover. Kane Top may plug gaps in product lines of big labels such as Issey Miyake (with no hoodies) and Calvin Klein (with no children’s wear).

To retreat or to advance by a roundabout route

Branding would give Kane Top capabilities that extend beyond supply chain solutions. As the company began to open up, Macy hoped its sustainability values would impact a larger audience, and change consumer mindsets.

However, Kane Top encountered internal and external challenges when diffusing values and stretching operations along the clothing value chain. It was at a crossroads, and was wavering between the “sustainable” and “old” development paths.

On the one hand, Kane Top’s business growth might hit a bottleneck. Macy admitted, “It is extremely difficult to cross the 100-million USD sales mark, unless we compromise our values, and keep our doors open for all.”

On the other hand, the outbreak of the Covid-19 pandemic in 2020 devastated the global economy. 2020 was the worst year in history for the fashion industry, nearly three quarters of public companies recorded losses. That year, organic cotton prices were also on an upward trajectory. Kane Top was forced to offer compromise proposals: either reduce organic cotton content by 50%, or supply the international and domestic markets with organic and non-organic cotton respectively for the time being, and stop using unsustainable raw materials completely within five years.

Macy was disappointed, “The utilization rate of green raw materials was about to reach 100%. Then, the Covid-19 pandemic ruined everything.”

Fortunately, she was resilient, as she had witnessed something similar in New York 20 years ago.

Her daughter Shiyun commented on a video chat program, “I think ‘sustainability’ is a hard topic, because people have very different understandings of it. There are not many dialogues on sustainable development, especially among consumers. Overall, the masses have greater environmental awareness. We can see more people start to live in an environmentally responsible way.

The biggest challenge is reaching a consensus on ‘sustainability.’ We should communicate openly and honestly about the situation, and ponder hard how to push ahead towards a more sustainable society.”

Shiyun was passionate and optimistic when she called her mother after 2018 China Fashion Gala. But this time, realizing sustainability was not something that can be achieved overnight, she was prepared for a long haul.

⁵B-rated clothes are defective clothing products (defects include leather color variation, leather stains, poor textile printing, excess glue). A-rated clothes are clothing products that meet quality standards.

⁶These inventories are not a result of an imbalance between supply and demand. In the textile industry, brand owners usually grant their suppliers a little wiggle room: plus or minus 3 percent. To fulfill quality and quantity requirements, suppliers like Kane Top may leave a bit more wiggle room: plus or minus 1 percent. Generally, there are two ways to liquidate the inventories: 1. Supplier factories destroy all B-rated products under close supervision of the personnel sent by brand owners; 2. Supplier factories donate all B-rated products at the instigation of brand owners. However, some unscrupulous factories may sell leftover, B-rated products for a profit.

MELEPHANT

Melephant: Forging Toward Sustainability

Authors/Qi WANG Jinyu HE Iris XUE Luis LIU

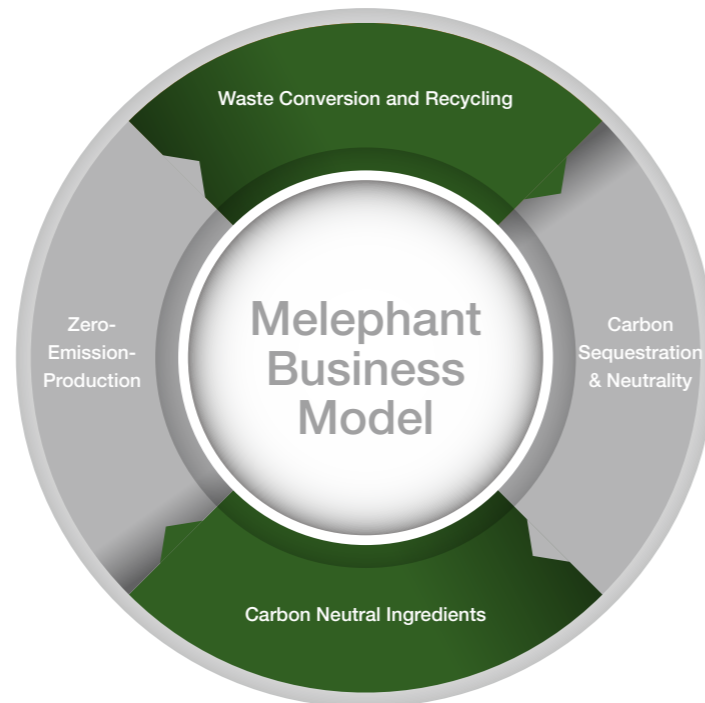
CASE INTRODUCTION

This CEIBS case study (case number: CC-721-068) was co-authored by Qi WANG, Jinyu HE, Iris XUE, and Luis LIU. The writing was supported by Melephant. Copyright © 2021 China Europe International Business School (CEIBS). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means without the permission of CEIBS.



Enabled by its innovative designs and proprietary technologies, Melephant developed the world's first colorfast, pollution-free, zero-carbon, bio-based dye. In 2019, Melephant won first prize of the Kering Generation Award for sustainable innovation, helping to raise the company's profile in the industry and among investors. Not long after this achievement, Melephant also secured second place in the final of the L'Oréal BIG BANG Beauty Tech Startup Challenge for its insights into new R&D possibilities. The company was committed to reducing environmental pollution from traditional printing and dyeing processes in the textile industry and invented various bio-based dyes that were adapted to different everyday uses. It has achieved the "four zeros" (namely, zero carbon emissions, zero waste water discharge, zero solid waste, and zero air pollution) in the close production loop of dyes, and succeeded in creating natural dyes that had many useful properties that could previously only be achieved with chemical dyes. First of all, Melephant only used carbon-neutral raw materials and

eliminated waste water discharge from its manufacturing processes. The limited solid waste that the company did generate served as food for earthworms, which help to loosen soil and generate rich compost for plants, which in turn capture and store carbon from the atmosphere. Second, by synthesizing natural active groups, the company succeeded in producing dyes with better color fastness than plant dyes, while offering more colors, better brightness properties, and more depth. In particular, Melephant's dyes achieved grade 4-5 on the colorfastness scale defined in China's National General Safety Code for Textile Products. Melephant's technologies and products complied with standards for eco-textiles and baby products, and its dyes passed EU certification for ecological products and Swiss SGS certification for product performance and safety. Melephant's core technologies have shown the potential for mass production and cross-industry applications. Its natural bio-based dyes and corresponding dyeing processes could be used on 56% of all fabrics, including cotton, linen, silk, cashmere, wool, vegetable tanned leather, polyamide, and chemical fiber, which meant that they had huge market potential. In addition to fabrics, the dyes could also be used for other applications, including cosmetics, hair dyes, printing, paints, and food colorings.



Source: Melephant

Early Stage: Two Disruptive Outsiders

Despite being a relatively small company, Melephant boasted a multi-disciplinary team with six years of R&D experience. The two founders, Yihong XIE and Yuanyuan LIU, were a husband-and-wife team. Yuanyuan LIU, the company's CEO, had many years of experience in manufacturing management, and had previously turned around a loss-making company with 150 employees. Yihong XIE, its CTO, had a flair for R&D, despite coming from a legal background. Before founding Melephant, they have already had over 20 years of experience in the textile industry, jointly operating a children's shoes factory that Xie had inherited from his parents. When they first took over the factory, they had no prior experience in this line of work, but they quickly set about studying the processes used to color shoe fabrics, such as dyeing, printing, and pattern transfer. Having specialized in children's and baby products for years, and later having a child of their own, the couple enforced stringent product safety requirements. Therefore, when they were unable to find shoe fabric suppliers that met these requirements, they decided to try manufacturing their own. Initially, the couple experimented with plant dyes, but these turned out to have three fundamental shortcomings: first, the colors while soft, were too dull; second, plant dyes were susceptible to fade or bleed; and third, the industry had a dated view on natural dyes that constrained R&D in this area. The first and second issues were easy to understand and could be solved with new technology. The third issue, however, was because that Chinese industry standards have specified that natural dyes have to be entirely plant-based, with no molecular modifications, whereas the definition under international standards also include synthetic natural dyes.

To address this third issue, and ensure that Melephant could certify the fruits of its R&D efforts, Yihong XIE spent considerable time researching industry definitions and also looked into the patent application process. Obtaining a patent was no mean feat due to varying definitions of natural dyes across jurisdictions. Often, an application might be approved overseas, only for the Chinese approval to take many times as long, or even be rejected outright. In addition to these certification headaches, Melephant's interactions with industry associations and academia were also thornier than expected. Xie initially presented his technologies to experts as a solution that would bridge the gap between academic research and market demand, but was surprised to find that he was asked to pay bribes or forfeit patent ownership in order to obtain their

endorsement. He was bitterly disappointed to find that in the academic world, offering sound products and technology alone didn't always open doors. Having been spurned by industry insiders, Liu and Xie turned instead to printing and dyeing factories, who were the end users of dyes. There, they hoped to directly interface with key decision makers. However, Xie and Liu were to receive another rude awakening from the printing and dyeing factories they approached: Some were simply not interested in the environmental benefits of their products; others, upon hearing that the products were not certified, immediately lost interest; and still others said that they could not accept a further cut to their already meager gross profit margin. Some factories, although interested in Melephant's products, did not understand its technology, and delegated decision-making to their purchasing departments and engineers. However, unless a large order was being placed, there was no real motivation for these departments to switch suppliers. In the worst cases, factories already had heavily entrenched interests with existing suppliers, which made it all but impossible for Melephant to gain a foothold.

