Research on marketing strategy of fashion shopping platform Farfetch in Chinese market

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ABSTRACT: As disclosed by various business reports, Farfetch’s strengths in gaining market share and consumer insights have yielded great revenues and Gross Merchandise Volume in the Chinese market. This study has discussed the significance of Farfetch’s marketing strategies and business strategies and how those strategies fit into the current Chinese market by analysing a combination of business reports, interview scripts, and news. The study's significance lies in its ability to provide insight into how premium luxury brands and Western e-commerce platforms may win the Chinese market. With evaluations of the current market environment and Chinese consumers’ needs, this study has examined the reasons behind Farfetch’s success. The study suggests that Farfetch’s consumer-centric strategies could be employed by other brands to build awareness and to build a loyal customer base. Beyond that, the company’s business-to-business strategies and their alliance with Alibaba and Richemont have a significant impact on both Farfetch and luxury brands.

1. INTRODUCTION

In 2007, Jose Neves founded Farfetch, a unicorn business, and the company has had quick success ever since its start and subsequently decided to go public with an Initial Public Offering (IPO) for $5.8 billion [1]. Farfetch operates on a marketplace business strategy, whose main takeaway is to develop agreements with small boutiques and to provide them with an online world in which they can sell their wares. Being a purpose-driven company, Farfetch focuses on human aspects and storytelling. According to Stephanie Phair, chief consumer officer of Farfetch, the company “bring[s] together small companies who have a great curated assortment and should be given a broad audience,” and succeeds by focusing on its core values. The company notices the change in consumers’ minds, that they now care more about authentic communication, so it brings not only quality products, but also meanings to consumers’ wardrobes [2]. Additionally, the company gains its inventory from a vast range of boutiques around the world as well as its effective technology and logistics infrastructures. Moving along the trend of digitalization of luxury shopping, Farfetch’s partnerships with Alibaba and Richemont have great meanings for its expansion in China and surge in local e-commerce platforms, such as Tmall Luxury Pavilion.

Chinese high demand for luxury products and their online shopping behaviours lead to the rise of luxury shopping platforms. According to the Boston Consulting Group (BCG) Luxury Market Model, China’s luxury market exceeded €110 billion in 2018, with a steady increase of 6% each year [3]. Among all the purchases for luxury, 12% of them are made online, 35% of online purchases are made on e-commerce platforms (including Taobao, Tmall, JD) and 32% of online purchases are made on multi-brand platforms (including Farfetch, Shopbop) [3]. Though noticing the trends of online purchasing and the rising demands from younger, digital-first consumers, many brands have limited insights into the e-commerce ecosystem. They tend to copy the in-store product management model and have difficulties identifying target consumers’ changing needs and preferences. Meanwhile, e-commerce platforms, especially local ones like Tmall, can utilize their big data analytic tools and logistics to discover consumers’ rational and emotional purchasing factors, and thus they win out by adapting quickly to online consumers’ preferences.

Tmall benefited from the trend that luxury consumers now tend to buy products across a broader range of categories and brands. According to BCG’s 2019 survey, consumers bought across 7.7 subcategories on average per year, and most of them bought luxury products from 9 or more subcategories; however, under one brand per order, an average consumer only bought in 1.1 subcategories [4]. Understanding consumers’ needs and optimizing their assortments, Tmall gained more revenues because they introduced more brands and enabled cross-buying while ensuring pre- and post-shopping experiences. Also, many luxury buyers in China prefer content channels, in which they can gain a deeper understanding of the products before purchasing them. Based on that, Tmall offers a variety of content
channels to engage with potential consumers, and content channels have generated a 200% increase in GMV each year [4]. Among all the content channels it offers, live streaming has generated a 258% increase in GMV each year, taking about 90% of total GMV from all content channels [4]. The successful implementation of content channels gains enormous revenues for Tmall and attracts more luxury brands to enter the platform.

The success of horizontal e-commerce makes others see the opportunity, and many smaller, vertical e-commerce start-ups entered the market, but only a few of them could survive in this competitive environment. Secoo, which was once the largest e-commerce platform in China (by GMV) and the first Chinese e-commerce business to enter NASDAQ in 2017, fell into a severe crisis and went into a downturn due to the fierce competition in the Chinese market in 2022 [5]. Yoho, a Chinese streetwear conglomerate that reached ¥3 billion in revenue in 2018, also faced a financial crisis and more than 30 civil lawsuits in 2021 [6]. With more brands opening their self-run flagship stores in Tmall, the looser tariff restrictions in China, and cheaper prices offered in Hainan duty-free stores, those e-commerce platforms lost their advantages and failed.

