A Scenario Analysis of Furniture Industry
in Chongqing Area

Relatore
Prof. Lucio Lamberti

Correlatore
Weiyu Wang

Candidato
Peijian Yu
Matr. 814304

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Abstract

This dissertation investigated the furniture industry in Chongqing area to understand its market situations and to provide advisory opinions for foreign furniture merchants, especially for Italian brands. Chinese real estate industry stimulated Chongqing’s furniture market. Currently, it has developed into an intensely competitive market with large growth potential.

In Chongqing, the main distribution and retail channel is the big furniture store, there are three most influential stores regarding high-end imported furniture market. Italian furniture is mostly appreciated by the design and quality; however, the price is too high to be diffusely accepted. Imported furniture products possess problems such as waiting time, price positioning, and style preferences.

Chongqing furniture market is developing towards globalization, and expanding the middle- and high-end market; meanwhile, this market has started the trial of e-commerce. Italian furniture merchants could progress further in furniture market of Chongqing area by paying more attention to the steps of localization, market communication, e-commerce, and authentication and post-service.

Keywords: furniture industry, Chongqing, scenario analysis, decoration
1 Introduction

1.1 Problem Statement

1.1.1 Booming Chinese furniture market

From the last 80s, the traditional furniture big exporters such as Italy, Germany, America was decreasing in furniture manufacturing and exporting, and the furniture manufacturing was transferring to other countries that have lower labor costs and are closer to the place of consumption. In this case, China is becoming one of the centers of furniture manufacturing.

Since China opened the commercial residence market, China’s furnishing industry multiplied both the enterprise quantity and the output. With the rapid living standard improvement and the residence construction development, furniture, as one of the mass consumer products has an enormous market volume, and the average profit of furniture business is above the social level. Therefore, the furniture industry has achieved great capital injection and scale expansion. According to the survey of China National Furniture Association, this furniture business broke through 100 billion RMB in 1999, and the gross output reached 300 billion RMB in 2006. The explosive growth of real estate market from 2007 activated much more demands from the furniture market. However, China’s average expenditure on furniture is less than 100 RMB (60-70 RMB), far behind the world average level. Developing economic entities such as Brazil, the Philippines, and Thailand have an average of 25 to 27 USD, China is only one-third of it; as to the developed country Germany, the average is 371 USD, China is far behind that.

Wu (2008, p. 1) found that there are 120 million families in the cities with residence area of 2 billion square meters, and 10% of these families demand decoration and furniture

Peijian Yu 814304
every year. The furniture business in future would grow with a speed of 10%-15% by year. From a market perspective, China’s furniture business stayed increasing above 12% every year since 1998. Meanwhile, it is facing internal and external competitive pressure. Internally, China’s production capacity of furniture has surpassed the market absorption; externally, countries from Association of Southeast Asian Nations (ASEAN) are entering into rivalry over mid-and low-end furniture market share, and European countries are seizing the high-end part.

The big consumption potential of Chinese furniture market is attracting foreign capitals to invest in China. According to the International Monetary Fund, China has made up 16.48% of the world's purchasing power adjusted GDP equivalent to 17.632 trillion USD, it has overtaken the US to become the world's largest economy (IMF, 2014) in perspective of purchasing power. Hong Kong has established over 200 furniture factories in mainland China, Taiwan has established over 500 furniture factories (Qi, 2007); the Big Three of American office furniture industry, Haworth, Herman Miller, and HNI Corporation entered Shanghai; some Italian firms regarding manufacturing, retail, and designing; a painting company was acquired by Valspar with an equity of 80%.

1.1.2 Fierce competition in Chongqing; imported market underdevelopment

Chongqing, as one of the most critical cities in the western China, has achieved huge economic advancements. In 2014, its GDP was 1278.33 billion, and the growth speed is averagely 2% to 3% faster than the national economy. Chongqing’s home furniture business largely advanced in last two decades along with the national real estate boosting. A lot like other industries, the domestically produced products are undergoing intense competition.
The pure imported furniture takes the high-end portion of this business, and in this part, Italian furnishing products have the dominant position. However, the market for pure imported furnishing products takes fewer markets share in the furniture business of Chongqing, consumers usually turn to other domestic options, even though they understand and appreciate Italian furnishing products.

