



Xin Zhang

MARKET RESEARCH ON LUXURY E-BUSINESS IN CHINA

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Xin Zhang

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ABSTRACT

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Author: Xin Zhang

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Abstract

The thesis aims to gain an understanding of situation of luxury goods e-market in China. Meanwhile, based on commissioner's research objective, the scope of this study is particularly focus on advantage and disadvantage of luxury e-business in China, then try to scheme out an effective business model when building a luxury e-business in China.

The research methods used in this thesis are desktop research and observation research. The author collected relevant data from research papers and the Internet. In addition, for the purpose of gaining a deep understanding of China's luxury e-business environment, the author interviewed an industry insider who is the CEO from one of case study companies in this thesis. By collecting theory knowledge and practical experience from desktop and observation researches, author is able to finish the study and research of thesis. Moreover, as a part of the commissioner, author has the ability to configure a luxury e-business model for self business.

Keywords:

Luxury goods, e-business, market environment, business model, China

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1. INTRODUCTION

1.1 Background of the study

In recent years, with the rapid development of China's economy, the huge number of middle class is gradually becoming the main luxury consumption group. Domestic luxury market demand growth is strong, China is gradually become the main force of the world luxury consumption market.

In early June 2011 by the " world luxury association 2010-2011 annual official report" shows, from February 2010 to March 2011, that the Chinese mainland luxury market's total consumption increased from \$9.4 billion to \$10.7 billion (<http://ec.iresearch.cn/17/20110707/143949.shtml>), accounting for a quarter of the global share. For this reason, China has become a fast growing on luxury consumption market.

The huge number of luxury consumption group laid a foundation of luxury e-business. In recent years, several of luxury websites appeared rapidly. As a consequence, those websites are widely get adopted by regular luxury customer. On the other hand, there were total 23 investment events accrued since 2010, which those investments majorly on jewellery, handbag, clothes and accessories e-commerce. All those investments were made up to 529 million dollars, as an average, there was 25.21 million dollars made for one single investment event (<http://ec.iresearch.cn/17/20110707/143949.shtml>). Above all, both demand and supply aspects show a positive signal of luxury e-commerce.

Based on the background, I am very pleased that I got an opportunity to be a business partner from the commissioner who is interested in set up a business in China to sell luxury merchandise by running a web-store. We spent time together trying to figure out what the Chinese luxury market is like and if there is a proper model for us to sell goods via online market as a brand new small size business.

1.2 Objectives and limitation of the study

As a new industry, the luxury e-business is in the process of gradual development and perfection in China. Meanwhile, the capital investment is also in the trial period. That gives people a motivation to study and research on it. For the purpose of getting fast understanding on this unique market, simultaneously figuring out a suitable business model for us, we try to keep in touch with three existing luxury web stores and look for the mode of website operation as a profit model, the advantages and disadvantages, the opportunities and risks, and dig out befitting cooperation projects.

There are some data collecting limitations for this study. Since for some competitive reasons, few subsistent industry entrepreneurs do not willing to share information and experience. That might lead a result of inaccuracy on the data collecting. Nevertheless, I give my total understanding on it for the sake of property protects consideration. As compensation, I look up journals and academic books to gain more relevant knowledge.

1.3 Research methodology

The desktop and observation research methods are utilized in this thesis.

The desktop research aims at analysing information which has been published already. It gives a comparison of more than one public data, and gets an overall industry data eventually. Put it into practice, I collected relevant data from journals and internets, then compare those data and list down an objective result in the end.

The observation research gives a day-to-day result by observing a process of research target. It is a method to keep the record accurate and fresh. As a part of methodology, I kept taking notes of daily activities, for instance give an inter-

view of industry specialists by face to face, phone or e-mail then tried to find the regular patterns from it.

This thesis is for business development purpose. As a partner of this business, I am commissioner for myself to inspect everyday's data collecting and process observation. For example, I managed the interview with the case company that in this thesis. It is an industrial innovator in China somehow; I learned lots of experiences and knowledge from this case company.

2. CHINESE LUXURY MARKET

2.1 Definitions

2.1.1 Luxury

In internationally, the luxury is defined as a thing that beyond people existence and development needs, it has unique, scarce, and exotic features. The luxury is also given a name of unnecessary of live. It tends to have the profound cultural heritage, meticulous process design and higher brand premium attribute, it symbolizes the consumer's social identity, connotation and wealth. For instance, the Cartier was as British kingdom Edward VII's royalty gem supplier.

Currently there are some luxuries existing on Chinese market by mass product and sales, even though those goods are manufactured by batch production, they still with unique, rare and exotic features. Nevertheless, the only have part features of luxury, and then we just call it general luxury, such as bare diamond.

The table 1 shows some representative luxury brands in China.

Table 1, representative luxury brands in China (IRResearch, 2011, China Online Luxury Shopping Research.)

2.1.2 Luxury e-shopping

Luxury e-shopping refers to consumers make a luxury consumption behavior via internet. The consumption behavior is regarded accomplishment by consumer has placed an order online, no matter either the consumer's payment process online or offline.

2.1.3 Luxury e-shopping website

It means the website that sells luxury goods. The luxury e-shopping website contains C2C and B2C two different sites. For the B2C website, it basically sells all sorts of luxury goods or it has an independence luxury sales channel-the luxury sales accounted more than 30% of website sales turnover- and is self-responsible for procurement, warehousing, logistics and other services to the shopping website, then we call it self-operating luxury shopping website. This

report focuses on the self-operating luxury shopping website. The table 2 gives a classification of some typical sites with different sales types.

<i>Different business types</i>	<i>Classification of e-business</i>	<i>Classification of luxury e-shopping website</i>	<i>Typical websites</i>
Platform type	C2C	C2C shopping site	Taobao Paipai Eachnet
	B2C	Multiple B2C shopping site	Tmall 360buy Amazon.cn Dangdang
Fashionable shopping site		Vipshop Xiu	
Vertical luxury shopping site		Jiabin Shangpin Ihaveu	
Luxury subdivide-shopping site		Zbird Kela Jufengshang Godida	
Self-operating type		Luxury shopping channel under consultation/portals site	Ymall

Table 2, classification of different luxury e-shopping sites (IRResearch, 2011, China Online Luxury Shopping Research.)

2.2 Chinese luxury market overview

According to the World Luxury Association report, by December 2009, the total amount of Chinese luxury consumption has grown to 9.4 billion dollars, it takes 27.5% shares from the global luxury consumption. This is the first time China surpassed the USA to become the world's second largest luxury consumer, ranked after the first place Japan. At the same time, the association predicted in next five years, Chinese luxury consumption market will reach 14.6 billion dollars, takes 32% shares of global luxury consumption and will be the first global luxury consumer at that time.

Meanwhile, referring to the BAIN&COMPANY's "2011 Chinese Luxury Market Research Report" content. In 2010, Chinese domestic luxury market scale was 87.1 billion RMB. By 2011 there were 25-30% increased based on 2010. That means China's domestic luxury market scale has increased to hundred billion RMB at first time. The report also mentioned that there were overall RMB 212 billion (approx. 21.2 billion Euros) luxury consumption in 2010. Although there was a gradually increase on domestic consumption, more than half of the consumption is still come from overseas, especially in the regions of Hong Kong and Macao. (BAIN& COMPANY, 2010, China Luxury Market Study)

The BAIN&COMPANY's investigation shows that the Chinese consumer prefer to consumption on wrist watch and handbag more than cosmetic, perfume and personal care products. In addition, Louis Vuitton, Gucci and Chanel are still the most wanted luxury brands by Chinese consumers. Moreover, the investigation notes that the social networking site has become an important channel for luxury consumer information gathering, but also the SNS brings a part of public relations crisis for some luxury brands.

2.3 Chinese luxury consumer behaviour analysis

Referring to KMPG (one of the largest professional services companies in advisory services etc.) studies, it lists down few aspects why China's consumer keen on luxury consumption, meanwhile gives some drivers for male and female customers behavior.

Regarding to KMPG's previous studies in 2006 and 2008, it indicated there are four main angles of luxury appreciation on an axis of conformity/ individuality against ownership/ experience: individuality; status; connoisseurship; and indulgence. In the new survey of 2010, it has shown consistent belief that luxury consumption can be a mark of high quality of life and good taste, there were only 14 percent of respondents said they saw luxury goods as a waste of money. (KPMG, 2010, Refined Strategies: Luxury extends its reach across China.)