These repeated rejections gave Liu and Xie some frustration. To make matters worse, they had to mortgage their house under financial pressure. However, they did not lose faith in their products, and believed that people would appreciate their value sooner or later. Finally, they got a chance for cooperation from Erdos, which was just emerging from the painful breakup of its joint venture with the Italian brand Brunello Cucinelle. Erdos had an upscale kidswear brand which was urgently looking for more effective natural dyes, but they couldn't find any domestic suppliers who met their requirements. Liu and Xie spotted an opportunity and approached Erdos about cooperation. They passed the R&D department's performance tests and everything appeared to be going smoothly, until Erdos asked Melephant to establish its own factory to mass produce dyes. At this, Liu and Xie hesitated: If they accepted this large order, it would reduce the company's role to an OEM supplier. Moreover, if Erdos no longer required their products the following year, then they would struggle to keep the factory running. Conversely, if they turned down the offer, they might not find such a good opportunity to monetize their products for years. Ultimately, the two founders declined the offer, but this husband-and-wife team still impressed Erdos's head of R&D, who later nominated Melephant for the inaugural Kering Generation Award.

Melephant Wins the Kering Generation Award

In 2019, Kering organized its inaugural Kering Generation Award, with a view to accelerating sustainability-oriented innovation in the luxury and garment industries in China. The awards were designed to uncover and award promising startups in China and seek innovative solutions across the fashion supply chain. Jinqing CAI, President of Kering Greater China and one of the chief judges for the Kering Generation Award, was deeply impressed by Melephant: "We have seen a lot of promising companies in each of the four areas covered by the inaugural Kering Generation Award, namely alternative raw materials, green supply chains, sustainable retail, and use of fashion products and the circular economy, yet Melephant is the company that best integrates all of these." In general, startups in China gained market acceptance by obtaining endorsements for their technology from top universities and funding from capital markets. In this sense, Melephant's trajectory was unique, in that the company was initially turned away by Chinese universities and clients because of its amateurish beginnings, before venturing overseas to work with large, international brands, and finally returning to establish a presence back on home turf.

For Liu and Xie, winning first prize at the Kering Generation Award was a life-saver. Prior to that, they had invested millions of yuan of their own money and sold and mortgaged their houses to cover staff wages. It was this official recognition from Kering that helped tide them over this period of crisis. In addition to economic support, Kering also made available other business resources, including linking Melephant up with potential European partners. This enabled Melephant to enter new markets and break into the supply chains of international luxury brands. Kering also organized a European tour for the prize winners, through which Melephant was able to establish contacts with a Dutch fashion innovation platform called Fashion for Good, Adidas's German suppliers, a 3D textile factory in the Netherlands, and various other industry insiders and leaders. The company was also able to collaborate with Kering's long-term fabric suppliers to perform joint testing of its dyes on a range of fabrics.

An Uncertain Path to Commercialization

Melephant's slow-but-steady approach to doing business would likely bemuse managers at more results-driven companies. However, the two founders were more than happy to shun impatient investors eager to make a fast buck, as this was incompatible with their own ethos. In 2017, an SOE-affiliated equity fund with RMB 5 billion in AUM expressed an interest in Melephant's natural dyes. After requesting an initial product demo, the fund said it was willing to finance Melephant as a majority stakeholder through to the IPO stage. Melephant rejected this proposal because the fund's investors considered Melephant's dyes to merely be a new category of chemicals, and were not interested in the ESG angle. Such different outlooks could only lead to disagreements about the company's strategic direction in the future. There was also once an international textile printing group that wanted to acquire Melephant's technologies, while offering job opportunities to Liu and Xie in return. The two founders again declined, since the buyer's intention was to acquire and hoard their technology, rather than promote its development and application. The founders wanted their technology to be used by as many people as possible and play a major role in promoting environmental sustainability. There were yet other investors who genuinely wanted to promote this new technology in the long run, but hoped to do so by first acquiring the company. Clearly, this wasn't acceptable to the founders, who wanted to maintain control of the company's core technologies and continue to run the company themselves.

More recently, an increased policy emphasis on sustainable development in China and renewed efforts overseas to develop standards for bio-based materials made Melephant a market darling. After winning first prize in the K Generation Awards, Melephant was hand-picked from a pool of hundreds of candidates by venture capital company MiraclePlus, and its products were also adopted by L'Oréal for its cosmetics products and hair dyes. Even after the Covid-19 pandemic struck, Liu and Xie did not stop exploring. Xie, who continued to be passionate about R&D, developed new techniques for carbon storage and soil restoration, while Liu searched for new cooperation and commercialization prospects. Melephant had already achieved business "lift-off" thanks to the support it received from Kering. Thanks to Kering's endorsement, potential customers pay more attention to Melephant than ever before. Looking back on the path that the company had taken, the two founders were full of emotion. However, no matter how much challenges they have encountered, Melephant would always remain committed to its founding ideal and keep forging ahead on the road towards sustainability.



NEW CONSUMPTION

- Fashion Innovation Under the Rise of Young Chinese Consumers
- Recaps on CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund Q4 Forum
- New Consumption Research Topic on Virtual Beings



FASHION INNOVATION UNDER THE RISE OF YOUNG CHINESE CONSUMERS

—Recaps on CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund Q4 Forum

Author/Shui On Xintiandi Tina LIU

About the Forum

On 4th November 2021, the CEIBS-Shui-On 'Global Branding Strategy & Fashion Industry Research Fund' held its fourth-quarter closed-door forum at the LAKEVILLE Exhibition Hall in Xintiandi, Shanghai: Fashion Innovation Under the Rise of Young Chinese Consumers. The forum invited representative brands, platforms, and top companies to discuss fashion innovation under the rise of young Chinese consumers.

Speakers and guests of the forum included Professor Qi WANG, Professor of Marketing at CEIBS, Vice Chairman of the Executive Committee of CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund; Mr. Allan ZHANG, Chief Executive Officer of Shui On Xintiandi, Vice Chairman of the Executive Committee of CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund; Mr. Zafka ZHANG, Founder of Youthology; Ms. Judy LIU, FARFETCH APAC President and Global Executive Director; Ms. Susan SHEN, Founder of LOCAL LANDSCAPE, Co-Organizer and Chief Planner of Aranya X Local Landscape Fashion and Art Festival; Ms. Ruyi CHEN, Principle of

ZUCZUG in the PARK; Ms. Cindy ZHU, Vice President in Investment of L Catterton, the world's largest consumer-focused private equity firm backed by LVMH; Ms. Doris KE, Founder of Digipont; Mr. Takeshi Kobayashi, CEO of LAB System, a Japanese company focusing on innovative experience in real space and digital interactions; Mr. Yan CHEN, Founder of Ngcomic, a leading entertainment and technology company in China focusing on virtual beings; Mr. Leendu, Marketing Manager of Innovation Business at Tencent Platform And Content Group. Speakers and guests shared their insights on four topics: trends of youth culture, omnichannel business innovation, investment in consumption, and future consumer experience enabled by science and technology.

Some leading companies, platforms, and brands in the fashion industry also attended the forum, including A. Lange & Söhne, Ermenegildo Zegna, Ferragamo, Kane Top Group, Lanvin Group, Shanghai Fashion Week Organizing Committee, Technogym, Alter SHOWROOM, Takeo, LOOKNOW, PlaySERIOUS, RANHOMEVENT, etc.



Expert Insights

Insights on Young Consumers

The past few years have seen young people changing the face of consumerism, technology, and culture. Younger consumers display diversity in opinion, behavior, and have growing purchasing power. The increased influence of young people has led to new iterations in consumer markets. In order to achieve substantial growth, companies need to keep a close track of the consumer behavior of younger generations and must innovate while grasping new opportunities.

YOUNG



Zafka ZHANG
Co-founder of Youthology

"In the past, young people aspired to be another Elon Musk or Jack Ma. They wanted to grab the opportunities of the era and achieve great success. However, today, they are saying 'all I want is to be ordinary'. Western middle-class idealism and most motivational, success-advocating stories are losing currency and in today's testing times. Young people are looking for their own authentic narrative to find their place. This means we are probably entering a golden era where redefining a brand open tremendous opportunities. This shift also signifies a significant challenge because the classic marketing theories we have built much of our strategies on -- grounded in the notion that consumers want to 'progress' -- is no longer as effective."