1.2 Purpose of the Project

The rapid development of Chinese real estate industry stimulated the home furniture business, and the furniture market has grown into a highly advanced market with intense competition. Attracted by the high profitability in China, a large number of related foreign capitals has invested and established corresponding market share. Chongqing, as one of the crucial cities in the western China, the home furniture industry is also profitable and highly competitive. However, the market is dominated by domestically produced products; the foreign brands have less market share and influential power.

At perspective of foreign products, Italian furniture takes the primary role regarding the main furniture products. This report collected related development conditions of China and Chongqing, and analyzed the furniture market of Chongqing, providing the general comprehension of this market, finding some existing problems of foreign brands, offering some practical suggestions for foreign capitals, especially for Italian investors.
1.3 Literature Review

1.3.1 The evolution of Chinese furniture industry

Zhang (2001) introduced the furniture history from the Opium War (1940) to the end of the nineteenth century, and the characteristics of furniture industry after the founding of new China (1949). The foreign capitals entered China since the First Opium War. The Chinese economy was stopped by some political activities from the 60s to 70s; from 80s, furniture business started to recover and began to communicate with foreign developed countries, the importing of advanced furnishing products and the low labor cost in China stimulated the advancement of Chinese furniture industry.

Tian, Chen, and Zhang (2004) analyzed the development progress of furniture industry from 1949 to 2000. They considered that Chinese furniture industry developed very fast, but in a tortuous way. Lu, Zhang, and Qu (2002) indicated that the appearance of modern crafts and equipment raised the product efficiency.

1.3.2 The cluster districts of furniture market

According to the statement of Wang (2011), there were five districts of furniture manufacturing in China, South China, East China, North China, Northeast China, and West China. The products from these five districts were selling to different cities and countries. Liu and Luo (2011) analyzed the furniture cluster in Sichuan and stated that the complete “cluster value chain” could be formed by Chengdu furniture industrial zones and panel furniture industrial base. The core of clusters was the enterprises; the enterprises should invest in upstream, the product research and development and the design, and in the downstream, the marketing.
1.3.3 The furniture manufacturing

At perspective of raw materials, Zhang (2001) stated that the raw materials of Chinese furniture were wood-related, the main materials were from the logs and the wood-based panel. According to a survey concerning furniture materials conducted by Yang (2001), the material selection depended on various specialization. For office furniture, the materials were mostly wood-based panel; for the living room, the materials were based on glass, leather, and plastics. The wood-based panel took the highest percentage in wood-related furniture market, and the log consumption decreased.

On the side of manufacturing techniques, Zhang (2001) indicated that after the reform and opening policy, Chinese furniture corporations started importing advanced machinery and manufacturing techniques from developed countries such as Germany, Italy, and Japan. However, in that period, these corporations only focused on direct production, ignoring technique innovation and localization. Zhong (2005) claimed that the furniture market at present revealed new demands of category diversity, individualization, and small scale. He proposed that domestic furniture companies should build manufacturing standardization to face the new tendency, to meet the demands of personalization with high efficiency.

1.3.4 Current situation, problems, and counter plans

Niu (2013) analyzed the existing problems of furniture industry three furniture materials, furniture cleaning, and furniture reshipping. He deemed that the process from design to manufacturing was actualized through materials, the solution for furniture production problems was the material innovation. Wood furniture was easy to be affected with damp, and was easy to have crack and distortion under sunlight; leather furniture would peel and crack after long time service; glass furniture was highly frangible, the
damage was irreparable or possessed high repair cost; varnished furniture would peel and appear discoloration; fabric furniture would ravel. All these problems should be solved depending on material innovation. The cleaning problem manifested in cleaning difficulties of the higher part of the furniture, and of the furniture with complex modeling such as Ming-style furniture of hardwood and European-style furniture. The solution relied on dirt resistance and furniture configuration. Additionally, the difficulty of furniture reshipping should be solved by light material or reconfiguration.

Zhao and Zheng (2009) pointed out several problems concerning the development of furniture industry based on the economic crisis. The rising labor costs, the RMB appreciation, the real estate bubble of America, the small-scale of Chinese furniture corporations, the too much concentration of export destination, the lack of innovation, homogeneity competition, all these problems were preventing the sustainable development of Chinese furniture industry. They indicated that the production should change from extensive to intensive, the furniture corporations should focus on improve designing capability and exploring the middle- and high-end furniture market. Wang (2014) reported the price inflation of raw wood, this was a strike for the log-relied furniture corporations.