Nevertheless, some vertical platforms stood out and continued to thrive. Noticing the difficulties, Dewu, formerly known as Poizon, shifted its focus to promoting more Chinese independent designer brands. The company is also aware of the growing social purchasing trend among its consumers. Not only did they put efforts into social marketing, but also opened up content channels in their app to create a sense of community among users. Furthermore, Net-A-Porter (owned by Richemont), which is a leading e-commerce player that has grown primarily in the Western market, sought the opportunity in China and gained success through a strategic partnership with a local leading e-commerce platform, Tmall. The company launched on Tmall in September 2019, with Alibaba providing resources and expertise in marketing, payments, and technology infrastructure [7].

Seeing the success of Net-A-Porter as well as Tmall’s prevalence, Farfetch joined this joint venture partnership and gained success not only on Tmall’s platform but also on the self-run app and official site [7]. Prior to that, the company built a partnership with JD in 2017 but shut down its JD store in 2020 [7]. Its marketplace business model helped it balance inventory, services, and localization. In addition, the company put efforts into social marketing and unique content creations across its app, WeChat mini-programs, and other social media touchpoints. Its years of observation of Chinese customer journey and expertise in local communication also empowers its brand partners to gain new customer acquisition on a complete suite of business-to-business (B2B) digital services.

2. LITERATURE REVIEW

The prevalence of the digital culture lets many retailers, including luxury brands, see the lucrative opportunity in the e-commerce industry. With the convenience provided on the internet, consumers are more addicted to and more used to online shopping. Therefore, many scholars have conducted research about digital marketing and how brands can utilize the advantages of online marketing. In An Empirical Analysis of Category Extension in the Online Luxury Fashion Market, researchers conducted quantitative research on brands in the e-commerce market and showed that even in an online environment, brands’ sales are still largely dependent on a range of value-added services, which is a key driver of sales growth in physical luxury stores [8]. Through surveys and data analysis, Korean scholars Park and Rhee showed luxury brands’ effective utilization of digital marketing strategies can enhance their brand images, and the connection between online and offline channels and usage of AI could largely boost sales [9].

As Harba discussed in his study, global technological enhancements have led to benefits for both luxury retailers and consumers, for technologies bring consumers better experiences and enable retailers to gain and retain customers at a lower cost; however, negative effects, such as the loss of human interaction and communication might be a key issue for retailers to consider in the future [10]. Such concerns are well recognized by many luxury brands, and brands are focusing on both physical interactions and online experiences, building an omnichannel for their consumers.

With the ongoing trend of digitalization, there is a great need for brands to develop omnichannel and to provide consumers with seamless online-to-offline (O2O) experiences. Based on that, Almeida researched the compatibility of e-commerce and luxury and used the case of Farfetch to prove how brands can improve their omnichannel experience utilizing Farfetch’s advantages [11].

Farfetch succeeds in the industry not only because its platform provides great help in building omnichannel for its luxury partners. The prevalence of digital marketing makes many luxury brands open their direct-to-consumer (DTC), brand-run online stores. With such direct challenges, Lojacono and Misani analyzed how Farfetch’s business model and strategies (including new business acquisitions) overcome their present market challenges, and they concluded that Farfetch’s marketplace business model and their media services mark the company’s success and survival in the competitive industry [12]. Scholars Balasanyan and Casais conducted a case study on Farfetch and it showed that the company keeps the luxury characteristic of exclusivity because it provides related pre-and after-sales services as well as great web design [2]. Abbafati analyzed how the business model of Farfetch led to its success in the digital world through both its business-to-consumer (B2C) and business-to-business (B2B) strategies [13]. Also, the company quickly adapted to the changing consumers’ mindset and the “phygital” environment made the business profitable [13]. According to the study conducted by Rosa, Farfetch as a marketplace platform internationalizes many Brazilian luxury brands and there is a great need for those local premium brands to plan an
online channel, in which consumers from other countries can reach the brand through the internet [14]. The embrace of the digital era brought both Farfetch and local brands unlimited opportunities.

China is a great market for luxury with a huge market share in the e-commerce market. Seeing China’s rapid development in e-commerce in recent years, China’s e-commerce environment is another key focus of this paper and is a worthy-concerned topic for other researchers. Wang and Fang showcased the complexity of China’s online social environment and the improvement in e-commerce platforms, which gradually developed their social content channels within platforms [15]. The emergence of more and more subchannels and mini-programs may confuse luxury brands entering the Chinese digital market and brands must clarify the differences between each channel in order to reach out to their target audiences. Noticing the motivational behaviors of Chinese e-commerce luxury buyers, Yuyang Li proposed e-commerce marketing strategies from four facets – product, price, service, and process – and emphasized the importance of customer services and using big data to deliver tailored and unique shopping processes [16].