Prof. Qi WANG
Professor of Marketing at CEIBS

Vice Chairman of the Executive Committee of CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund

"Young consumers exhibit contradictory consumer behavior. On one hand, young consumers are willing to pay premiums on certain goods that can distinguish them from others, on the other hand, they are also the main group of consumers participating in live-streaming commerce for better deals. While young graduates are enthusiastic about the virtual world, fascinated by virtual idols and the metaverse, they are also very realistic concerned about things like obtaining residency in first-tier cities ('Hukou'), buying a home, and getting a car. These multiple contradictions present both opportunity and a challenge for businesses today to unravel and comprehend the emerging behavior of new generation consumers."



Susan SHEN
Founder of LOCAL LANDSCAPE,
Co-Organizer

Chief Planner of Aranya X Local Landscape Fashion and Art Festival

"Dongshankou offers the answer to young curious individuals who are looking for a different kind of 'consumer space'. Young people come here for the architecture, the interior design or simply for the space it offers them individually, or for the group activities that are organised there; in all cases however, they are spaces in which 'spending' is not the primary objective. It is a 'third space', an alternative place to be outside the workplace and home. These spaces are therefore not just physical interiors, they are places where people can connect spiritually and emotionally, where like-minded individuals can gather."

INSIGHT



Allan ZHANG
Chief Executive Officer of Shui On Xintiandi

Vice Chairman of the Executive Committee of CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund

"Shui On Xintiandi is seeking better to understand its targeted consumers' aspirations of life and establish an engaging relationship through research, ethnographic interviews, and consumer data analytics. We initiated drafting the White Paper on Ideal WorkSpace for the Youth with our partner Youthology last year. Both Xintiandi and Youthology have agreed that the 'physical space' itself was not sufficient to empower future generation workforces. We must create a workplace where people can find teams and partners sharing the same vision and aspirations to achieve excellent results. In the past twenty years, Shui On has always had three pillars of focus, the city, the industry, and people. We attract world-class quality talents by creating vibrant communities with industry partners sharing the same vision. And when these people become loyal members of our communities, they can better enable the business growth of the community we build."



Doris KE
Founder of Digipont

"Let me ask you a question: 'who are your users'. I think everyone knows the answer, but unfortunately, most are wrong. Let me put it this way, many brands think their target audience are 25-35 year-old women. But this actually traps them. Age should never limit your business. It is better to pay attention to people with a 'social profile' than to focus on age groups. If a brand effectively caters to these people, it will build a strong and loyal user community."



Cindy ZHU
Vice President of L Catterton

"Young people are spending more money on spiritual and emotional products or experiences, for example, a cup of milk tea of 28 yuan, a potted plant of 39 yuan, a blind box of 59 yuan, a fitness class from SUPER MONKEY of 89 yuan, a bottle of TO SUMMER fragrance diffuser of 398 yuan, and hundred yuan murder mystery game or room escape game, etc. They are paying for happiness."



New Consumption Trends

To attract the younger generation consumers and adapt to the ever-changing market, many brands and platforms are recasting themselves. They are starting to expand online sales channels, while still innovating in their physical stores. They have created unique shopping experiences for young customers by continuously exploring new retail boundaries.



Zafka ZHANG
Co-founder of Youthology

“Building a brand merely through consumer narrative is now a thing of the past. We have to go beyond consumerism and rise to a higher cultural dimension. Consumer narratives now have to transcend a logic of ‘buyers buying products from stores’ and demonstrate that a product is ‘human-centered and belonging to the world’.”



Cindy ZHU
Vice President of L Catterton

“We see huge potential in the Chinese consumer market. We also see that new generation entrepreneurs have a global vision that empowers them to build international consumer brands. We will help Chinese entrepreneurs create brands with international influence.”



Judy LIU
APAC President and Global Executive Director, FARFETCH

“Although e-commerce has taken off, it is expected that in 2025, 70% of our industry’s total revenue will still come from offline sales. While online sales are booming, brick-and-mortar stores cannot be ignored. Nevertheless, I think that the full integration of online and offline sales in this industry is only a matter of time.”



Doris KE
Founder of Digiport

“I don’t think there will be another P&G in China in the future. But there will be many super-brands like Lululemon. P&G achieved success by penetrating deep and deploying very wide distribution channels into a market that at the time was short of functional products. Lululemon, in contrast, is a brand centered around customer loyalty and communities, a brand established on customer trust. The future will be dominated by human-centered brands.”

Outlooks on Technological Experiences

Younger generations in China are true digital natives and are naturally drawn to brands with a sense of technology. New technologies, such as virtual reality, AI, big data, and blockchain, are becoming critical forces for economic and social development. It is worth discussing what significant changes technologies will bring in the future.



leendu
Marketing Manager of Innovation Business at Tencent Platform and Content Group

“The digital world enables mass collaboration and minimizes the cost of customization. At the same time, it catalyzes a consumer market rooted in creativity and empowered by explosive demand for customization. Non-Fungible Tokens (NFT) will become the smallest trading unit in the Metaverse.”



Takeshi Kobayashi
Advertising Producer of Lab.751, CEO of LabSystem

“Technology is advancing rapidly. Equipment is iterating at full speed. We are now seeing a blurred boundary between reality and the digital world. LabSystem is an AR and MR solution provider, and Lab 751 also has many contracted digital artists. I hope to combine the strengths of both companies and leverage cutting-edge technologies. This will enhance users’ autonomous experience by giving them new feelings. It creates new value at the same time, contributing to further integration of reality and digital.”



Yan CHEN
Founder of Ngcomic

“Whether you know it or are ready for it, the era of the virtual beings is on the horizon. The topic of everyone’s virtual identity will remain extremely controversial for a long time to come. Gen Z, even each of us sitting here, will all become creators of and participants in this trend. The only thing we can do is to respect humanity, nature, art, technology, and the universe. Let’s work together and make the inevitable virtual beings era a better one.”

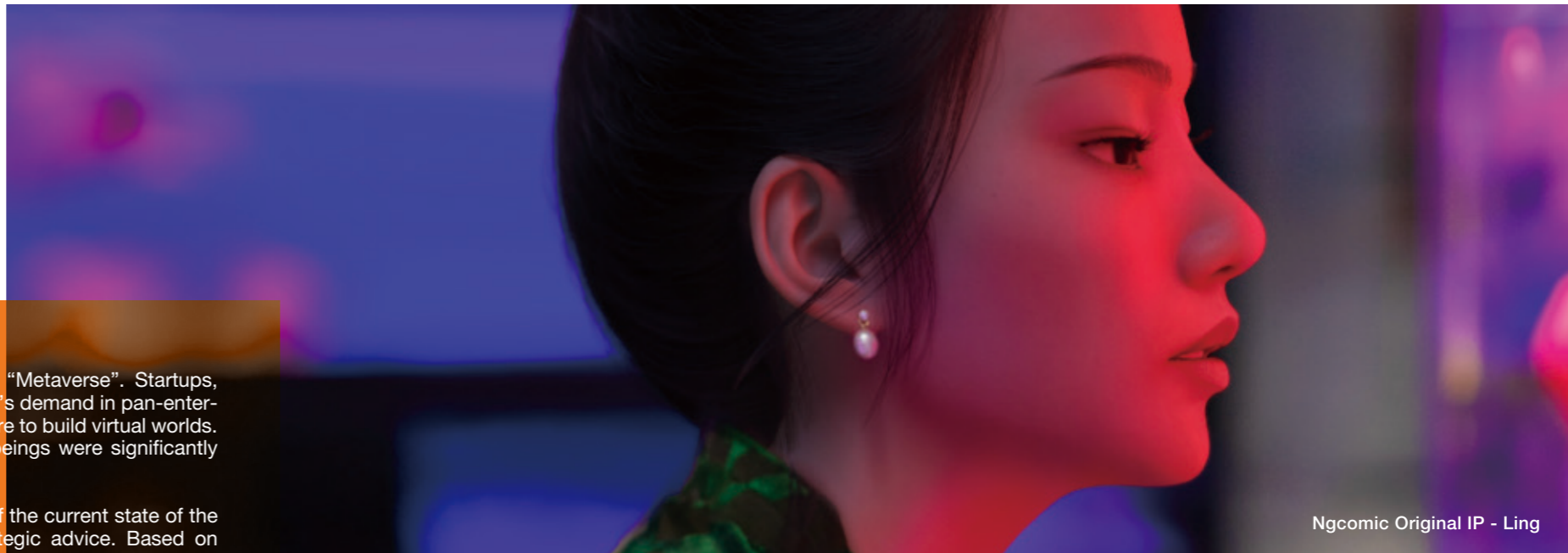
NEW CONSUMPTION RESEARCH TOPIC ON VIRTUAL BEINGS

Authors/ CEIBS Qi WANG Elaine LI

Introduction

In 2021, with increasingly mature technologies, the world was fascinated with the “Metaverse”. Startups, Internet companies, and investment institutions have all joined the bandwagon. People’s demand in pan-entertainment industries also rose to a new level, leading to unprecedented interest and desire to build virtual worlds. At the same time, as an essential element of the virtual world, the types of virtual beings were significantly enriched and diversified this year.