Nevertheless, with economic uncertainty in certain parts of the country during 2008-2009, luxury consumption needed to show its utility more than before, which either functionally or emotively. Both are shown in the study result of 2008. It gives a conclusion that the functional drive of purchasing luxury "for important/ formal occasions" continues to rank highly, even if the emotive need of self-reward and self-pampering have risen significantly. For men, using luxury to reward themselves has even surpassed the functional need "important/ formal occasions" as the most important motivator. For women, the gratification needs of self-reward and pampering also rose far more than other needs.

The table 3 indicates the reasons for male/ female buying luxury goods.

Male/female reasons for buying luxury goods

	Male	Female
01: To reward myself	46%	62%
02: To pamper myself, treat myself well	27%	62%
03: For formal occasions	41%	43%
04: To reflect my personality	37%	43%
05: To enhance my self confidence	37%	35%
06: To enjoy luxurious, high quality lifestyle	38%	31%
07: To reflect special taste and discernment	36%	31%
08: To pursue classics	30%	34%
09: To pursue fashion/trends	27%	35%
10: To represent social status and wealth	33%	29%
11: For value maintenance or appreciation	28%	29%
12: To stand out from the masses	28%	23%
13: Because of work necessities	27%	23%
14: To enjoy the ownership	21%	20%
15: For connoisseurship or collection	20%	18%
16: In order to fit in within social circles	18%	17%

Table 3, reasons for male/ female buying luxury goods. (KPMG, 2010, Refined Strategies: Luxury extends its reach across China.)

By KPMG study, it also states trends of the reason for purchasing luxury goods in China by comparing surveys with 2008 and 2009, table 4 shows the comparison.

Reason for purchasing luxury goods			
2009		Rank	2008
To reward myself	54%	1	To reward myself
To pamper myself, treat myself well	44%	2	For some important/formal occasions
For formal occasions	42%	3	To reflect my personality
To reflect my personality	40%	4	To reflect special taste and discernment
To enhance my self confidence	36%	5	To pursue classics
To enjoy luxurious, high quality lifestyle	35%	6	To pamper myself, treat myself well
To reflect special taste and discernment	33%	7	To enjoy luxurious, high quality lifestyle
To pursue classics	32%	8	To enhance my self confidence
To represent social status and wealth	31%	9	To pursue fashion/trends
To pursue fashion/trends	31%	10	To represent social status and wealth
For value maintenance or appreciation	28%	11	To stand out from the masses
Because of work necessities	25%	12	Because of work necessities
To stand out from the masses	25%	13	For value maintenance or appreciation
To enjoy the ownership	21%	14	For connoisseurship or collection
For connoisseurship or collection	19%	15	To enjoy the ownership
In order to fit in social circles	18%	16	In order to fit in social circles

Table 4, reasons for purchasing luxury goods (2008 and 2009). (KPMG, 2010, Refined Strategies: Luxury extends its reach across China.)

Along with the comparison, while the desire to reward oneself was also the top answer in “reasons for buying luxury goods” in 2008, its response rate in 2009 went up from 44 percent to 54 percent. This rise was particularly strong in women (46 to 62 percent), highlighting the importance of female consumers in driving trends.

A similar trend can be observed in the desire to pamper oneself – which jumped from 36 percent to 44 percent, with men and women registering 6 and 7 percentage point rises respectively. This saw pampering/treating oneself leap from sixth place to second in the overall ranking of purchase motives, making the top two all about being good to him/ her.

This reaction suggests that luxury is providing both incentives and comfort for China’s luxury consumers against a backdrop of economic uncertainty. Looking through the ranking of all purchase drivers, the top six (with the exception of im-

portant/formal occasions) are about personal choices and feelings. Back in 2008, consumers placed a high importance on reflecting taste and discernment (a relative, social value) and pursuing classics, with more personal/emotive motivators taking up only three of the top six places. However, it is not to say these are no longer important, on the contrary, they clearly are, and the response figures are similar. But that they are currently taking a backseat to personal emotion and experience of luxury.

The KPMG study also explores the emergence of China's middle class luxury consciousness. The study gives an obvious result by making a comparison of the attitudes of middle class in 2008 and 2009. By seeing from the comparison, it can be seen that the attitude showing continuity and solidity. While there are interesting shifts in certain aspects, China's middle class consumers are beginning to show greater consistency in their attitude and appreciation to luxury. The following table 5 shows the attitudes of middle class in 2008 and 2009.

Attitude	2009	2008
I appreciate the superior quality of luxurious brands, not simply the famous brand names	64%	69%
Luxury brands don't need to be recognised by the mass but should be appropriate for one's own personality	63%	69%
I long for luxury goods but I can't afford them now	41%	49%
Compared with purchasing luxury bags and clothes, I prefer to spend money on luxury experiences such as travelling abroad, playing golf, going to premium hotels to enjoy a spa, etc., etc.	38%	38%
I am practical and not willing to pay for the premium claimed by luxury goods	35%	31%
Only those brands of high awareness can be called luxury brands	34%	40%
I don't like to show off, so I would not buy any luxury goods	27%	23%
If I owned some luxury goods, I would be reluctant to use them because they are too expensive	20%	21%
Only those brands known and appreciated by the minority can be considered as luxury goods	18%	23%
The luxury goods used by celebrities are a good reference when making the decision to buy	16%	11%

Table 5, the attitudes of middle class in 2008 and 2009 (KPMG, 2010, Refined Strategies: Luxury extends its reach across China.)

Environmental and ethical concepts continue to be important emotional drivers for luxury consumers in estimating the brands to which they aspire. This echoes general trends in increasing consumer consciousness and concerns of the environmental and CSR issues in China. With the Chinese government making some green commitments and environmental issues rising in the public consciousness, luxury brands would have to enhance their image by making the most of their environmental credentials to satisfy customer more.

2.4 Consumption groups

By spending the family income's percentage on luxury consumption, there are four different groups of consumer of luxury consumption.

First group named "Core luxury buyer". Most of quantity buying luxury consumers are belong to this kind of group, they prefer to spend 12-20% of income on buying luxury goods, and totally cost 20,000- 60,000 RMB(appr.2,000-6,000 Euros) per year. (McKinsey& Company, 2010, McKinsey Consumer& Shopper Insights).

Second group named "Luxury consumer model". This group of people spend 10% income on annual consumption, which about RMB 150,000 (approx.15,000 Euros). They treat luxury goods as a vital part of their daily life, and keep buying luxury for the purpose of satisfying themselves, meanwhile try to build a unique appearance among people. Even though this kind of model consumer just take 1% of all luxury consumption groups, but by the estimate of McKinsey& Company there would be 24% of luxury consumers belong to this "model" group in 2015. Most consumer in this group are administrative staff from private or public companies, they live a cozy life in Beijing or Shanghai, meanwhile have an impressive background on working or educating abroad. (McKinsey& Company 2010, McKinsey Consumer& Shopper Insights).

Third is "Fashion fanatic". Even though this sort of consumer is not a typical wealthy people, they would like to spend RMB 40,000-80,000(approx. 4,000-8,000 Euros) which about 40% of income on buying luxury annually. This kind of fanatic consumer hopes to stay at the forefront of fashion, and if necessary, they are even willing to ask a loan to buy luxury. By McKinsey& Company's study, there is 59% of consumer who belongs to Fashion fanatic group says it is acceptable for them to buy on credit. Moreover, they have a strong influence on other luxury consumers. That is because before buying goods, the fashion fanatic people usually make a precise plan, they study the goods features online first, then discuss with close friends together, and after done all homework they finally make an order contentedly. Then they share their shopping experiences on SNS or with close friends, which cause an obvious influence on other potential consumer's shopping plan.

The last group named "Middle class motivator". This group takes a large amount of whole luxury consumption people, about 51% of luxury buyers are belong to this type. They earn RMB 60,000-200,000 (approx. 6,000- 20,000 Euros) annually, and spend 9% of salary on luxury buying which about RMB 5,000- 15,000 (appr. 500- 1,500 Euros). By comparing with other groups, the Middle Class Motivator lack of experience on buying luxury, but they are more eager to get involved into luxury consumption practice than others. Most of this people lives in middle or small cities, and keeps a middle management position in state-owned enterprise as their professions. Regarding to their consuming attitude, they have a conservative thinking on spending money. After buying luxury goods, they might cut other expenditure off for the purpose of keeping the account balance.

2.5 2009-2011 Chinese luxury online shopping market overview

The table 6 gives a figure about China's luxury consumption and online shopping amount through 2009-2011. In 2009, China's luxury online shopping total consumption amount was 2.5 billion RMB, was took 4.2% amount of luxury consumption and 1% amount of online shopping in that year. In 2010, the luxury online shopping was 6.4 billion RMB, took 7.3% part of luxury cost and 1.4% of online shopping. In 2011, luxury online shopping amount was 10.7 billion RMB, took 9.9% of luxury consumption and 1.4% of online shopping spend.