Zhang (2010) noticed that the EU committee authorized the criteria 2009/894/EC for wooden furniture in 2009. These criteria increased the production difficulty and costs for Chinese furniture corporations. Regarding American furniture market, the most serious problem was the antidumping events on Chinese furniture. Lu (2008) researched regard this problem. She proposed that Chinese furniture corporations should reform industrial structure, stop relying on the merit of low labor cost; and update company scale to possess stronger bargain power concerning with international negotiations.
1.3.5 Future development directions

Xu (2009) believed that the future of furniture industry was the inside of China. Facing the fact that global economy was slowing down, Chinese market provided the development space for Chinese furniture business. To explore the domestic demand, the crucial work was to create a modern style with Chinese features and possess an integrated understanding of resources and environment. Song indicated that the future of Chinese furniture market depended on the integration of efficiency, quality, and probability. Meanwhile, the brand and channel construction were imperative for future development domestically and globally.

1.4 Limitations

In virtue of the limited access of industry data and in-depth analysis for this market, there exist some difficulties concerning thorough understanding of the furniture market. The data are mostly from National Bureau of Statistics of China, some related information from furniture associations cited by the thesis of decoration industry, and some industry news on the internet. Plus, the lack of local field experience regarding the furniture manufacturing induced the deficiency of analyzing capability about the data and the situation in the furniture market.

Besides, the proposed investment prospects were based on theoretic perspectives, the practical implementation needs a large number of empirical analysis and testing.
2 China's Furniture Industry Overview

2.1 Macro-economy Analysis

The published data of National Bureau of Statistics of China (NBSC) showed that China’s GDP was 63.6 trillion in 2014, increased nearly 7.4% from 2013 (see Figure 1). By the number itself, this was the slowest growth from 1990. However, China’s economy under continuous development has achieved enormous absolute quantity, the practically increased number of 2014 was virtually equivalent to the numbers of previous years above 10%.

Figure 1. China's GDP Growth

Compared with other countries, China adds more than 6 trillion RMB per year to the GDP, this represents the greatest economic growth tendency, and offers one of the best business opportunities in the world, which is the second biggest growing market in absolute terms.
The resident income stayed in stable growth (see Table 1), especially the average consumption in cities multiplied in great deal since 2006.

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (million)</th>
<th>GDP Per Capita (RMB)</th>
<th>GNI Per Capita (RMB)</th>
<th>Consumption Per Capita (RMB)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>City</td>
<td>Countryside</td>
<td>City</td>
</tr>
<tr>
<td>2006</td>
<td>1298.05</td>
<td>16767.97</td>
<td>1510</td>
<td>1279</td>
</tr>
<tr>
<td>2007</td>
<td>1321.29</td>
<td>20284.68</td>
<td>6280</td>
<td>4998</td>
</tr>
<tr>
<td>2008</td>
<td>1328.02</td>
<td>23851.43</td>
<td>15781</td>
<td>11243</td>
</tr>
<tr>
<td>2009</td>
<td>1334.74</td>
<td>25894.87</td>
<td>17175</td>
<td>12265</td>
</tr>
<tr>
<td>2010</td>
<td>1339.72</td>
<td>30521.53</td>
<td>19109</td>
<td>13471</td>
</tr>
<tr>
<td>2011</td>
<td>1347.35</td>
<td>35931.53</td>
<td>23979</td>
<td>15161</td>
</tr>
<tr>
<td>2012</td>
<td>1354.04</td>
<td>39446.62</td>
<td>24564</td>
<td>16674</td>
</tr>
<tr>
<td>2013</td>
<td>1360.72</td>
<td>43213.80</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>1367.82</td>
<td>46507.49</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Table 1. China’s Market Scale from 2006 to 2014*

Fixed asset investment, as a key growth driver, achieved 50.2 trillion RMB added 15.7 percent in 2014 compared with the previous year, just below forecasts for a 15.8 percent rise.