This report is dedicated to offering readers a comprehensive and objective overview of the current state of the virtual beings industry, and providing brands and companies with timely and strategic advice. Based on Leadleo.com’s research on the virtual beings industry, this report combines the results of the CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund’s 2021 New Consumption Research Report. It also summarizes the views of Yan CHEN, founder of Ngcomic, a leading IP creation company in the upstream of the virtual beings industry.



Ngcomic Original IP - Ling

The development of virtual beings technology has four stages: embryo, incubation, infancy, and maturity. Computer graphics and artificial intelligence have driven its evolution. Today, virtual beings technology is used in many industries, including finance, healthcare, education, and telecommunication.

Research Report on Virtual Beings Industry

History of the Virtual Beings Industry

Virtual beings, also known as virtual digital humans or virtual characters, refer to virtual characters that exist in the non-physical world and have a digital appearance created through computer graphics, graphic rendering, motion capture, deep learning, language synthesis, and other computer tools. These characters resemble human beings in appearance, performance capability, interactivity, etc.

The first ‘virtual being’ dates back to over 40 years ago. In 1982, the world’s first virtual singer Lynn Minmay was created through hand-drawing. Minmay was the main character in Macross and became an idol singer and film star on board the spacecraft SDF-1 Macross. The great fame made her the first virtual idol, also the first virtual being in the world.

Over the recent five years, various virtual beings have been created as related technologies have become more sophisticated, including computer graphics, graphic rendering, computer vision, motion capture, natural language processing, speech recognition, etc. There are many famous virtual characters now, including Lil Miquela, Imma, Hatsune Miku, Ling,

AYAYI, Hua Zhibing, and Liu Yexi. They all have different and unique personalities. Like real idols, they act as brand ambassadors, interact with people online, give on-stage performances, and present at offline activities. Real idols can even cooperate, compete, and become cover page figures with virtual idols. This shows that, after several upgrades and iterations, virtual beings are becoming increasingly diversified and realistic.

Doug Roble leads the software team at Digital Domain, a visual effects company. In 2019, on the stage of TED, he debuted “DigiDoug”: his 1:1 virtual avatar. Powered by an inertial motion capture suit, deep neural networks, and enormous amounts of data, DigiDoug rendered the real Doug’s emotions in striking detail. This was viewed as a milestone for virtual beings.

In 2020, with their unique personalities, virtual idols amassed many young fans. For instance, Liu Yexi, a virtual “beauty expert who can catch demons”, has gained over 8.8 million fans till the day of writing since she published her first Douyin video on 31st October

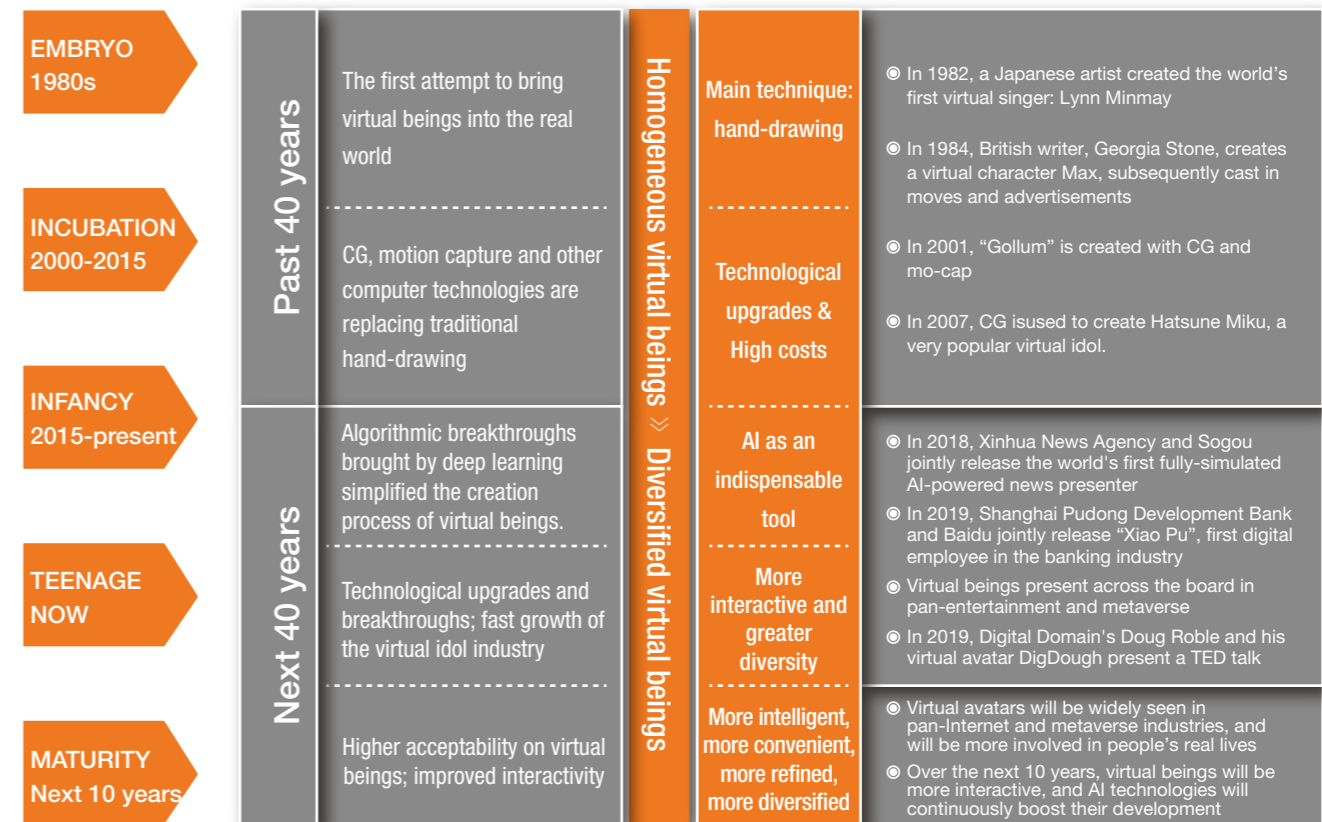


Figure 1: Virtual beings: past, present, and future

Source: Leadleo.com

Main Types of Virtual Beings

As a new form of human-machine interaction, the creation of virtual characters consists of five main parts: appearance, speech synthesis, animation generation, audio and video display, and interactivity. There are mainly two criteria to classify virtual characters. First, based on interactivity, virtual characters can be categorized as interactive virtual beings and non-interactive virtual beings. Second, there are human-controlled avatars and AI-powered virtual beings based on driving models. Different virtual beings vary in creation processes, application scenarios, and influencing factors.

Ngcomic Original IP - Virtual DJ "Purple"