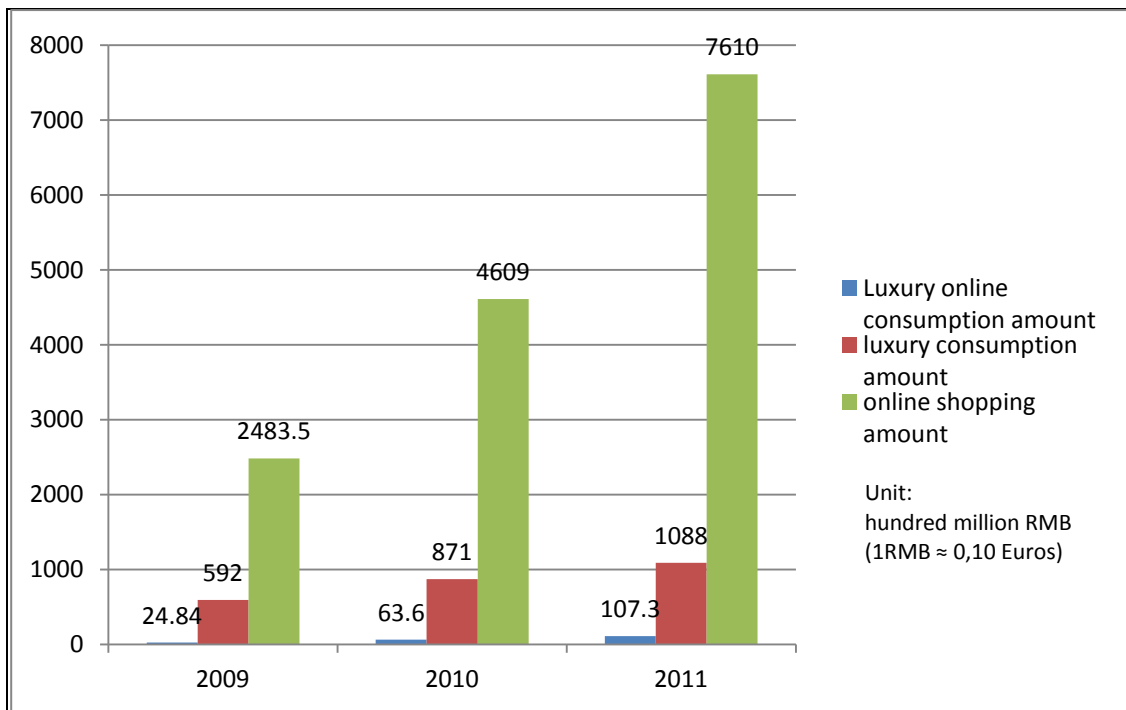


Table 6,
China's luxury consumption and online shopping amount through 2009-2011
(IRResearch, 2011, China Online Luxury Shopping Research)

On the basis of China's online shopping market transaction scale, the luxury online consumption takes 1-2% of total online shopping. Then regarding to the China's luxury consumption amount, the luxury online shopping takes 7.3% over from whole consumption amount in 2010, and 9.9% in 2011. It estimated that

luxury online shopping amount will reach 37.3 billion RMB, takes 1.49% from online shopping and 21.9% from total luxury consumption.

Referring to the estimation of large online shopping market scale, there are three reasons:

Firstly, China's luxury online shopping mainly focus on international top class brands consumption, there are still amount of brands have not got involved in Chinese market. Under China's luxury market cultivating in recent years, more and more luxury brands are willing to turn into the local market, and for the reason of reducing initial cost, some of the brands are going to run the businesses via online shops. Secondly, China's luxury market is centralized on small wares, for instance clothes, handbags, wrist watches and accessories. The domestic market is about to lead diversity goods into consumers. Thirdly, for those under development commercial regions, it is inconvenient to open a store up, and then the online shops will fit to those local needs for the luxury consumption.

2.6 Luxury online shopping consumer behaviour analysis

By studying IResearch's China Online Luxury Shopping User Research, I collect some relevant data for the purpose of supporting this thesis's study and research.

First, regarding to the gender of luxury online shopping consumer, by studying from IResearch's research, there are more male consumer than female, it takes 65,5% of whole consumer group. And there is a significant difference between different genders, for male consumer, they prefer to spend money on vintage wine and wrist watch; for female, they would like to buy more clothes, cosmetics, bags and suitcases. Table 7 gives a different of China's luxury online buyer gender analysis.

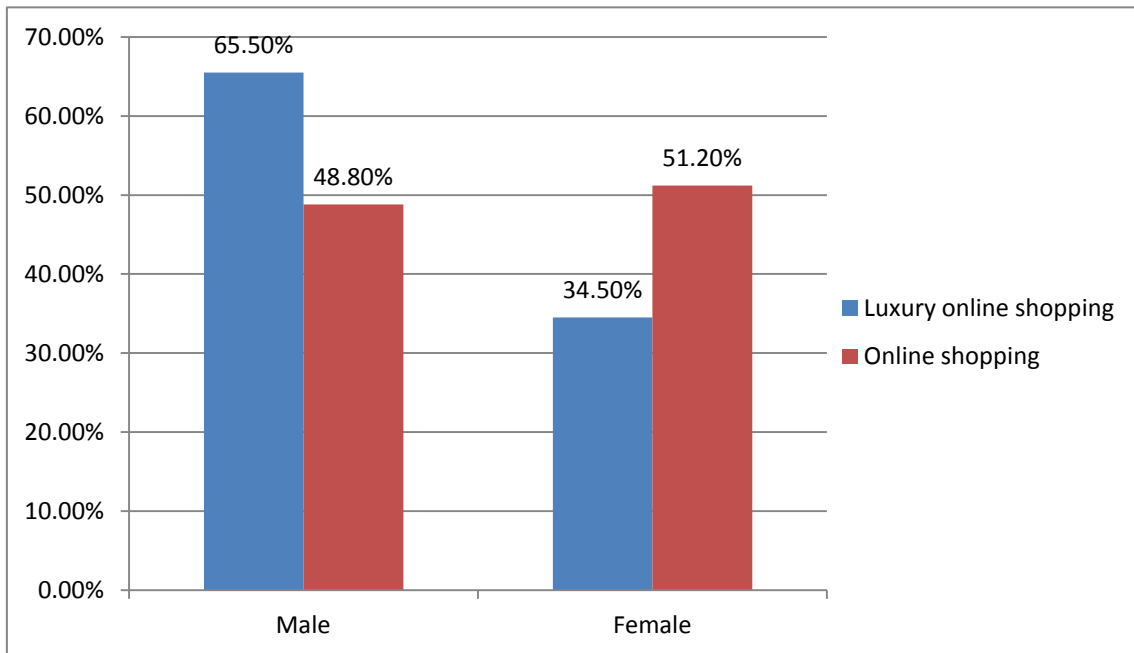


Table 7, different of China's luxury online buyer gender (IResearch, 2011, IResearch China Online Luxury Shopping User Research)

There are three reasons for male to buy more luxury goods online. First is male prefers a convenient and fast shopping style; Second is male customer would like to buy an unusual product for the sake of showing his style off, coincidentally, the limited and low similarity of resource makes it happen; Last but not least, luxury goods is a preferable way of gift giving, for the work or family reasons man always give more present than woman.

And table 8 shows the different of shopping categories of male and female online shopping habits.