The above studies and researches help the audience to understand the situation and the trend of e-commerce and how effective digital marketing strategies help luxury brands succeed. Those studies also highlight the importance of digital marketing in China e-commerce markets. Online luxury platforms, like Farfetch, have gained a lot of popularity and profits in Western countries, but few pieces of research focus on their situations in China. Therefore, the purpose of this study is to give an overview of China’s digital environment and how Farfetch succeeds in the competitive market. The importance of the study is to provide insights into winning the Chinese market for luxury brands and Western e-commerce platforms. Furthermore, researchers will have a good knowledge of how to improve the existing scenario of Chinese luxury e-commerce by examining what Farfetch has done.

3. DISCUSSION

3.1. Trending toward Digital Marketing

It is crucial for companies to focus on digital marketing, not only to create brand image or awareness but to establish meaningful interactions and bonds with their target consumers as well. Prior to the COVID-19 pandemic, China had more than 855 million active users on social media, and they spent an average of 6 hours on mobile activities, doubling the average time spent by U.S. digital consumers [17]. Both the active user base and average time spent increased significantly during the pandemic due to strict lockdown policies. Though this leads to the further prevalence of large social media platforms, this presents more difficulties for brands to deliver the right content to the right target group because of the rapid emergence of mini-apps and subchannels. Nevertheless, Farfetch has gained more user acquisitions through effective digital marketing strategies under this even more complex situation.

To achieve deep market penetration and to develop users’ stickiness, Farfetch tries to localize itself and puts efforts into content innovations and consumer engagement. The company develops specific content strategies for each different social platform, delivering different content feeds on WeChat, Douyin, Red, Tmall, and its own app [18]. For its Tmall store debut, Farfetch invited young-generation celebrities, Layena Song and Fei Qiming, as spokespersons for its opening campaign [18]. Its rebranding campaign, on the other hand, invited Angelababy, one of the first-tier female celebrities in China [18]. Other than traditional celebrities, the company also marks the importance of Internet influencers’ content. The BCG report claims that, among all kinds of social content, Key opinion leaders (KOLs) recommendation accounts for getting 14% of attention and traffic [3]. Given the rising usage of social media platforms – predominantly Red and Douyin – and the importance of China’s “fan economy,” Farfetch invited many KOLs and key opinion consumers (KOCs) to try its service and share comments or recommendations online.

Along with its usage of social celebrity marketing, Farfetch utilizes social features provided by WeChat and Tmall. The company uses WeChat mini program features and its official account to build a complete, one-step consumer journey. Through WeChat, it can deliver all kinds of digital marketing content – including advertising campaigns, promotions, new product launches, personalization, AR/VR tools and etc. – and open up its self-run website, in which consumers can shop and checkout seamlessly as Farfetch can send information about payment, orders, delivery, and returns directly to each consumer. Its partnership with Tmall enables it to acquire more leads from Tmall, including building its own private domain on the site and connecting consumers with its official website and app.

Through these steps, Farfetch is able to attract traffic to its app. Successfully and gradually developing consumers’ interests in the company-owned app’s content channel, Farfetch eventually wins out the competition by building a stronger brand image and utilizing first-hand consumer data to adapt to the fast-changing, dynamic environment and make relevant changes.

3.2. Improving customer experience

As Gen Z is becoming the fastest-growing consumer segment in China, it is very important to understand their needs to make them loyal to a specific platform or brand. 47% of Gen Z consumers in China said that they will stick with the brand they like, so many brands leverage customer relationships and improve consumers’ shopping experiences to improve brand loyalty and consumer stickiness [19]. Being aware of the importance of value-added services, Farfetch fosters brand loyalty through a series of efforts to improve customer services and localization.
Effective localization is important for a Western business to succeed in the Chinese market. Farfetch constructs a localized website and application with Chinese translations and shopping instructions. Meanwhile, it offers different payment options including not only UnionPay credit cards but also mobile payments (WeChat Pay and Alipay) and mobile credit payments (Ant Credit Pay). By 2020, China already had over 800 million users for mobile payments and accounted for about 30% of the global FinTech market, with WeChat Pay and Alipay being the two biggest mobile payment platforms [20]. In addition to adopting local mobile payment methods features, Farfetch also hosted features that are popular in China, such as the live-chat function. Since Chinese consumers have a growing demand for diversified services, the live-chat function serves not only as a guide for sizing or an after-sales counter but as an advisor for fashion tips as well. Such a feature is aligned with consumers’ needs for personalization and their top 3 demands in value-added experiences – pre-and after-sales benefits and fashion tips [4]. Incorporating localized features in its Chinese version website and app, Farfetch stands out and meets consumer expectations and demands.