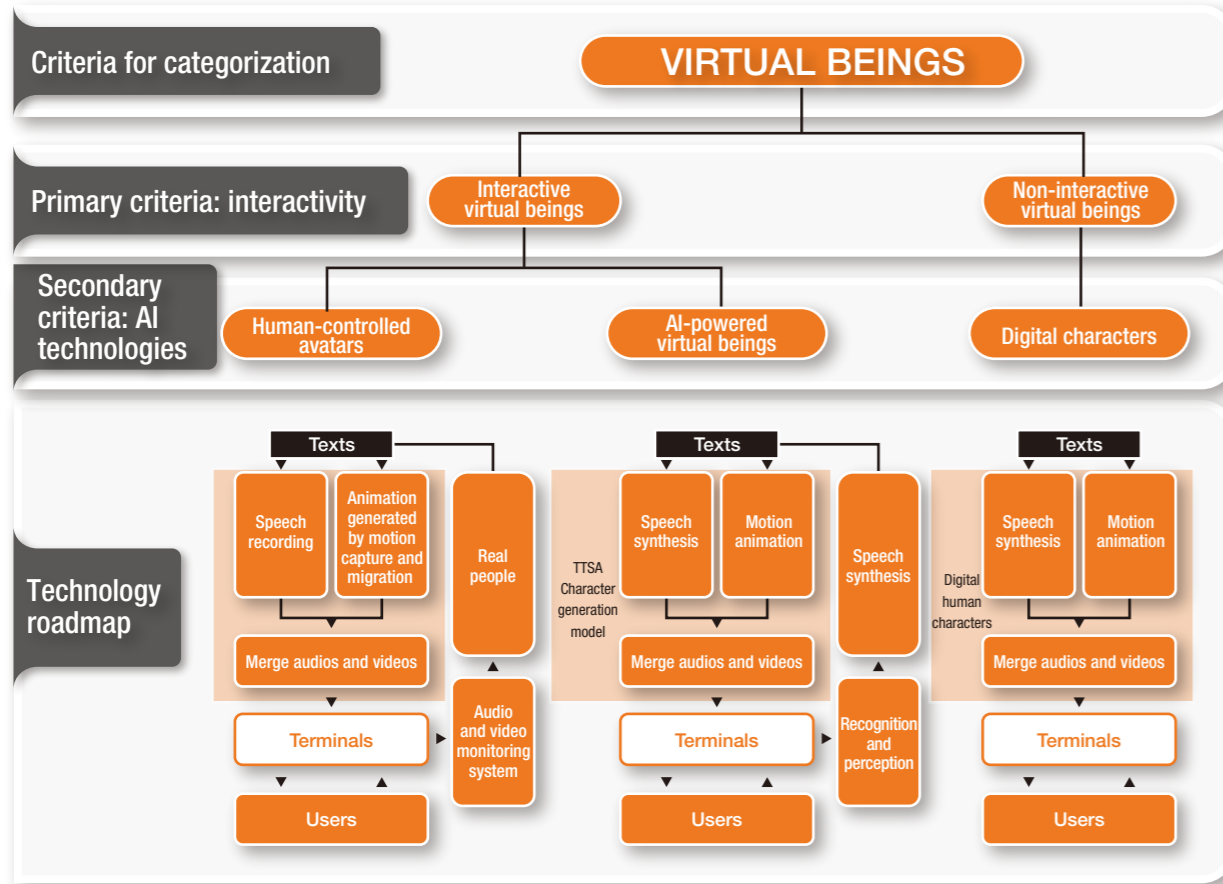


Figure 2: Categories of virtual beings
Source: China Artificial Intelligence Industry Alliance, Leadleo.com

The Industry Chain of Virtual Beings

In the upstream of the industry chain are companies of image designing, prototyping, tools of creation, and AI technologies. The midstream of the industry chain consists of virtual beings makers, general and Internet companies, AI makers with specialties, CG and XR companies. The downstream of the industry chain contains companies of corporate service, culture, and tourism.



Figure 3: Virtual beings industry chain
Source: Leadleo.com

Virtual Beings Application Scenarios: Downstream of the Industry Chain

The downstream of the virtual beings industry mainly consists of companies focused on applying technologies in real-life situations. Companies in this part of the industry chain provide comprehensive virtual beings solutions to many other sectors, including media, film & TV, finance, culture, and tourism, etc.

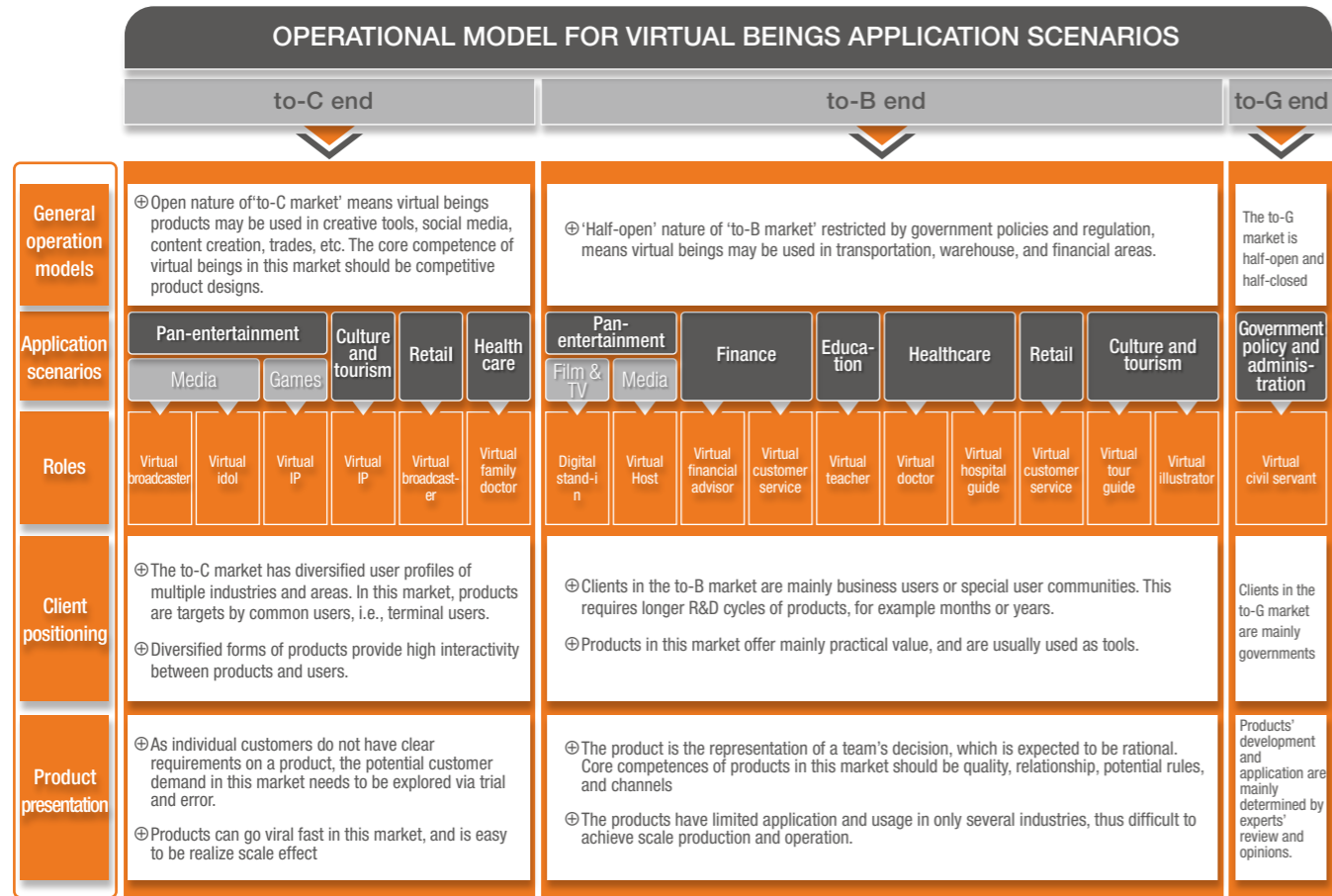


Figure 4: Virtual beings' application scenarios

Source: China Artificial Intelligence Industry Alliance, Leadleo.com



Ngcomic Original IP - Ling

Market Size and Industry Trends of Virtual Beings

According to Leadleo.com, thanks to advancing technologies, the current market size of virtual beings in China has already exceeded 10 billion RMB. With a CAGR of 39.8%, this figure will reach nearly 200 billion RMB by 2025.