However, China’s economy is undergoing an irregular period. Investment-oriented growth pattern such as public and real estate construction greatly relies on low wage level and high pollution industries, and this model is losing its growth momentum. The new engines functioning as urbanization, citizen consumptions, and industrial upgrading are waiting for further structural reform and development to release impetus.
People’s Bank of China started an easing policy on the economic development. It started decreasing the leading rate and the reserved-requirement ratio since November 2014, it delivered less financial pressure on consumers, and endowed commercial banks with more loan issuing spaces. And a policy relaxed the purchase restriction for the first and second time home buyers (“China’s Recent Policies,” 2015), the payment ratio was cut down when using housing provident fund. By the end of 2014, the transacted volume reached 271826 (Shenzhen WorldUnion Properties Consultancy Co., 2015), the volume increased 5840 in December, which was the highest in that year (“2014 Chongqing Real Estate Market Summary,” 2015)

2.2 Real Estate Analysis

Based on the data from NBSC, the real estate residence investment of 2014 is 6435.2 billion RMB, gained 9.2% from 2013 (see Figure 3). By the expressing of the chart, after
2008 the investment was constantly expanding, but the growth rate was not stable, in the year of 2014 the growth rate was the lowest.

![Figure 3. National Real Estate Residence Investment and Growth Rate](image)

The bureau reported the change of the residence selling area and sales from 2013 to 2014 (see Figure 4), these two falling trends evinced that from the end of 2013 the real estate market was in a depression, people started hesitating and stopped investing money into buying houses.
In 2015, the investment was still growing slow, the growth rate declined along with the trend of 2014. The selling area and the sales reached the bottom at the start of 2015, from March the growth showed positivity and constant development (see Figure 5).

In 2014, the area of apartment sales is 1206.49 million m², declined 7.6% from 2013 (2013 increased 17.3% from 2012). The sales are 6629.2 billion RMB, dropped 6.3% from 2013 (2013 raised 26.3%).

Even though China experienced the economic crisis in 2008, the real estate industry was still in the process of developing. However, based on the data of recent years, this market has finished the state of the bubble, the further development would be more reasonable.
2.2.1 Relative Policies.

In the first half of 2015, China’s real estate market started recovering especially in the second quarter. The government issued certain policies to stimulate housing demands and the needs of house condition improving (see Table 2).

| Two Session | • Stabilize housing consumption; |
|             | • Support demands of owner-occupation and condition improvement. |
| Political Bureau Meeting | • Increase public expenditures, intensify consumer needs; |
|             | • Enhance market environment, liquidize remnant assets, build a long-term mechanism of real estate progressing. |
| NDRC Notification | • Revise housing system. |

Table 2. Government Relative Events in the first half 2015
The central encourages demands of improving. The central government focused on the stabilizing housing consumption. The Two Session (The National People's Congress and the Chinese Political Consultative Conference) in March established the mission of maintaining the development of real estate market and the consuming. In April, the Meeting of Political Bureau proposed to liquidize remnant assets and to build a long-term mechanism of real estate progressing. The National Development and Reform Commission released a notification of deepening economic reform in May; it underlined the revise of housing system to prevent risks.

The market environment would improve from supply and demand sides. In the perspective of supply, the notification of optimizing residence and land supplying structure of 2015 was issued bringing out the principle of supply and limitation, adjusting measures to local conditions to ensure the provision and demand balance. Restrain the land supplying in cities with excess housing quantity, and control the structure of housing land to cut down inventory. From the side of demand, a notification from China’s Ministry of Finance on March 27 claimed a policy of tax reduction for those in sale houses bought for at least two years, to evoke the second-hand residence market.

Financing policy adjustments. In 2015 from March to June, China's central bank cut three times the interest rate of loan and deposit, and all these rates recorded the lowest from 2008. These actions would release liquidity and improve the financing environment.

However, compared with the monetary easing policies in history, this turn of real estate recovery would be limited. The last strong easing policy was between 2008 and 2009, China’s central bank cut back the interest-rate five times and the reserve-requirement ratio four times to resolve the crisis and recover the economy. In 2009, the
sales and the area of sales showed an obvious rebound. The real estate market has shifted a lot in 2015, even though the easing policy would help stimulate this market to grow, high inventory and lack of effective demands would still limit the recovery of real estate market.

**One belt and one road initiatives.** Facing the problems of excess production capacity and resource acquisition difficulty, Chinese government proposed the “One Belt and One Road Initiatives” to start the new opening strategy. One Belt and One Road is the combination of the “Silk Road Economic Belt” and the “21st Century Silk Road”, it refers to Asia-Africa-Europe Infrastructure Plan. Connecting Asia, Europe, and Africa through railway, sea route and the internet, it will form a “Modern Silk Road”.