Besides, Farfetch has built a strategic customer relationship management using its “ACCESS” program, which provides different benefits and experiences for consumers of different ranks and tiers. Defined by BCG, Chinese Absolute Luxuriers, who account for 4% of luxury consumers and have an average of €40.4 thousand spent on luxury products annually, value exclusivity and customization [3]. Knowing that those people contributed the most to Farfetch’s sales, the company classifies top-tier consumers as Private Clients and provides them with premium personalized services and exclusive experiences, delivering special content and hosting events for them. Its exclusive content channels for Private Clients include a separate, dedicated official WeChat account, mini-program, Personal Stylist, and newsletter [18]. Above that, according to Alexis Bonhomme, Farfetch’s Vice President of Commercial in Greater China and APAC, the company also “offer[s] exclusive and premium experiences, such as exclusive visits to the Dior Shanghai exhibition, Private Client dinners in Chengdu, Master Classes in Beijing, etc. [18]” By inviting Private Clients to curated events and generating highly customized contents for them, the company creates high involvement among its most important target customers, creating a quality loyal customer base.

In addition to maintaining relationships with current Private Clients, Farfetch also uses O2O experiences to engage with other consumers and to attract more potential consumers. Partnering with Swire Properties, the owner of high-end shopping malls like Taikoo Li and Taikoo Hui, the company has hosted Farfetch Community Gallery in Shanghai, Beijing, and Chengdu to bring physical, personal, and cultural engagement with fashion-forward people [21]. Through the curated gallery event, Farfetch builds a strong sense of fashion community for its target audience and satisfies consumers’ need for physical interactions in the post-pandemic era. Its partnership with Swire Properties allows the two companies to share their consumer base and combines their current resources in an economic way.

Though most e-commerce platforms have some value-added services that enhance consumer experiences to an extent, Farfetch differentiates itself from others by highly localized features and its special offline experiences. While digital experiences account for the most contribution in consumer acquisition, offline personal touchpoints are key for success since humans are highly socialized and communal.

3.3. Acquiring Market share

JD, which has grown from its strong consumer electronics segment, invested $397 million in Farfetch and claimed its entry into the luxury e-commerce battleground [7]. Utilizing JD’s mature technology and logistics solutions, Farfetch ought to build its brand awareness and market presence. Following the partnership, JD launched its luxury shopping platform, Toplife, but failure in acquiring loyal luxury consumers made JD sell the platform to Farfetch for $50 million in 2019 [7]. However, the strategic partnership, Toplife’s merging with Farfetch China, and the opening of Farfetch’s JD flagship store did not bring lucrative success to the company.

After closing the company’s JD flagship store, Farfetch opened up its flagship on Tmall Luxury Pavilion, which is a luxury platform that gives brands comprehensive flexibility to manage their online store homepages and brand images. According to Bain’s 2020 report, Tmall is a rapidly growing platform that led an online growth at a year-to-date rate of 120% in the category of luxury fashion, and Tmall was expected to have a year-to-year growth rate of 130% to 140% [22]. Farfetch’s storefront on Tmall is not only another sale channel, but a channel to build brand awareness, acquire potential consumers, and improve brand equity. Farfetch can be able to leverage the platform’s about 800 million user base and enjoy the advantages provided by the platform [7]. Tmall has designed many unique features – like live streaming, AR/VR tools, social content channels, etc. – to enhance shopping experiences and increase sales. Besides, its parent company, Alibaba, has big data assets and analytic abilities that help brands analyze consumer behaviors (both rational and emotional) as well as identify potential business opportunities. Effectively using the benefits and advantages of Tmall, Farfetch is able to recruit new users. Along with that, Farfetch has a permanent premium banner on the homepage of Tmall Luxury Pavilion and is one of the navigation buttons on the homepage. Its prominence can gain more traffic and more user conversion.