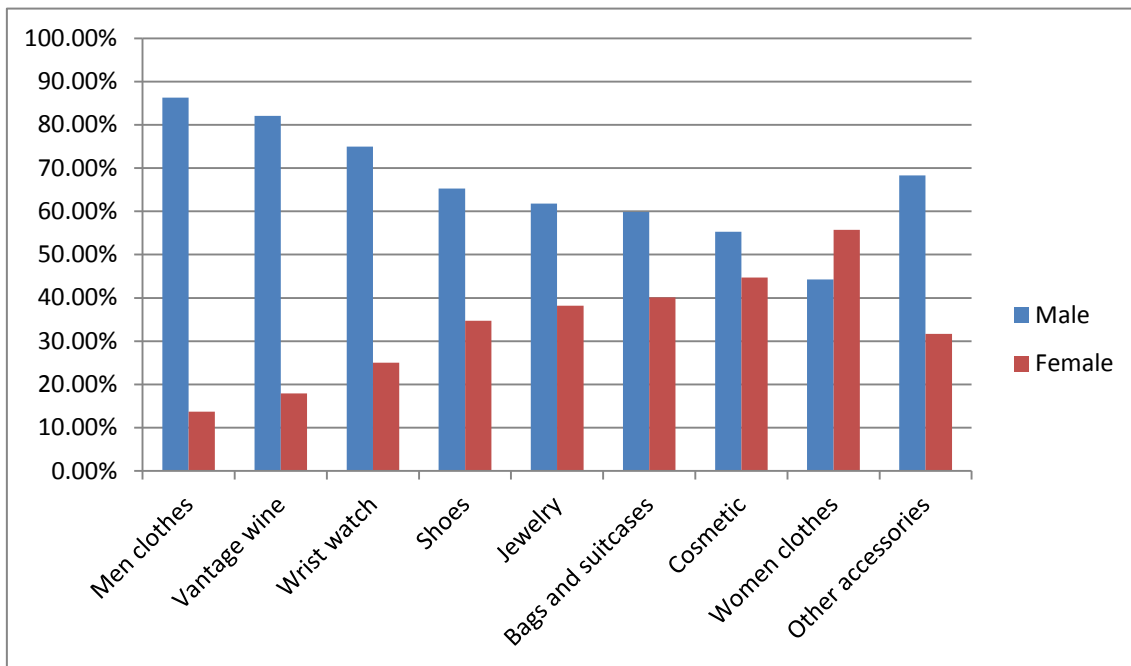


Table 8, different of shopping categories of male and female online shopping habits (IResearch, 2011, China Online Luxury Shopping User Research)

Second, referring to luxury online shopper's age identification, most of consumers is in between 25-30 years old, it takes 38.8% amount. Moreover, there are 80% of online consumers less than 35 years old, which means major online shoppers are young group. In my opinion, as the representativeness of 25-30 years old luxury online shopper has a strong feature on chasing trends, showing personality and taste, good willing to buy, they are the backbone of luxury online shopping in future.

Table 9 lists the age difference on luxury online shopper.

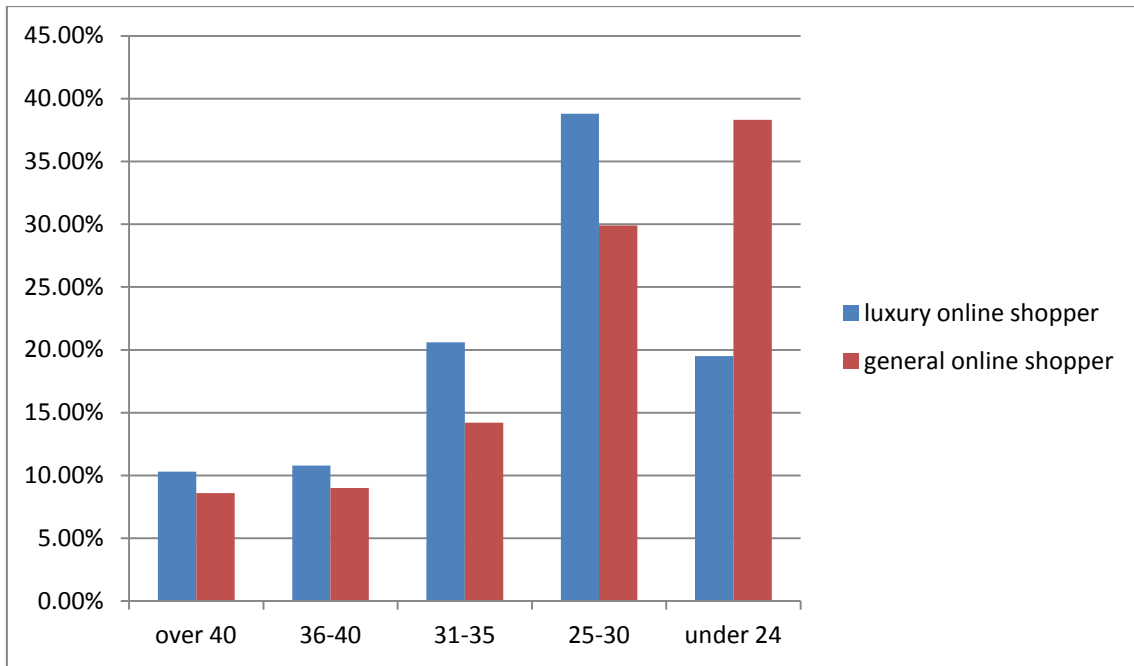


Table 9 (IResearch, 2011, China Online Luxury Shopping User Research)

Third, as to purpose of buying luxury goods online, 67.7% of consumers consider it as a self-use goal, and the most of their expenditures are on shoes, clothes, bags and suitcases. Meanwhile, there are rest 32.3% consider to buy luxury goods through online as a gift selecting. The most gift selecting items are vintage wine, jewellery, wrist watch and cosmetic.

It is not difficult to understand the reason. In China, gift giving is a vital part of culture, for the sake of building an extensive social networking, giving gift is an efficient way. Besides, some sort of luxury has the feature of collectable value such as vintage wine, thus more and more people choose luxury goods as a gift to buy.

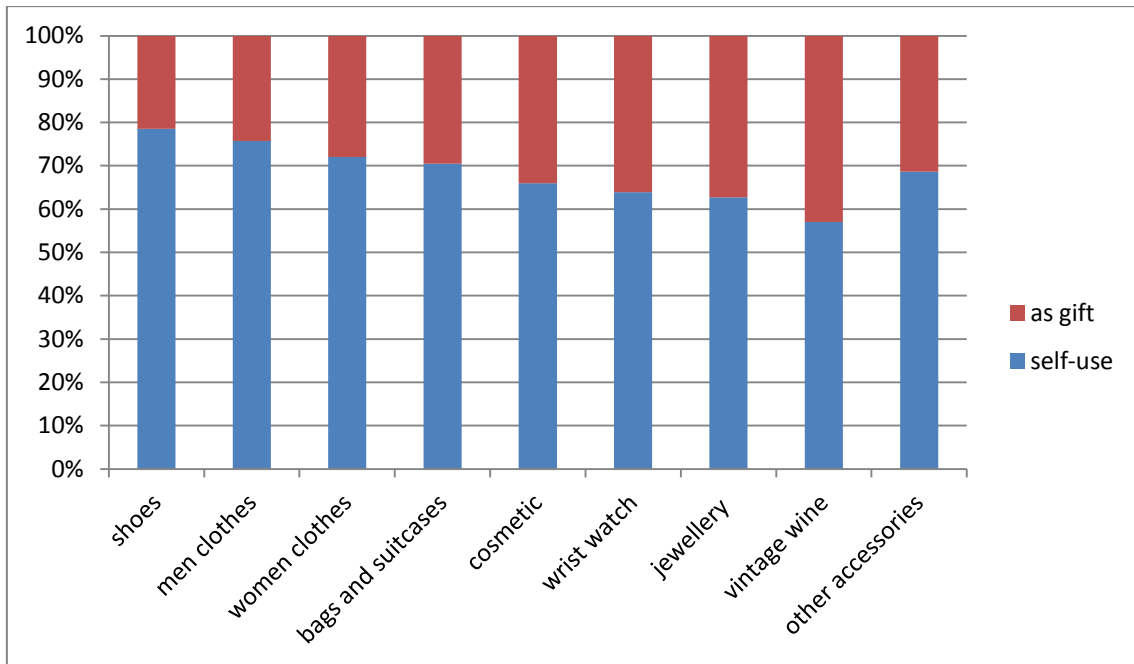


Table 10, different purposes of luxury online shopping (IRResearch, 2011, China Online Luxury Shopping User Research)

Fourth, on the matter of reasons why consumer choose online shopping as luxury consumption, by IRResearch's statistics there are 70.4% consumer think online shopping has a competitive advantage on price. And also most of consumer says it is a convenient way to shop, takes 66.1%.