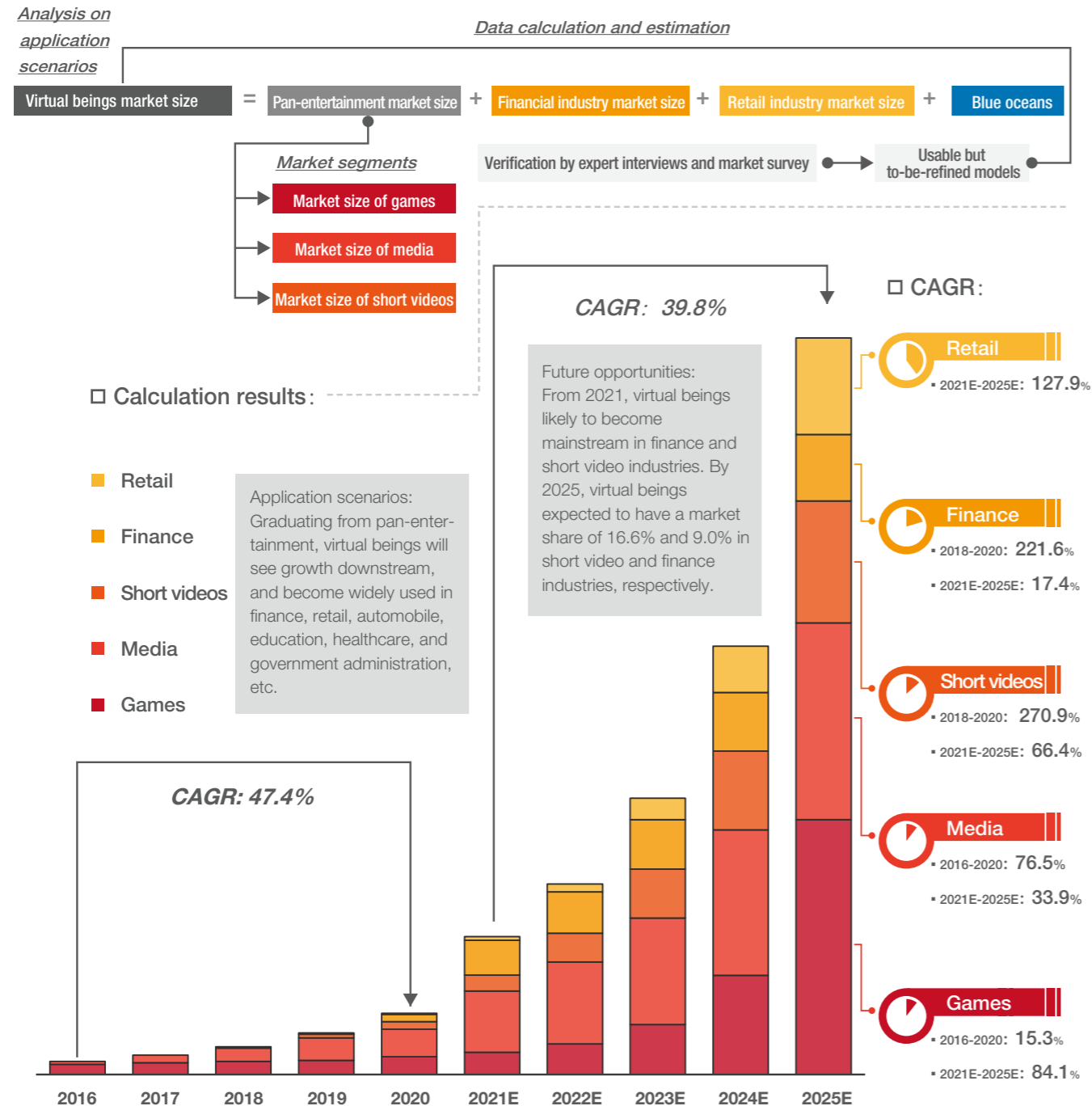


Figure 5: Virtual beings market size calculation

Source: The China Academy of Information and Communication Technology, Maoyan Entertainment, China Internet Network Information Center, National Bureau of Statistics of China, Ali Research, National Radio and Television Administration, Xinhua News Agency, expert interviews, and Leadleo.com.

According to Leadleo.com, the production and operation costs of the virtual beings industry are high, and the quality of products and services of different companies in the industry varies significantly. The industry's target customer groups are increasingly diverse, so its future application areas will continue to expand, creating value and accelerating commercialization.

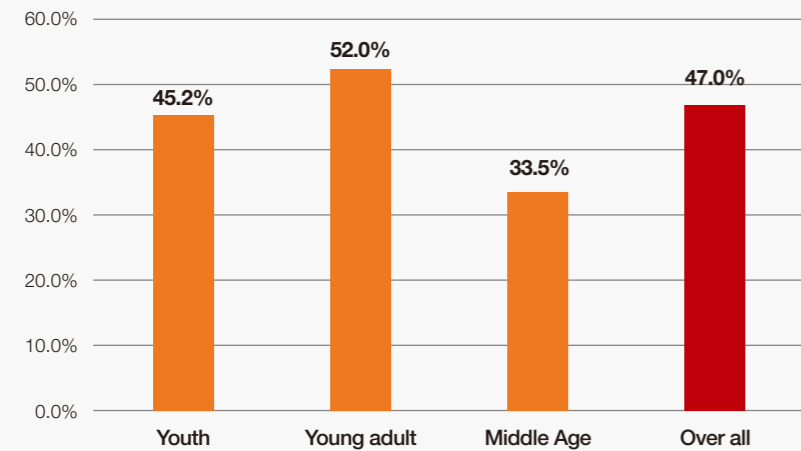


Figure 6: Industry trends of virtual beings

Source: China Artificial Intelligence Industry Alliance, Leadleo.com

Survey on the Consumption of Virtual Beings

Figure 1. Percentage of people with a familiar or favorite virtual idol by age group

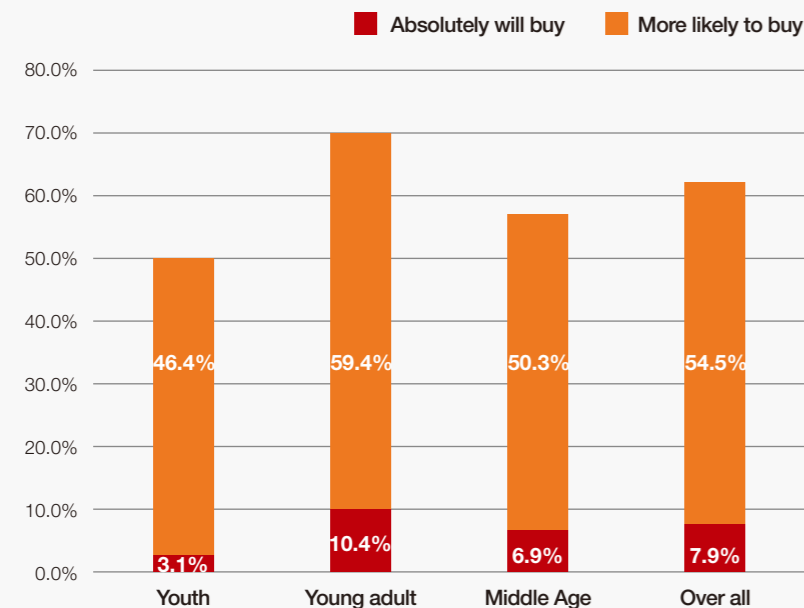


According to the 2021 New Consumption Research Report conducted by CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund, 47.0% of the 2000 survey respondents "are familiar with or like virtual idols". This percentage reached 52.0% among young adult respondents aged 25-34.

Note: Youth refers to people under 25 years old; young adult refers to people aged 25-34 years old; middle-aged people refers to people aged 35-54 years old

Figure 1 - Q: Is there any virtual idol that you are familiar with or like? (Virtual Idol refers to image characters constructed by computer image processing technology, voice technology, digital reproduction technology, and Internet thinking.)

Figure 2. Percentage of people who would buy products endorsed by virtual idol they liked

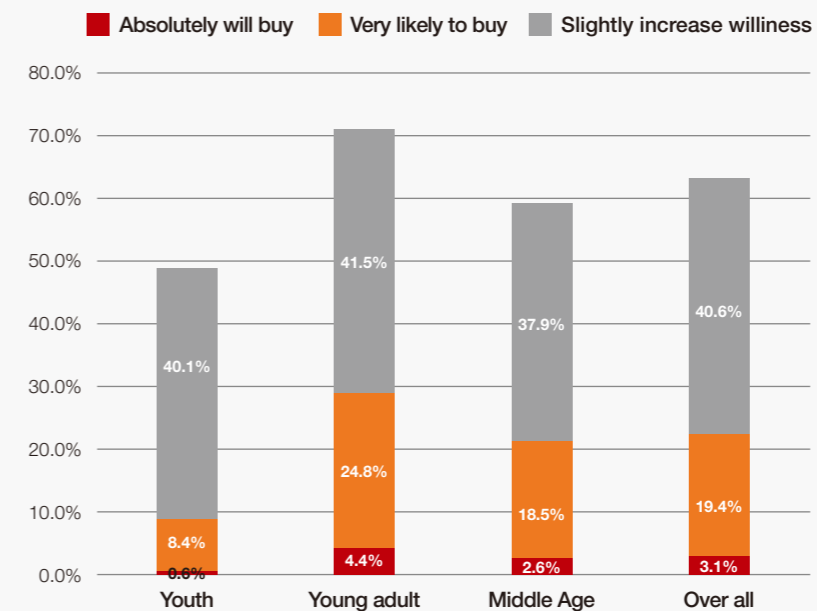


Among all the survey respondents, 62.4% say they would be more willing to buy products from a brand just because their virtual idol is that brand's ambassador. This figure among respondents aged 25-34 is 69.8%.

Note: Youth refers to people under 25 years old; young adult refers to people aged 25-34 years old; middle-aged people refers to people aged 35-54 years old

Figure 2 - Q: To what extent will you buy products from a brand just because your virtual idol becomes that brand's ambassador?

Figure 3. Percentage of people who would increase their likelihood of purchasing the product as a result of a brand launching virtual beings



When consumers were asked to what extent will a brand's newly launched self-developed virtual beings influence their purchase decision on that brand, 63.1% of all respondents say a brand's self-developed virtual beings will possibly make them more willing to buy that brand's products. This figure among young adults aged 25-34 is 70.7%.

Note: Youth refers to people under 25 years old; young adult refers to people aged 25-34 years old; middle-aged people refers to people aged 35-54 years old

Figure 3 - Q: To what extent will a brand's newly launched self-developed virtual beings influence your purchase decision on that brand?

The above statistics show that virtual beings and idols are gaining higher recognition and popularity among consumers. Marketing strategies related to virtual beings are also well received in the consumer market. Therefore, if a brand incorporates virtual beings into its marketing strategy, it may attract more buyers, especially those aged 25 to 34.