**New urbanization.** The Chinese government started promoting the new urbanization from 2013. Differing from the old way, the new one concentrates on intensive, inventive, and environmental-friendly methods to transfer rural population into cities. During the removal process, the second and the third industries gather towards cities and towns to enlarge the quantity, and the develop dividends within is beneficial for China’s economy due to social productivity development, science, and technology advancement, and industrial structure adjustment. From January 2015, a pilot program was issued to assigned tasks and procedures. The Two Session of Chongqing required upgrading infrastructure supporting capability and public service level.

### 2.3 Furniture Market Analysis

Furniture includes implements for people to sit and sleep, to storage, and to divide spaces. According to Hayward (2015), “Furniture industry, all the companies and activities
involved in the design, manufacture, distribution, and sale of functional and decorative objects of household equipment.” In further analysis, the analysis of furniture market will mainly focus on the scope of owner-occupied residence decoration.

![Chart showing China's Furniture Export Sales and Growth from 2004 to 2013](chart.png)

*Figure 6. China’s Furniture Export Sales and Growth from 2004 to 2013*

According to an industrial report (Made-in-china.com, 2015), China reached a furniture output of 777.86 million pieces by 2014, with a year-on-year growth of 3.1%. Three provinces Zhejiang, Guangzhou, and Fujian, occupied 27.26%, 22.19%, and 16.28% respectively from the total amount.

In the last decade, China’s furniture export sales expanded every year except 2009 caused by the economic crisis. In 2013, the sales achieved 51.8 billion USD with an annual growth rate of 19.8%, in 2004 the number is 10.2 billion USD (see Figure 6). By the end of November 2014, the export finished with 46.5 billion USD, slightly declined 0.05%.

### 2.3.1 Development phases.

The opening of the market-oriented economy era in the late 80s started and accelerated the development of home furniture industry, providing massive construction and decoration
materials. In this period, furniture stores principally appeared in eastern coastal cities and economy-developed regions. Being short of capital investment, these marketplaces were in miniature and consisted of domestically built materials, with little brand construction.

In the early 90s to the middle, the furniture business was growing into a standard formation. The markets started moving from downtowns to suburban districts with easy transportation. The market operating mode diversified with rental, retail, direct selling, wholesale, self-support, and agency, the scales of every type were insufficient. The furniture products in this markets were shifting from mid- and low-end to mid- and high-end. A few well-known brands in Hong Kong, Taiwan, and overseas started being interested in this market of mainland China; they entered some economic-developed regions.

From the late 90s until now, this market kept improving into a better-regulated and more mature business. The furnishing marketplace has become a comprehensive and one-stop furniture store with significant scale and specialized administration. In this phase, store quantity increased in significant numbers, and each had its expert team. Along with the fast growth of per capita income, in 2011, China’s middle class emerged with 250 million (Jiang, 2012, p. 9), this most potential consumer group stimulated real estate market and furniture industry. The Chinese government in this period started supporting this business and optimizing relevant laws and regulations to encourage foreign investments. Additionally, the government-hosted urbanization also stimulated this process.

This industry also drove the advancing of the third industry and logistics. According to Jiang’s research (2012), the home furniture store channel took nearly 50% retail sales of the whole furniture industry, and it may exceed 1.5 trillion in 2015. However, the situation
of furniture market has a regional difference: Southeast coastal markets have already saturated, yet the middle and western parts are underdeveloped.

China’s home furnishing industry is significantly different from the west market. Except few demonstrations using vertical integration in the value chain, IKEA for instance, the majority of home furnishing companies in developed countries implement buyer wholesale and retail mode, the end stores and the furniture retailers have stronger bargaining power. By contrast, most related business in China applies resale agent model. In this way, distributors highly rely on end marketplaces in virtue of limited capabilities, it is one of the reasons that furnishing chain stores rapidly developed in the last decades in China.

2.3.2 Characteristics.

The boom of home furniture industry is a natural tendency caused by the rapidly developing economy and real estate industry. Its self-improving makes it sunrise industry, and it has certain characteristics.

*Diversified market competition structure.* As a result of Chinese economic system reform, these furniture distribution entities are formed by private, sole proprietorship, copartnership, and shareholding companies. Among them, private entities are the main force in this business. The capital investments from the private are stimulating the furniture market and are constructing an equal competition.