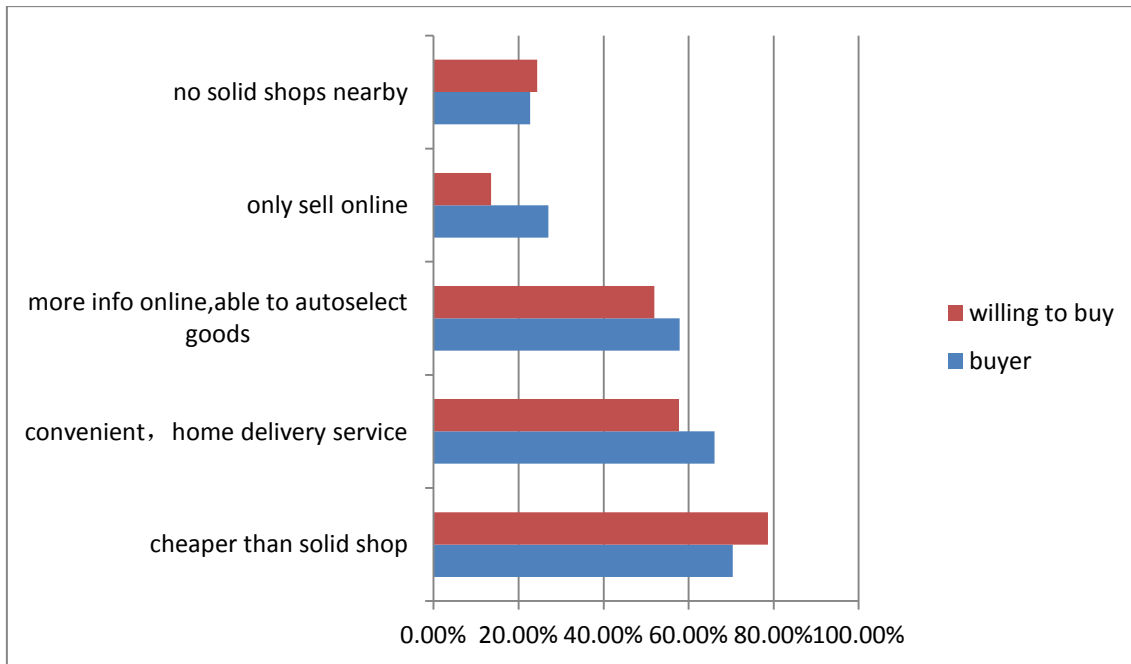


Table 11, reasons to choose buying luxury online (IRResearch, 2011, China Online Luxury Shopping User Research)

3. LUXURY E- MARKET ENVIROMENT

3.1 Market environment

3.1.1 Policy environment

Regarding to the political aspect, firstly, at present, there is a high import tariff for luxury goods in China. Usually there are three taxes should be paid, which are the import duty, excise duty and VAT. The import duty ranging from 6.5% to 18%, VAT is 17% and excise duty up to 30%, the cumulative tax payment is

add up to 65% as highest. Secondly, Chinese luxury market always has a later new-stock than US and European markets. For one same item, the Chinese market usually appears three months later after US and Europe. Moreover, there are a large number of goods that do not have a sales promotion in China. In such circumstances, many consumers give up consumption behaviour in China and go abroad or shopping online as compensation.

For the sake of avoiding luxury consumption run off, the Chinese Commerce Department suggests that lower the levy rate on medium and high-grade class luxury goods. That is a positive signal on China's luxury market that would promote the local luxury consumption, meanwhile drop the cost of online shopping. As a consequence, it will push domestic luxury online shopping market forward.

3.1.2 Economy environment

Along with China's economy developing, a huge numbers of Middle-Class appears promptly and becomes the mainstay of luxury consumption. Meanwhile, the Middle-Class consumers promote the need of local luxury consumption. On the other hand, by enhancing of China's consumption rate, consumption willingness and consumer confidence, the global luxury brands gained awareness that there is an active demand of Chinese luxury market. Those brands boost their steps on distribution of Chinese market; it gives cultivation at China's luxury consumption habit in a way.

Nevertheless, with the restriction on economic development, consumer bearing capability, shopping location and local traffic condition, most of second and third tier cities do not have luxury chain stores or dealerships. Those market vacancies provide an opportunity to China's luxury online shopping business.

3.1.3 Legal environment

The essential consumption pattern of luxury shopping online is an e-commerce. Chinese e-commerce has experienced from gap to build-up in the past 13 years. By the supervised from national policy, the e-commerce has a smoothly gained.

Moreover, China's e-commerce development environment is imperfective yet. Such as the hysteric of laws and regulations set up, the deficiency of service supervision system, credit system, statistical monitoring system and industry investment & financing mechanism. In the wake of the Twelfth Five- Year project by China's government, the e-commerce has a positive developing claim, for that reason the process of lawmaking will be prompted at that time.

Referring to the imperfect of China's e-commerce environment, there are brief six points which are most urgent to be solved.

First is establishment of contentious jurisdiction. Because the cross regional characteristics of shopping online, the dispute of online shopping contentious jurisdiction is hard to be established. The Law of Civil Procedure 24th declares "For a lawsuit brought on a contract dispute; the defendant has his/her jurisdiction by domicile or the court of contract act place" (<http://www.hulvshi.com/contents/104/4406.shtml>). E-commerce contract belongs to a business contract. However, it is not an easy thing to affirm defendant's domicile or the contract act place. That is because to affirm defendant's domicile or contract act place is a challenge since most of online dealers do not publish its domicile or place of incorporation. Moreover, it is not easy to verify the place of contract acting. On e-commerce case, the contract act place depends on the postage paying. If buyer pays the postage, so it is cash on delivery, the contract act place is at seller's side. If seller pays the postage, then the place should be at buyer's side. In realistic, there has no clear agreement on the postage undertake issue that makes the difficult to affirm the contract act place.

Second is assuring of responsibility subject. Under the online trading environment, sellers usually just inform their bank remittance account and shopping hotline, do not let customer aware their registration info. The Consumer Rights and Interests Protection Law article 20th says "Business operator shall clearly indicate its true name and trade." (<http://baike.baidu.com/view/534439.htm>). However, the method of The State Administration for Industry and Commerce says if natural person runs a web store that it has a voluntary approach for In-

dustry and Commerce Registration to register and enrolment. (<http://wenda.tianya.cn/question/058da928e9a6da1f>). That obviously leaves a problem on censorship body and censor method. Although it requires the operator publish its business license on main web page, it cannot ensure the authenticity of license.

Third is distribution on burden of proof. Most of online consumers might lack of evidences that could not receive any legal relief from relevant departments.

Fourth is prevention of internet fraud. For online shopping, consumer just get goods general image by watching, it is ex parte to collect all product info through web page. Meanwhile, some sellers publish false info on web store on purpose, for instance fake the credit ranking or sales volume. That causes lots of loss on consumer's benefit.

Fifth is guaranteeing the safety of payment. Payment as an important part of online shopping that should be treated seriously. However there are some risks while doing online payment. For instance, during the e-payment process, computer would record customer's personal info automatically, like identity status, credit standing, shopping history, shopping preference and even personal financial condition. In case all those info be leaked, cyber criminals could track consumer easily, that would seriously violate personal privacy and property.

Sixth is supervising of logistics. Since China's logistics industry just grows up recently, there still some shortages exist on foundation, management, service networking and information system aspects. Those shortages are not able to satisfy nowadays e-commerce needs anymore, and encumber e-commerce development.

The table 12 gives a catalogue of China's important laws and regulations of e-commerce.

China's important laws and regulations of e-commerce.				
No.	Release time	Release department	Name	Field
1	Nov. 2011	People's Bank of China	"Payment customer deposit custody Interim Measures" (Draft for Soliciting Opinions)	Electronic payment
2	Jun. 2010	People's Bank of China	"Non financial institutions pay services management approach"	
3	Apr. 2009	People's Bank of China	"On the strengthening of safety management of bank cards and crime prevention"	
4	Oct. 2005	People's Bank of China	"Electronic payment guidelines (No. 1)"	
5	Aug. 2005	General Administration of Customs	"On-line tax payment guarantee issues notice"	
6	Jun.2005	People's Bank of China	"Pay liquidation constituent management approach (Draft)"	
7	Aug. 2004	The ministry of commerce	"Electronic signature law of PRC"	
8	Jul. 2011	The State Administration for Industry and Commerce	"Strengthen market supervision and management"	Shopping
9	Jan. 2011	Department of Commerce	"On the norms of online shopping promotion action notice"	
10	Jun. 2010	Department of Commerce	"On promoting the healthy development of network"	

			shopping guidance"	online
11	May 2010	The State Administration for Industry and Commerce	"Network commodity trade and related services management Interim Measures"	
12	Apr. 2008	Ministry of commerce commercial reform division	"Internet shopping service specification"	
13	Apr. 2005	China Electronic Commerce Association	"Online trading platform self service specification"	
14	Feb. 2012	Eight ministries	"On promoting the healthy and rapid development of electronic commerce"	
15	Dec. 2011	Department of Commerce	"On the Twelfth Five-Year Plan of electronic commerce credit system construction guidance"	
16	Oct. 2011	Department of Commerce	"The Twelfth Five-Year Plan development of electronic commerce directive opinion"	
17	Aug. 2011	Department of Commerce	"E-commerce demonstration enterprise" announcement list	
18	Jul. 2011	Department of Commerce	"Third party e-commerce transaction platform service specification"	
19	Mar. 2011	Development and Reform Commission	"On the demonstrative city of national electron business affairs to create the work of the guidance"	E- commerce
20	Oct. 2010	Department of Commerce	"Electronic business model enterprises to create standard (Trial)"	

21	Nov. 2009	Department of Commerce	"On accelerating the circulation of electronic commerce development."
22	Apr. 2008	Department of Commerce	"Standard of mode of electronic business affairs"
23	Dec. 2007	Department of Commerce	"On the promotion of e-commerce development."
24	Jun. 2007	The national development and Reform Commission, The Information Office of the state	"Electronic commerce Eleventh Five-Year planning"
25	Mar. 2007	Department of Commerce	"Online trading guiding opinions (Provisional)"

Table 12, China's important laws and regulations of e-commerce. (<http://info.texnet.com.cn/content/2010-06-24/295077.html>)

3.2 Supply of goods

3.2.1 Luxury e-shopping industrial chain

The first stage on the chain is those consulting and sitemap websites, they offer shopping information and internet traffic entrance for luxury e-shopping websites.