The Virtual Beings Industry Outlook: An Interview with Ngcomic Founder Yan CHEN

NGCOMIC is a leading IP creation company in the upstream of the virtual beings industry. It has received investments from many investment institutions, including NetEase Capital, The Arena Capital, Shunwei Capital, Sequoia Capital China, and CCV Capital. We invited Mr. CHEN, founder of Ngcomic, to talk about cooperation between Ngcomic and other brands. He provided us with insider insights on the virtual beings industry, which are also surely to be valuable references for companies and brands planning to enter this industry.



Founder of Ngcomic

Yan CHEN

Q1 : Can you tell us about Ngcomic?

“Ngcomic is a leading IP creation company in the upstream of the virtual beings industry. Our business covers IP incubation, character design, and IP operation. We have created many well-known and commercially valuable virtual beings IPs, designed avatars for many top celebrities in China, and tailored digital assets for many famous brands. With our technologies, products, and application scenarios, Ngcomic is dedicated to building a virtual beings eco-system and a futuristic ‘era of virtual beings’.”

A

Q2 : Why did you establish Ngcomic?

“I graduated from the Communications University of China with a degree in Music Production. Before founding Ngcomic, I worked in the traditional entertainment industry, in record companies, media, and advertising agencies, etc. I was the music director for a reality music show on Jiangsu TV and a senior artist coordinator for Light Media. When I worked in advertising agencies, I worked with car brands such as Infinity and Audi. After working in the traditional entertainment industry for several years, I began to seek a breakthrough and pursue greater advancement. At the end of 2016, I set up Ngcomic, which not only allows me to use my years of experience in the entertainment industry but also provides me with enough space to be more creative and imaginative.”

A

Q3: What solutions can Ngcomic provide to brands if they want to enter the virtual beings market?

“We mainly create three types of IPs at Ngcomic: celebrity avatars, original IPs in different market segments, and customized virtual assets for brands. In the celebrity avatar bracket, we created avatars for Dilireba, Huang Zitao, Ouyang Nana, etc. Then in original IP, we created virtual persona in different market segments include Ling, Nan Mengxia, MERROR, and Purple. In the third type, we have developed digital IP characters for iDo Jewellery, Huaxizi, and Yili.”

A

Q4: What are IPs of superstar avatars, and whom are these IPs targeted?

“When the company was first established, we focused on entertainment since it’s an area that all team members were familiar with. We used celebrity IPs to make animation or avatars. For instance, we created Dililengba for Dilireba, ZTAO’S MAN for Huang Zitao. We also jointly made a virtual band, NAND, with Ouyang Nana. These are real cases of celebrities interacting with their personal virtual avatar, which generated a revenue of two billion RMB online and established joint projects with over 20 brands and platforms. These IPs achieved great success: Dililengba gained 1.1 billion views and became the No.1 Trending Topic within only four hours of publication on Weibo; ZTAO’S MAN gained 600 million views, 370 million hashtag posts, 100 million views in the Webtoon area, and over 100 million video views in total.”

A

“I think celebrities’ virtual avatars serve three groups: the celebrities themselves, fans, and brands endorsed by the celebrities. First, celebrities can build a better image and reputation through their avatars as many of their ideas and innovations can be conveyed in this eye-catching way. Second, fans of a celebrity can know better about their idols in this way, and they can buy more related products of the celebrity. There is a huge market of celebrities’ peripheral products in China, and a virtual avatar provides a new form of such products. Third, if brands use celebrities’ avatars in advertisements, they will have more diverse marketing content with relatively lower costs. In addition, brands will be safer in terms of brand image, as a virtual ambassador will never have a ruined reputation. Last but not least, virtual beings never stop learning. Human beings can never achieve their constantly iterating visions and skills.”

“I think we are pretty mature in co-creating avatars with celebrities now. We have a clearly defined audience group, which promises a high commercial value of the IP. In the future, we will continue to cooperate with at least five top celebrities every year, and focus on building a more diverse IP eco-system. Celebrities we work with will be coming from different areas, for example, music, film and TV shows, reality shows, and cultural area, etc.”

A

Q5: Can you tell us about original IPs in market segments?

“Original IPs in market segments are another main business of our company. It demonstrates our core competence: the operation of original IPs. We think application scenarios of early-stage products and their target users are critical. The primary goal of virtual beings is to satisfy different users in every market segment. We used this logic to create Ling and the virtual DJ Purple.”

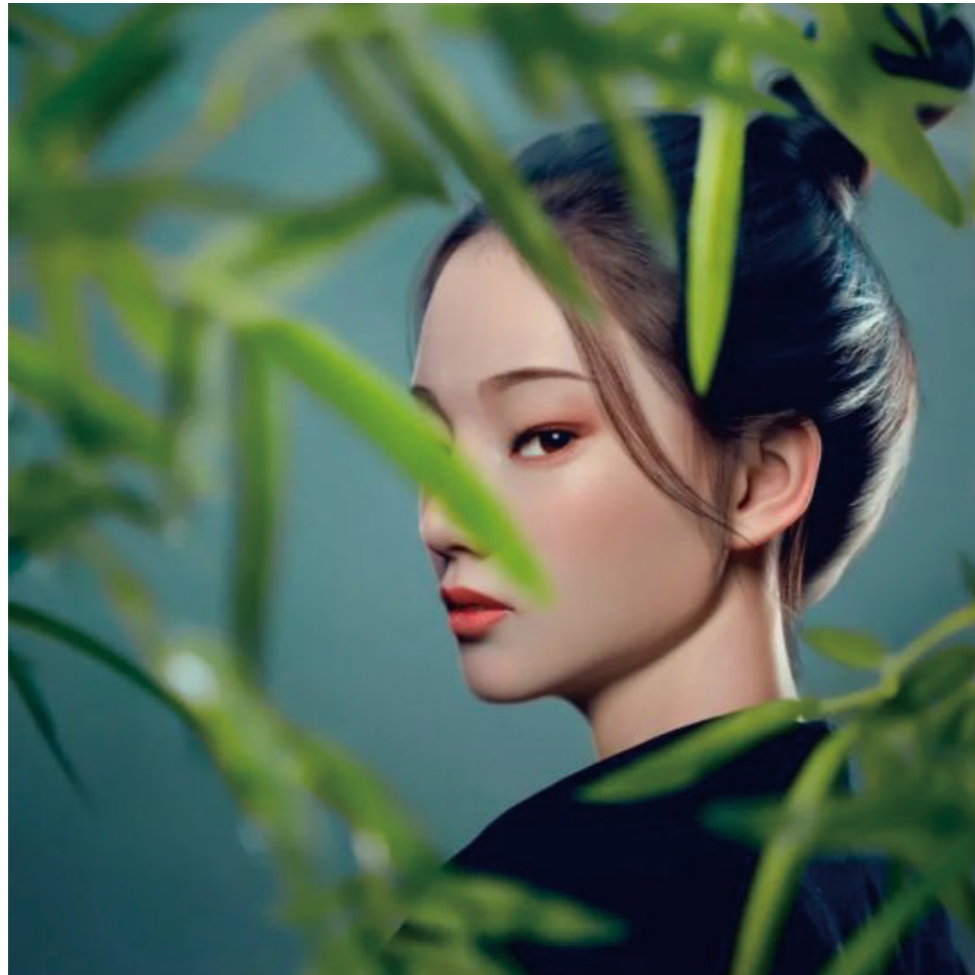
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“Compared with celebrity avatars, original virtual IP truly demonstrates a company’s capability of planning and operating from scratch, which is also the core competence of Ngcomic. Original virtual characters are not based on any existing IPs or content. Their stories, emotions, and expressions have to be defined by the creative team. More importantly, companies must know how to operate their original IP and generate cash in-flow. Ngcomic always carries out extensive market investigations. We rigorously study the market of virtual beings and make plans for our product’s operation over at least the next two years. We define virtual beings’ personalities, interests, and characteristics before creating them. Upon completion, these virtual beings will be launched to different market segments.”

A



Ngcomic Original IP - Virtual DJ “Purple”



Ngcomic Original IP - Ling

“Among our original IPs in market segments, Ling is representative. The hyper-realism and Chinese aesthetics have made Ling an icon amongst virtual beings. Her beauty is oriental with a delicate face. Elegance defines her quality. Her name, Ling, is from Beijing Opera’s Hua Ling (a headdress worn by opera actors). Her voice is from a third-generation Mei School actor of Beijing Opera. Ling was co-created by Ngcomic and XMOV. She loves traditional Chinese cultures, for example, Beijing Opera and Chinese calligraphy, which gives her an attractive oriental vibe. The character made her first debut on 16th January 2021 on Bravo Youngsters!, a talent show produced by CCTV. As the only virtual candidate on the show, Ling’s performance was futuristic with a strong sense of technology. While the performance form was novel, the content was classical: A Fairy Maiden Scatters Flowers by Mei Lanfang, a Beijing Opera master. Ling has also become ambassadors for many brands, including 100 Years Hair Care, Tmall Luxury Pavilion, BVLGARI, Pechoin, Tissot, Tesla, Nayuki Tea, Keep, and Peace bird. She has also cooperated with media like CCTV and Vogue Me. The first video of Ling gained nearly a million views on the first day of release, and was viewed by nearly 60 million people online in the first three days. Her topic hashtags had over 100 million posts and discussions online. These together marked a milestone in the commercialization of virtual beings. Ling is a global showcase displaying China’s culture and technology.”