*Coexistence of multiple formats.* The furniture market in China started with a scattered and free trade format at the initial development. Within the transition phase, there appeared emerged other formats, such as rental, retail, direct selling, wholesale, self-support, agent. Leasehold model with unified management took over the market when it
was turning into a greater dimension, and this mode has become principle nowadays. Currently these furniture stores run with rental, wholesale, and retail, and it is the main distribution channel for furnishing products. Online trading is in a budding stage, it is being experiencing by some big players, it inclines to be the direction in future for furnishing stores.

*Transforming from quantity expansion to quality improving.* Leasehold model after a few years of upgrading, has improved hardware and software facilities, for instance, transaction information and logistics. The property management has become the operation management. Originally the administrators lent available spaces, collected rentals, and fulfilled property management duty; at the resent time, they pay attention to the market, invest in advertising, build image in this business, and provide best service to the commercial tenant and final consumers.

*Developing into furniture shopping mall.* This direction utilizes business places similar to shopping malls, and manages as hypermarket. In the special shopping mall, there are modernized facilities and luxury decoration, the products there selling have big brands and with premium quality. Hypermarket, exclusive shop, and supermarket are integrated, consumers can shop and relax at the same time. There are stores using the dimension advantage to attract catering and entertainment tenants enter, this provides a shopping experiencing center of furniture.

*Tendency of chain-store operations.* Leasehold model is turning into chain-store operations. Format mode, management, identity, and image would be all unified. Red Star Macalline and Easyhome have established chain stores in a large number across the country; and the majority of distributors always follow the stores, they still desire for the same
operation in new store.

**Fierce competition.** The stores possessing innovative capabilities in management, service, and operations always progress faster. In China at present, big entities with big dimension and fill functions have gained their market share. In southeast coastal region of China, the quantity of stores has saturated, some companies will get deficit and collapse.

**Continued exploration for development pathway.** The furniture stores from the developed countries has entered Chinese market. They have longer improving history and more advanced management theories, and they fulfill globally integrated purchase and distribution, building up an abundant capital strength. The leasehold mode in China is still under developing, individual entities cannot resist foreign competitors. Therefore, the appeal of forming a furniture store alliance appeared in this market. Along with the application of modern management achievements, the local enterprises explore in practice, and try to offer a more befitting shopping environment for Chinese consumers.

2.3.3 Competition present conditions.

A CEO forum of furniture industry in Hangzhou stated that, for a long time, the furniture industry would be filled with small-scale business in a big quantity; distribution channel would be in significant differences; deficiency of core competitiveness and risk resisting ability (Hu, 2006). Meanwhile, foreign well-known enterprises have entered Chinese market, bring with prominent design and brands to compete with Chinese products.

Under these situations, Chinese relative companies started being innovative and exploring new directions from 2006. Transforming to be listed, merger and acquisition, and building up brand image were three methods to find new business growth. To obtain internationally competitive capacity, there also needs independent innovation. China plays
the role of the world factory, however, it is lack of innovative product research and development and marketing capacity. In China, this should start from cultivation of innovative talents, environment construction, and intellectual property protection, and it is a long way to achieve.

At present, middle- and high-end residences are in aggressive rising, correspondingly, the demand for premium furniture are increasing. To this point, Chinese products can hardly meet the consumer demand. The last decade was the first expansion of Chinese furniture industry dominated by massive inflation. In the next phase, these products will focus on quality improving and brand perception. The competition is in:

**Price.** Furniture products are resistant consumption goods; the price is the top priority for most consumers. For the majority, price is more imperative than after-sale service, even than the brand. Therefore, furniture stores started price war to maintain as more consumers as possible. Close to festivals and some events, promotions of low costs would be launched. The price gives distributors to compete in market and attract consumers, however, at the same time, low price will lead to vicious cycles and prevent the market from stable and healthy development.

**Logistic costs.** Minimizing logistic cost is competitively imperative for furniture companies, and it is a competitive edge as well. Furniture products are one of the bulk commodities, its logistics are complicated and with big costs. The costs concern logistic directions and assembling works, it requests best logistic and distribution network.

**Supply chain.** The furniture market has territoriality, and the economic development is different from place to place. In the presence of various regional business, the
competitiveness requires the understanding of demands, the predicting and controlling of
tendency, the timely feedback from consumers, and precise stock up and replenishment.

**New challenges.** A survey held by Made-in-china.com collected the keywords of
buyers’ attention degree on different furniture categories in 2014 (see Figure 7). The
statistics show that sofa, furniture of the bedroom, of the living room were the top three
attention focused in this survey (based on the direction of this analysis, the attention on
office furniture was excluded). Sofa, bed, and dining table are the main objects in a house
for Chinese consumers.