The personal luxury consumption always has a close image with the fashionable trends world, and tries to create an upscale elegant reputation by working with superstars. At present, there are many of websites service plenty of consulting news and information in China, such as YOKA.com and PClady.com. Moreover, lots of specialized luxury websites and comprehensive portals offer a mass of information to consumers through their channels, for instance, ChinaLuxus.com and luxury.msn.com.

The luxury sitemap website is also the other info channel. For example at the moment in China's market, Boogle.com and lux.360.cn are a comprehensive portal offers vertical info leading. Those kinds of websites are not offering business trade by themselves. However the people who might jump into some relevant shopping links directly by clicking those sitemaps, and now the sitemaps are becoming one of the most internet traffic entrances of luxury e-shopping website.

The second stage on the industrial chain is the luxury e-shopping website itself, which is the main participant in this chain.

As mentioned in the previous chapter, there are a lot of classifications of luxury e-shopping website in China. For instance, platform websites (including C2C and B2C) Taobao.com, paipai.com, 360buy.com; vertical shopping sites jiapin.com and shangpin.com; subdivide-shopping sites Zbird.com and kela.cn.

The third stage on the chain is the servicer, which contains authentication, insurance, payment and logistics.

Luxury itself has features on unique, scarce, valuable etc. Usually customer requires a high-standard quality guarantee on shopping process. Customers prefer to shop a web store under approved by a third-party authentication or the consumer rights and interests protection mechanisms. Meanwhile for the sake of attracting more orders, more and more luxury web stores are underwriting with insurance agencies such as PICC (People's Insurance Company of China). Furthermore, shopping online strongly relies on online payment and logistics distribution. Now payment channels for buying an online luxury are China Union Pay, each commercial banks and third-party payment (e.g. Alipay and PayPal). And for logistics aspect, it mainly fulfills by a third-party such as FedEx, UPS, and SF-Express.

3.2.2 Luxury e-shopping supply chain

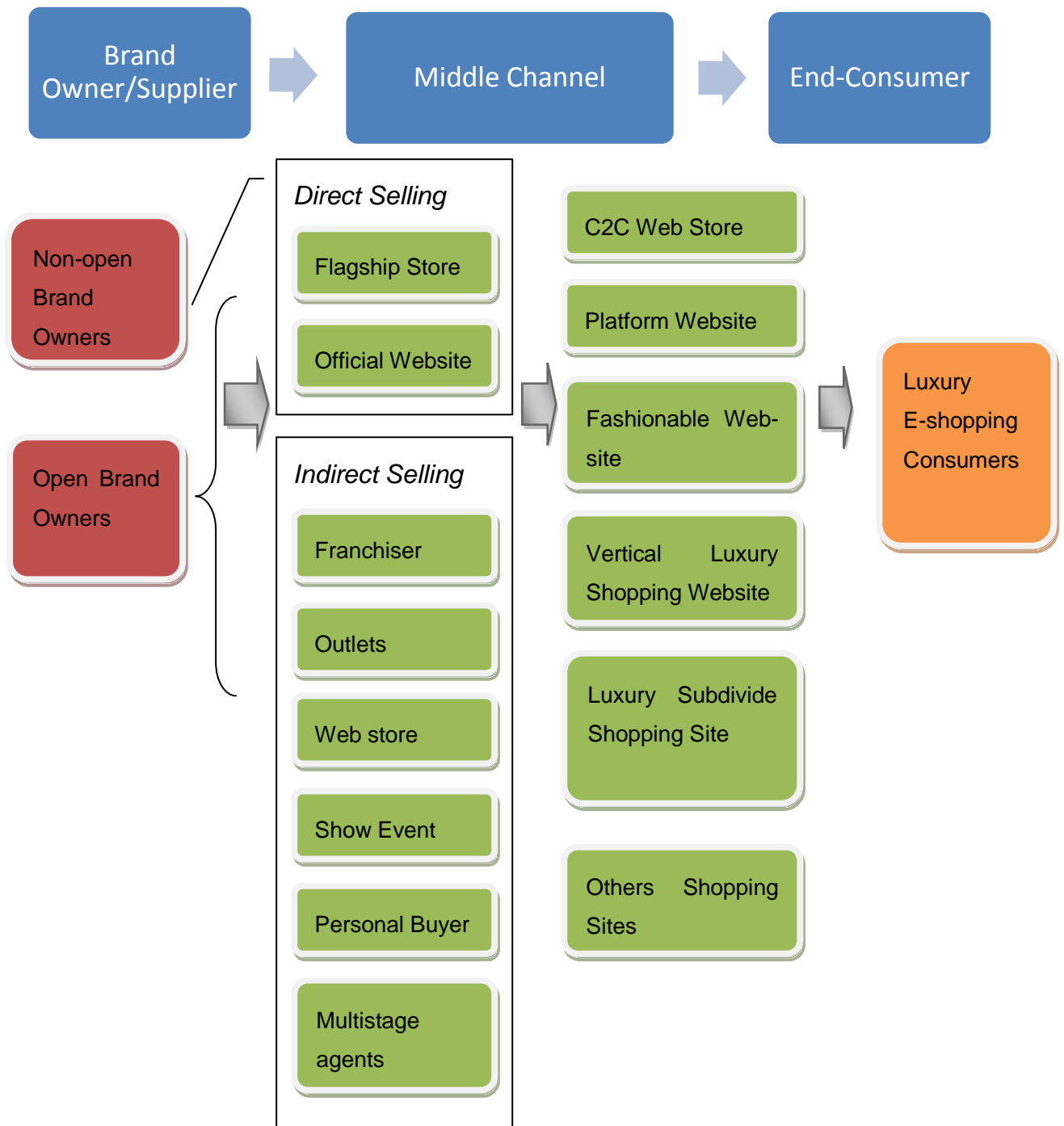


Table 13, luxury e-shopping supply chain in China (IResearch, 2011, China Online Luxury Shopping Research.)

The table 13 is a supply chain in luxury e-shopping given by IResearch's study, by looking into this table there are two main aspects from it.

First, there are two distribution ways of brand owner. One is non-open brand owner, e.g. Louis Vuitton, Herms and Chanel, all those brands have a keen eye on own brand reputation and price controlling, they only run chain stores in Chinese market. Those brand owners do not offer any types of agent and authorization, thus China's e-shopping web stores just get small purchasing orders through brand owners' chain stores; the other way is the open brand owners, they open their right to every different kind of agent and retailer. Most of China's luxury web stores built a stable purchase resource through applying the rights of agent and franchiser from open brand owners.

Second, China's self- operating luxury web stores' are mainly have four supplies of goods. Firstly is applying the right from brand owners and getting orders from them. Secondly are buyer get orders or buyout from foreign luxury discount stores and outlets. Thirdly is directly order from brands show event, e.g. launch event or Christmas promotion. Fourth is purchase small amount of "in season" goods from overseas chain stores with few discount. The first two ways are main resources of supply of goods for China's luxury web store, and basically are out of fashion goods. And the last two ways can totally match consumer's need of trends, even if it cost more than the previous two ways. And all kinds of supply of goods get benefit from area differential.

By comparing different China's luxury web stores, majorly there are two patterns to achieve supply of goods. First is applying the agent or franchiser to be authorized then co-operate with luxury brand owners. this pattern essentially guarantee the stable of supply of goods, however by taking the sells order in China and getting purchasing order from abroad would spend a long logistics process. Second is getting purchase order through overseas buyer, that would make the logistics process shorter and more flexible, but the problem is whole purchasing would be separated and unstable. Moreover, there is an order limitation for all kinds of overseas buying which the maximum buying amount should be less than ten pieces (Outlets may less than twenty). For this reason,

China's luxury web stores would have limited amount goods of selling and low goods similarity that would cause consumer a rush to purchase.