Apart from that, Farfetch also acquired more users by offering buy-now-pay-later (BNPL) solutions for its younger, less economically-independent users. It allows users to use Ant Credit Pay, which helps Farfetch to gain more consumers, especially gen z, as the credit pay alleviates consumers’ financial pressure at check out. Luxury players and Luxury e-commerce players usually
neglect the importance of BNPL, for their target usually does not converge with users of BNPL apps. In the fierce, competitive environment, not gaining new users can lead to enormous business failures. For example, Neiman Marcus has filed bankruptcy during the pandemic, and the cause is believed to be a failure in new consumer acquisition [23]. According to CB Insights, 39% of users of BNPL use it to avoid credit card interest payments and 38% of users use it to afford purchases that do not fit in their budgets [23]. By incorporating Ant Credit Pay in check-out, Farfetch can gain new users who are not typical luxury buyers with no additional marketing costs, since such costs are covered by Ant Credit Pay already.

3.4. Opening B2B Services

As mentioned before, digital marketing is the key for brands to succeed in China; however, the dynamic, rapid-changing digital e-commerce environment poses strong challenges for Western brands to gain quality traffic and to find useful channels for content delivery. Discerning this new business opportunity with the understanding of brand partners’ needs, Farfetch opened its B2B services for luxury brands to provide media solutions.

To gain more insights about Chinese consumers and explore more possibilities for social marketing, Farfetch acquired Curiosity China, a technology firm sophisticated at increasing brand exposure and image building across social media platforms, in July 2018 [24]. Serving more than 80 brands, Curiosity China is experienced in helping brands to acquire Chinese market share and expand in the competitive market through their social CRM skills [24]. This acquisition has attracted many of Farfetch’s luxury brand partners, for they are now able to use logistics from both Farfetch and Curiosity China to develop seamless social experiences as well as an omnichannel.

In 2020, Farfetch joined the alliance with Alibaba and Richemont, closing its flagship store in JD. This alliance is called Luxury New Retail (LNR), with a focus to lead the digitalization of the overseas luxury industry [25]. Alibaba and Richemont each invest $300 million in Farfetch and $250 million in Farfetch China, the new joint venture, owning 25% of Farfetch’s Chinese entity respectively [25]. Besides that, François-Henri Pinault also joined LNR by owning its stake in Farfetch [7]. The alliance empowers Farfetch to further enhance its B2B media services and widen the scope of work. Its focus on the leverages of “state-of-the-art” omnichannel retail technologies had great indications for brands to develop their e-commerce strategies in China.

By offering helps with commercial, content creation, marketing, and resources of private clients, Farfetch meets luxury brands’ demands for an integrated, full suite of media services. With Farfetch's front-end media solutions, luxury brands can have access and capabilities to the client base of Farfetch Marketplace, as well as the ability to run their brand-owned websites, apps, and WeChat mini-programs, launching campaigns and contents directly to target luxury buyers [7]. Furthermore, Farfetch’s back-end infrastructure enables brands to synchronize their websites with online and offline inventory and to provide complete after-sales services [7]. Through cross-functional collaborative partnerships, brands can achieve omnichannel synergy and form end-to-end customer journeys.

The quality service provided by Farfetch and its alliance partners attracted brands from all categories – including Burberry, Moet Hennessey, Porsche, Audemars Piguet, etc. – and creates new revenue streams for the company [26]. In 2020, Farfetch had a 48.9% increase in GMV and a 63.6% year-to-year increase in its adjusted revenue [7]. Such substantial growth was driven by its media services, whose revenue was up 47.3% [7]. The growth highlights brands’ recognition of the importance of optimizing digital operations through a consumer-centric approach to succeeding in the Chinese market.

4. CONCLUSION

As many brands and companies notice the importance of digital marketing, Farfetch makes great use of cross-channel digital marketing strategies and utilizes the advantages of each social platform. Along with its distribution channels, the company generated different content for each different channel to attract potential customers. Its localization in both content channels and app/website designs provides convenience to Chinese consumers. Though being an online platform, it is equally important for the company to deliver good offline experiences. Discernment to Luxury consumers’ needs for value-added services as well as experiences, the company keeps improving on its both exclusive and public offline offerings in order to retain and gain loyal customers. Few studies have noticed the importance of some subtle acts – like adding the BNPL payment method and opening Farfetch’s Tmall storefront – and the study has shown those actions can help the company acquire more customers in an economic way. In addition to consumer and market acquisition, the company’s acquisition of Curiosity China and alliance with LNR have provided unlimited, lucrative opportunities as it can provide media services for luxury brands. The combination of these steps has led to Farfetch’s success in the present state. Quick adaptation to the fast-changing market and seeking new business opportunities is the key for Western companies to succeed in the complex Chinese online market. Acquiring data or having in-depth interviews with people at supervision levels could provide further insights for future studies. Besides, the trend in the digital world and online marketing is quickly evolving, and it is important for future researchers to build upon the current study and uncover deeper reasons or strategies that keep pace with the competitive environment.

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