China’s furniture market achieved rapid advancement under the steady demands
from economic and real estate improvements; low cost of labor and high imitate ability
also intensified the development progress. However, this labor-intensive pattern of
advancing is not lasting, behind the great numbers, some serious problems are emerging.

**Rising labor costs.** Low labor cost was the largest convenience for developing labor-
intensive industries since the reform and opening-up policy. Nevertheless, Chinese
economy improved a lot from 2010, the salary level has to be raised. The labor shortage
problem came along with the cost rising. Manufacturing enterprises especially in coastal
regions are facing this recruitment difficulties, and the furniture industry is the first to be
affected. The labor cost would not be the development advantage any more.

**Rising material costs.** With the surge of industrial raw material prices such as base
oil and ironstone, the material costs of industrial products have increased. Furniture
products are mainly made of wood, iron, and plastic. Iron and plastic are directly related
with ironstone and base oil; and timber is one of the controlled natural resources by the
government, its price kept growing. This is another challenge the furniture business has to face.

*Upgrading consumer demands.* Small and medium-sized enterprises predominantly consist furniture business in China with a ratio of 80%; they took two third of the total output in this industry. According to a statistics (Zhang, 2007), none of these furniture
companies has 1% market share. Along with the upgrading demand for premium cost performance and professional service, this loose and disordered market is no longer fitting the business.
3 Chongqing's Furniture Market Environment Overview

3.1 Chongqing PEST Analysis

Chongqing, an area of 82,400 km², locates in Southwest China (see Figure 8), it is one of the five national central cities and one of the second tier cities in China (see Table 3). In 1997, Chongqing became the fourth municipality directly under the central government, and it was the first in the western China. As one of the old industrial bases, Chongqing has its seven pillar industries, they are electronics manufacturing, medical chemistry, energy, equipment, automobile, consumption goods, and material industry.

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### Table 3. China’s City Tier System

<table>
<thead>
<tr>
<th>Tier</th>
<th>No.</th>
<th>Cities</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Tier</td>
<td>4</td>
<td>Beijing, Shanghai, Guangzhou, Shenzhen</td>
<td>Principle cities in China, densely populated, important political, cultural, industrial, and financial centers, key hubs for East-Asia region.</td>
</tr>
<tr>
<td>Second Tier</td>
<td>Strong 11</td>
<td>Chongqing, Tianjin, Nanjing, Hangzhou, Wuhan, Shenyang, Chengdu, Xi’an, Qingdao, Dalian, Ningbo</td>
<td>Cities with high growth speed, even higher than the first tier; big dimension (over 10 million residents); less competitive, labor costs are substantially cheaper compared to Tier 1 cities; the levels are divided by economic situation and development potential.</td>
</tr>
<tr>
<td></td>
<td>Middle 19</td>
<td>Jinan, Harbin, Changchun, Zhengzhou, Changsha, Nanchang, Guiyang, Nanning, Hefei, Shijiazhuang, Fuzhou, Kunming, Taiyuan, Lanzhou, Urumuqi, Hohhot, Xiamen, Suzhou, Wuxi</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lower 6</td>
<td>Foshan, Dongguan, Tangshan, Yantai, Quanzhou, Baotou</td>
<td></td>
</tr>
<tr>
<td>Third Tier</td>
<td></td>
<td>Approximately 200 county-level cities</td>
<td></td>
</tr>
</tbody>
</table>

Also, Chongqing is projecting new industries such as the Internet of things, robots and intelligent equipment, shale gas, and environment protection. Chongqing plays an essential role regarding both the economic and financial side (“China’s City Tier System,” 2012), and because of its geographic location, Chongqing is the transport hub integrated with water, land, and air. The population of Chongqing is more than 33.58 million (data in
and based on the population research of 2008, the registered population of the main city is 8 million, with an urbanization ratio of 82.7%.

In 2007, Chinese central government set three development orientations for Chongqing, respectively they were growth pole of western China, the economic center of Yangtze upstream, and balanced urban and rural development. Under this circumstance, Chongqing formulated urban and rural overall planning to balance the growth of different regions, and to stimulate the development of the “one-hour economic circle” centering on the main city.