4. CASE STUDY AND ANALYSIS

4.1 VIPKU (<http://vipku.tmall.com/>)

VIPKU is a luxury online store focuses on Chinese luxury e-shopping life style. Company has a vision on serve a platform at luxury shopping experience and spread luxury culture to China's luxury buyer and trendy. Company has widely resources on supply of goods, it has established relationships with diversity of suppliers among Europe, North America, Australia, Japan and Korea, meanwhile keeps a stable co-operation with retailers and agents.

Based on a personal working reason, I have a chance to reach a contact with Mr. Hou, the CEO of VIPKU. By talking with him, I had a great chance to understand more about VIPKU and luxury online shopping industry.

4.1.1 Operation model

There is an operation chain of VIPKU purchasing process. By briefly talking, the process mainly is: sent company buyer to overseas to make purchase order → brand owners supply of goods → quality supervise department issues the CO(Certificate of Origin) → transport inbound → customs clearance in China → warehousing and checking → on shelf selling.

Looking at VIPKU's business process, there are two different customer groups. One is normal customer, they enroll as a member of VIPKU first, and then VIPKU services their orders online. The other group is VIP member, enable to become a VIP member, customer has to consume RMB100,000(approx. 10,000 Euros) at least. As a payback, VIPKU will offer a one-on-one service that focus on customer's personal dressing style.

4.1.2 Profit summary

There are four main revenue parts of company.

First is online turnover. With buyer purchasing, it can only takes a small order from overseas, however that leads a quick inventory movement also, VIPKU could keep a profitable cash flow from it. Meanwhile, company offers auction with a regular time. It not only attracts consumer's sight, also increases page view, which brings more PCT (per customer transaction) for company.

Second revenue is from abroad buying on customer's behalf. VIPKU offers two ways of buying on customer's behalf. One is high-class tailor made, such as serve VIP members by one-on-one method; the other is personal buying for unique requirement. Since more and more customers are willing to enjoy the feeling of distinctiveness, they do not care pay more on consumption, which brings a chance to VIPKU to earn the commission.

Third is service income. VIPKU has a small part of income on offering after sale service, such as replace accessories from bags and suitcases.

Last revenue is from co-operating with other businesses. For instance, VIPKU co-operate with SINA (www.sina.com.cn) and NET EASE (<http://www.163.com/>) web portals to promote for each other, which brings a win-win for both of them.

4.1.3 E-commerce index

There are couples of indexes that evaluate the performance of web store, such as the traffic, PCT, logistics indicator etc.

First look at the traffic, it means a page view of a website, used to describe how many users have browsed on web page. The traffic indexes a market share of web store in a sense. By estimating traffic, VIPKU offers some figures for my interest. By April, 2012, the unique visitors were 12,600, page views were 52,920, and page views per user were 4.2. Then turn to the PCT figure, by May 2012, VIPKU has RMB 3,300 (approx. 330 Euros) PCT, moreover, there were 20% return single rate of VIPKU at that time. Regarding to the logistics indicator,

VIPKU has a logistics branches in main China cities, the logistics can be reached anywhere in Beijing within 24 hours, and 3-5 days except Beijing. On the whole view of e-commerce, it cost most on logistics segment. Usually VIPKU co-operate with SF EXPRESS (<http://www.sf-express.com/cn/sc/>), the postage costs RMB 20- 100 (approx. 2-10 Euros), and plus 5% insurance price, that takes 10% profit from VIPKU.

4.2 SECOO (<http://www.secoo.com/>)

SECOO is a first luxury consignment platform in China, founded in 2008. Company has 500 thousand registered members among China, it's not only has a vision on an e-commerce web store, but also would like to build a platform for serving Chinese luxury buyers and users.

4.2.1 Operation model

SECOO has a simple model of operation, it only offer a platform for second-hand luxury goods trading, and take 10% commission from each transaction. But with business developing, company nowadays extends business rage into luxury evaluation service also.

Regarding to the operation model of SECOO, there are pros and cons of it. For the pros, it is the first business on second-hand online trading in China, which totally satisfies the needs of some low income customer to experience at luxury consumption. Moreover, as mentioned in previous chapter, there are amount of luxury goods treated as a gift. For somehow, some gift receivers do not have the needs of using luxury goods at moment, SECOO offers an opportunity for

those people to give the luxury away by selling off. Then for the cons, SECOO is only a trading platform at this time, it is not a qualified credit platform yet.

That cause a barrier for its luxury evaluation service, since e-commerce is still lack of trust during trade, consumer might hesitate at buying its service if it lack of any qualified credit at evaluation service.

On the matter of supply of goods, there are five resources: first is from some members' wardrobe, after the owner getting bored of some goods, the goods are enabling to be traded as second-hand items. Second is from some consumers' impulse buying behavior, they actually do not have needs on the goods, and then sell it off at SECOO platform. Third resource is from the giving away gifts. The previous three resources are from individual sellers, and the next two resources are from SECOO own. Fourth is from company's public procurement department, it has a global database to collect all different used goods. Fifth resource is from procurement department also, it has a duty to buy new orders from abroad also, and the brand new items take less than 10% of whole SECOO stock.

4.2.2 Profit summary

"Company made RMB 100 million (10 million Euros) turnover in 2011" says in Mr. Lee's blog, CEO of the SECOO. The most profit of SECOO is from the commission, company take 10% surcharge from every trading. Besides, company also earns benefit from goods evaluation and maintenance, which brings 10% profit for SECOO (<http://blog.sina.com.cn/u/1667502650>).

By a general view, SECOO does not make any profitable revenue at present. The reason for company's developing is because received amount of capital at initial financing from IDG investment in July 2011. (<http://www.eeo.com.cn/2011/0720/206597.shtml>). The main goal for SECOO at present is not chase profit, as instead, company will pay more attention on gain market share and consumer awareness.

4.3 Desired business Model

Here I apply the business model Canvas. The Canvas is a strategic management template for developing new or documenting existing business models. It is a visual chart with elements describing a firm's value proposition, infrastructure, customers, and finances.

With studying of business model Canvas and concerning about China's business environment, I fill this Canvas template out for luxury online shopping in China.

<u><i>Key Partners</i></u> <ul style="list-style-type: none"> ✓ Outlets ✓ Fashion media ✓ Logistics ✓ Insurance company ✓ VC 	<u><i>Key Activities</i></u> <ul style="list-style-type: none"> ✓ Relationships with supplier and logistics ✓ Safety online payment ✓ SNS operation 	<u><i>Value Propositions</i></u> <ul style="list-style-type: none"> ✓ Gentleman wardrobe ✓ Quick response ✓ Economical ✓ Customization ✓ Accessibility 	<u><i>Customer Relationships</i></u> <ul style="list-style-type: none"> ✓ Dedicated personal assistance ✓ Self-service ✓ SNS ✓ After service 	<u><i>Customer Segments</i></u> <ul style="list-style-type: none"> ✓ Men as core ✓ 25–30 year old ✓ Beijing, Shanghai, Guangzhou, Shenzhen
<u><i>Key Resources</i></u> <ul style="list-style-type: none"> ✓ Supply chain ✓ CR 			<u><i>Channels</i></u> <ul style="list-style-type: none"> ✓ Own promotional team ✓ Co-operate with logistics agent ✓ Feedback center 	
<u><i>Cost Structure</i></u> <ul style="list-style-type: none"> ✓ Fixed costs (purchase, payroll, etc.) ✓ Variable costs (web maintenance, stock depreciation, etc.) 		<u><i>Revenue Streams</i></u> <ul style="list-style-type: none"> ✓ Primary business ✓ Commission ✓ Co-work with portals ✓ Advertising 		

Referring to customer segment, my ideal business model is focus on men target group. This is because by previous study at chapter 2.6, there are 65.5% luxury online buyers are male. It does not mean the rest 34.5% female buying power is weak. However by thinking about business initial cash flow, I am afraid there is not enough capital on both male and female groups. Thus, I have to part the female group with whole target customers at this moment. Then, there is no doubt age 25-30 is the main force among online shoppers (table 9). Meanwhile, for the purpose of aiming at target customer accurately, I picked up four main big cities in China which are Beijing, Shanghai, Guangzhou and Shenzhen. The reason is those cities' consumers have most characteristics of fashionable, well-educated and strong consuming ability.