Ngcomic Original IP - Virtual DJ “Purple”

“Chinese Gen Zs love spending money on electronic music and club culture. However, in this segment, the commercial value of DJ in China hasn’t been maximized. Thus, we made a virtual DJ, ‘Purple’, who is benchmarked against the virtual band ‘Gorillaz’. I think Purple is competitive even among human DJs. Within only three days after its release, Purple was known to over 90 million netizens, and its debut video gained nearly 2.6 million views.”

Q6 : What are customized virtual IP assets for brands?

“Metaverse and digital asset authentication are now massively popular. COVID-19 is also accelerated digitization worldwide. Thus, brands are building their digital assets to survive in this digital world. After June 2021, many Chinese brands started to seek IP customization services. For instance, Ngcomic made Beco for iDo Jewelry, Xiaozheng (a digital astronaut) for Xinhua News Agency, Huaxizi Avatar for Huaxizi, Ask (a hyper-realistic virtual male model) for Deyang Entertainment of iQiYi, and Diandianzi for Jindian of Yili. The market is seeing increasing demand for virtual beings and IPs due to their low risk, high certainty, and promising development. In the future, a brand’s virtual IP assets, like its logo, will convey the brand’s spirits to the world.”

“While original virtual IPs in market segments help Ngcomic build brand reputation and demonstrate strong competence, customized service of virtual IP assets releases more creativities and brings high cash in-flow. Nearly a half of our company’s revenue in the past two years was generated from this service.”

A

Q7 : Do you have any data to back up the performance of your cooperation with brands?

“Yes. Let me give you some facts about Ask. Ask is ‘the first hyper-realistic virtual male model’, debuting on the domestic and international platforms of iQiYi. On Weibo and Douban, his account is followed by many celebrities and KOLs from multiple areas, including entertainment, fashion, animation, etc. When he made his debut, his Weibo account was followed by nearly 60 ‘Big Vs’ (Weibo users with substantial followers and a verified account). Over 600 media companies also posted his picture on WeChat Moments. Nearly 144 million people saw content related to him, and his first debut video gained over a million views. Related hashtag topics amassed over 5.5 million posts.”

“During the Double 11 Shopping Festival in 2021, Ask and Ling were invited to act as brand ambassadors for Tmall Luxury Pavilion. Longines, which Ask endorses, was also contained in Tmall Luxury Digital Art GALLERY, interpreting the story between fashion and the brand’s digital asset authentication. ELLE was the contracted media reporting on this event.”

A

Q8 : What’s your opinion on the current Chinese virtual beings industry?

“I think the virtual beings industry in China is still in Stage 0.5, as most market players and consumers view virtual beings merely as a kind of animation. From my point of view, if we want to advance to Stage 1.0, we have to make the virtual IPs more intelligent and more adaptable to multiple scenarios. In addition, we have to use cutting-edge technologies, such as VR, MR, and Cloud. With these technologies, virtual beings can connect with people in Metaverse, which will mark the beginning of the virtual beings era.”

“I don’t think people are really ‘connected’ with virtual beings yet. They are just curious about them. Although some brands use virtual beings for their occasional marketing or social events, they are not making continuous investments. There is still a long way to go if we want virtual beings to have more connections with users at the ‘to B’ and ‘to C’ ends.”

A

Q9 : What’s your opinion on the virtual beings industry’s future development in China?

“In the future, we will enter Virtual-beings 2.0, where the general public recognizes and accept their digital identity. In early 2022, Ngcomic will launch new projects related to humans interacting with virtual beings under multiple scenarios. This will help more users gain digital identities, and provide more virtual IPs for brands to facilitate their business development.”

“A hybrid digital ecology is the ultimate goal of the virtual beings industry. For example, you and I may never meet physically, but we are friends online because we share the same virtual coach. I look forward to working with other leading companies in China and further exploring intelligent applications of virtual beings. In the future, virtual beings will establish a more intensive connection with people, going beyond an existence merely in advertisements. They will become indispensable parts of people’s lives.”

A

SUMMARY

As science and technology continue to advance rapidly, it is imperative for human beings to understand how virtual beings might evolve and how virtual beings interact with and impact human beings in the future. Are virtual beings a product born from consumer demand, or an inevitable trend? Should brands hold on to their traditional marketing strategies, or embrace virtual IPs as a way of breaking new ground? These are questions without clear answers yet. These questions need to be answered by the market and verified over time.



Ngcomic Original IP - Ling

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■ AFTERWORD

In the post-COVID-19 era, the global economy is still struggling in the shadows of COVID-19. However, economic uncertainties and rapid market changes may also create immense business opportunities. To navigate this special economic landscape, brands and companies have to identify opportunities in the crisis and to find a new way forward amid constant changes.

Since China's consumer market has grown increasingly important to the world since COVID-19, global brands are eager to deepen their understanding of Chinese consumers and to build a strong presence in the Chinese market more efficiently. As for Chinese local brands, the rising international status of China and the growing confidence of Chinese consumers have given rise to a wealth of homegrown brands with stronger innovation capabilities. Their top priority is to figure out ways to increase brand influence and to win wide recognition among consumers.

Over the past year, the CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund has worked hard to fulfill its mission and vision. It has informed global brands about the Chinese market in an objective and timely manner, served as a platform for Chinese brands to present themselves and to interact with international peers, and provided strong research support for CEIBS or scholars who specialize in branding strategy and fashion industry research across the world. In view of these achievements, we hereby publish the "2021 Global Branding Strategy & Fashion Industry White Paper" to review the joint efforts made by the school and other stakeholders over the past year.

Our research fund would like to sincerely thank CEIBS and Shui On Xintiandi for their valuable support. In particular we thank all team members who contributed to this white paper. We would like to express our gratitude to the school's Case Center, Marketing and Communications Department, Programme Departments, and Translation and Interpretation Department for their generous help during the compiling of the white paper and in relevant events.

Our special gratitude is also extended to the members of the CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund Advisory Committee, who have contributed rich materials for our case development and provided unwavering support for the events held by the research fund.

This white paper happened to be released in the summer of 2022, a singular time for Shanghai residents. Well-trodden streets and alleys were forced to close, but the city's vitality remained nourished, like greenery that grows ever abundantly. The slowing down of the city has forced the entire fashion industry to rethink its future development and the relationship between people and the environment. Despite numerous challenges, we believe that crises and opportunities co-exist and that in hard times, new opportunities can emerge. With the joint efforts of all parties and their tenacity, fashion brands will soon discover new life and regain their former prosperity.

From CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund Advisory Committee Members



Xiaolei LYU
Deputy Secretary General,
Shanghai Fashion Week
Organizing Committee

“ In 2021, two focal areas of the CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund had been sustainable fashion and young consumers. Through the cultivating of in-depth knowledge, brilliant thought, and applicable theories, the Fund brought great information and inspirations to the industry. We sincerely wish the Fund to continue to monitor the market, identify new co-creation opportunities, support diversified development of the fashion industry, and enhance the collaboration between the academia and the industry. ”



Nicolas GONG
China Managing Director,
A. Lange & Söhne

“ Luxury brands are seeing steady growth and diversifying ways of consumer interactions in China. How to boost a brand's competitiveness and the industry's sustainability becomes the challenge ahead. CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund acts as a platform where broad, factual information about the Chinese market is available, empowering brands to devise effective strategies. Looking forward, we are excited about more in-depth exchanges between our brand and the Fund to create new opportunities for the entire industry. ”



Macy YAU
Executive Director and CEO,
Kane Top Group

“ Building a bridge for all parties along the fashion supply chain to inspire and create a sustainable fashion ecosystem. ”



Yan LYU
Founder,
Comme Moi

“ The CEIBS-Shui On Global Branding Strategy & Fashion Industry Research Fund is dedicated to monitoring China's ever-changing consumer market and creating a platform for members of the fashion industry to learn, present, and interact. We hope this event will attract more players to share their valuable input and push China's fashion industry forward. We are thrilled to be inspired by new trends in retail, new knowledge about the market, and new models of the economy. ”



Uma WANG
Founder,
UMA WANG

“ Be part of a magnificent chapter of the fashion industry with the CEIBS-Shui On Fund. ”

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