Then concerning the value proposition, it is the corporation value that passes to customers. Due to it is a man-focus business model, I prefer to give a Gentleman Wardrobe image to every male buyer or his wife/ girlfriend. Men are willing to get an experience of unique, moreover there is a customization service, so I just offer a special shopping place for male that enable to experience. The second value proposition is I would like to serve a quick response on trends that tries to fulfill customer's needs. And also I declare saving money is one of the key factors for online shopping, customers will have an economical shopping experience through my web store. Last, online shopping seems unrealistic, there is no such feeling like shopping at solid stores. Then I would like to provide an accessibility feeling by giving more online personal assistance.

Regarding to customer relationship, there are four issues should be thought, which are dedicated personal assistance, self-service, SNS and after service. Among those issues, I would like to pay more attention on SNS. In chapter 2.4, there mentioned one luxury online shopping group named "fashion fanatic", this group of customer is the main force to publish feedbacks and experiences on SNS. For some reason, the speeches of fashion fanatic are becoming more and more vital as a role of opinion leader. That should take a serious consideration by sellers, it is not only a feedback of goods or service, and also it is a potential marketing opportunity to understand what customer internal need.

Then for the channels, first there is an obvious requirement of an own promotional team to spread own company image out, the methods could be any of the personal selling, advertising, sell promotion or public relationship. Simultaneously, it is urgent to set up logistics channel, the best way at initial stage is outsourcing. Feedback center as a channel in between company own and customers has a significant meaning. It will keep company fresh from different opinions of customer.

On the matter of key partners, there are five partners should work with. First is outlets, it keeps a steady resource of supply of goods. Second is fashion media, for the sake of business promotion, company would gain market awareness with the help of medias, especially the relevant fashion medias. Third is logistics as talked above, under a harmony relationships with logistics agent, business would move forward quickly. Fourth is insurance company. In case of any goods damage or transport delay, company have to think about the risk management. Last but not least, the VC is lifeblood because business is not able to get start without any investment from VC.

Then about the key activities and key resources, safety online payment is a factor should take into account, as mentioned in the legal environment (3.1.3), China's online trading is imperfect yet, which one of risks is user's data leakage, which would cause personal privacy and property under violated by cyber criminals. Also there are some other activities and resources to think over, for example relationships with supplier and logistics, SNS operation, supply chain management and customer relationships.

As to the cost structure, there are two main costs I am able to figure out at present. Fixed costs contain purchasing and procurement, for instance purchase goods from outlets abroad, outsource from logistics agent. Meanwhile, the payroll payment is also a basic part of fixed cost. Moreover, tax paying, advertising are also take costs. On the other hand, the variable cost has many unstable reasons to take money out of company account, such as maintenance of web store, goods depreciation, business travel, fines etc.

For the revenue streams, primary business comes first, and then by earning commission from customer who has specific preference also brings benefit. In addition to this, co-operate with portals would give a win-win for both sides. Advertising as a sponsorship is not a bad idea at business initial stage.

5. CONCLUSION

By means of studying and researching China's luxury online shopping, there are some advantages and disadvantages I would like to summarize.

As an advantage, there mainly are four points. Firstly, luxury online shopping provides a convenient new shopping style for customer, with the help of fast logistics express, customer is able to enjoy a non-move shopping experience at home. Secondly, it is an economical style to shop online. It is a major reason for luxury consumer to shop online, meanwhile it is the competitive advantage for web store to promote itself. Also the shopping online offers transparent prices on internet, that easier customer to compare different sellers before buying. Thirdly, luxury online shopping satisfies the need of China's growing economy. With developing among globalization, Chinese gain more buying power than past, there is a huge internal need to spend on leisure and entertainment. Most of people choose to buy luxury goods as a self-reward, online shopping just perfectly matches those group of customer that willing to buy but without shopping time. Fourthly, China's luxury online shopping has a weak competition. Since there is no such many local luxury brands in China, international brands seems to be the only choice of customer. However, the luxury goods at China's franchise stores are much more expensive than other countries because of taxes and dues. That gives a great development opportunity for luxury online shopping in China.

On the other hand, there are four disadvantages.

Firstly, lack of supply of goods has become a bottleneck of luxury online shopping. Since most of brand owners do not have any authorization, thus the overseas outlets seem an only solution for web stores to get order. However there is still a limitation on buying quantity from outlets and customs. And also some web stores try to get order from abroad trading companies, but those goods are too out of fashion to satisfy customer. Based on that factor, some of customers are more willing to buy various in vogue luxury goods at Hong Kong nowadays.

Secondly, shopping online is still short of trading security. Especially for luxury online shopping, based on goods specific features, it cost more than a normal product. Online shoppers are not able to check goods quality through images on web page, that cause worries for some customers. As an instead, they prefer to go shopping at solid stores for the purpose of feel relieved. Meanwhile, personal information leakage also troubles online customer, the leakage is easily exposes buyer's data under risky environment. In addition, safety of logistics is also a problem. The logistics industry is lack of efficient supervision, some logistics agents are not care to take responsibility for its mistake, that cause some deliveries damage or missing.

Thirdly, most luxury online shopping cannot provide outstanding after service. The reason why a luxury is premium is not just because of high quality, but also due to its high-standard service system especially on after sell service. In online shopping case, if customers willing to ask an after service, it is customer's own cost to pay the postage. Furthermore, most of luxury online shops are under protest to do after service, it because the online shops feel anxious if customer send a fake goods back, then the web store itself is under an argument or even lawsuit.

Fourthly, online shopping is lack of interaction and experience. Like mentioned above, luxury goods offers a premium service system. While shopping at solid shops, usually there is a warm service provided by seller, for instance a one-on-one shopping guide or a glass of champagne. Back to the luxury online shopping experience, seller only presents goods by pictures. Moreover, there are some certain goods have to be experienced by first-hand, for example the cosmetics and perfume.

In the meantime, in view of China's luxury online shopping situation, strengths and weaknesses, there are some suggestions I would like to propose.

China's luxury online shopping is still at initial developing stage. On the one hand, there is still a group of people not able to afford luxury consumption; on the other hand, there is lack of confidence for those people who has buying

power to shop online. Based on those reasons, in my opinion there are two suggestions.

Firstly, set up diversity strategies for different users. There are more than 80% luxury online shoppers earn less than RMB 10,000 (approx. 1,000 Euros) monthly, they are mainly young customers between 25-30 years old, this kind of young customers have strong need on fashion. Regarding to this type of customer, the web store should better lean on fashion style. Web store could sell 2nd or 3rd line brands to fit customer's need. In return, web store is able to gain on the scale of users. On the other hand, most of luxury online shoppers spend RMB 2,000- 5,000 (approx. 200- 500 Euros) every time, and nearly 70% demand is for self using (table 10). That seems more and more Chinese luxury consumers have developed a habit on online shopping. By concerning this factor, web store could sell top line brands to that type of consumer. As a consequence, that would increase reputation and premium suppliers of web store at long range operation.

Secondly, it is urgent for web store to focus on image building. Word of mouth is the best way to promote business, which is the reason why build a positive image is such necessarily. In my opinion, fast delivery, goods quality guarantee and accurate marketing could be the ideas for building image.

As a sum up, there are various luxury online shopping models in China currently, and the variety provides more options for customer. But for a long range development, web store is supposed to standardize itself, and improve the operating details by itself. Only in this way, luxury web store could fulfill the needs of online shopping development.

6. DISCUSSION

Through the whole study and research process, I am able to gain valuable knowledge and experience. The gains could be summarized as four aspects.

Firstly, I learned the method to control a study and research in an academic way. At the initial planning of this study and research, it had much wider structure. It seems every different kinds of information are related to this topic, and I was just eager to collect them all. However, I was aware it is not always a good idea to keep all various data into one report. That is because sometime too many means no specialty. Based on that awareness, I tried to narrow the data down into few valuable resources, and helped me to finish this study and research clearly.

Secondly, the study and research methodology teaches me a lesson on how to finish a job scientifically. This study and research applied desktop and observation research methods. Those methods greatly give me a guidance on accomplish this report. In addition, there is no doubt I will receive benefit from this methodology in future work life.

Thirdly, by working on this topic, I gained knowledge on China's luxury online shopping. With that achievement, I would have a lot of priority experiences if work in that field in future.

Last but not least, I examined own self-study ability. By working on this study and research, I learned much brand new knowledge through reading books or browsing on internet. I am satisfied with the result that gains knowledge than ever. Moreover, I realize that attitude is the most vital factor through whole working process. I would like to say, the attitude is much more important than the working method.

I hereby would like to appreciate this study and research opportunity. It not only helps me to finish school work, but also experiences myself a memorable lesson.

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