3.1.1 Political Analysis.

The furniture industry became a total competitive sector in China since 1995, the government encouraged different market subjects to participate in the competition and reformed the industry involving ownership structure, operational mechanism, and internal management system. The entrance businesses the private capital and the exit of the government ownership stimulated this market Moreover, so far there are 250 thousand construction decoration companies, and 2462 qualified companies in Chongqing out of 81141 in the whole country (Luo, 20007).

The XIII Quinquennial Plan. The quinquennial plan is a significant component of China’s national economic plan, it is a programming concerning major construction projects, distributions of productivity, and relevant proportion of the national economy, to state the vision and the direction of economic development. Connecting to the XII Quinquennial Plan, the new plan is the strategic development path started from 2016 to 2020. The top priorities are to face the challenge brought by the transformation of the economic model and to cross the middle-income trap of per capita income.

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Industrial innovation. There are certain policies to encourage innovation by upgrading traditional industries and investing into new industrial research and development. The conventional industrial output depended on the small cost of raw material and labor, it is the time to begin transforming product manufacturing, raising the additional value, paving the way for the new image of “Made in China”.

New urbanization. The State Department proposed a new urbanization plan and loosened the household registration system in 2014. This plan will endow the people of countryside with better support for building modern residence from old houses, and increase the living standard, to amplify consumption and domestic demands,

Green Development. Environment protection is always a crucial factor in China’s economic development. Environmental protection equipment and new energy resources are under researching and developing to relieve pollution problems.

Furniture Industry Standard. The administration policies from the government are the most influencing factor regarding the Construction Decoration Industry. China issued qualification standards towards construction decoration companies since 1989.

From 2005, Chinese government issued regulations (the Central Committee and State Council on acceleration of circular economy constructing views) and revised laws (Government Procurement Law, Environmental Protection Law) to boost the process of becoming environment-friendly society, and to prevent government institutions and social groups which are utilizing government funds from purchasing environmentally hazardous products. State Environmental Protection Administration of China raised the authentication requirements on environment labeled furniture products. Based on the influence of the environment, these requirements were improved for the majority of
<table>
<thead>
<tr>
<th>No.</th>
<th>Standard Code</th>
<th>Standard Object</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>QB/T 1951.1-1994</td>
<td>Wooden Furniture</td>
</tr>
<tr>
<td>2</td>
<td>QB/T 1951.2-1994</td>
<td>Metal Furniture</td>
</tr>
<tr>
<td>3</td>
<td>QB/T 2280-1996</td>
<td>Swivel Chair</td>
</tr>
<tr>
<td>4</td>
<td>QB/T 2383-1998</td>
<td>Dining Table and Chair</td>
</tr>
<tr>
<td>5</td>
<td>QB/T 2384-1998</td>
<td>Wooden Writing Desk</td>
</tr>
<tr>
<td>6</td>
<td>QB/T 2385-1999</td>
<td>Dark Color Hardwood Furniture</td>
</tr>
<tr>
<td>7</td>
<td>QB/T 1952.2-1999</td>
<td>Spring-mattress</td>
</tr>
<tr>
<td>8</td>
<td>QB/T 1952.1-2003</td>
<td>Upholstered Furniture</td>
</tr>
<tr>
<td>9</td>
<td>QB/T 2530-1999</td>
<td>Wooden Cabinet</td>
</tr>
<tr>
<td>10</td>
<td>QB/T 2531-2001</td>
<td>Kitchen Furniture</td>
</tr>
<tr>
<td>11</td>
<td>QB/T 2453-1999</td>
<td>Child Cot and Folding Bed</td>
</tr>
<tr>
<td>12</td>
<td>QB/T 2454-1999</td>
<td>Furniture Fittings and Drawer Rail</td>
</tr>
<tr>
<td>13</td>
<td>QB/T 2530-2001</td>
<td>Wooden Cabinet</td>
</tr>
<tr>
<td>14</td>
<td>QB/T 2600-2003</td>
<td>Palm Fiber Spring-mattress</td>
</tr>
<tr>
<td>15</td>
<td>QB/T 2601-2003</td>
<td>Stadium Seat</td>
</tr>
<tr>
<td>16</td>
<td>QB/T 2602-2003</td>
<td>Cinema Seat</td>
</tr>
<tr>
<td>17</td>
<td>QB/T 2603-2003</td>
<td>Wooden Hotel Furniture</td>
</tr>
<tr>
<td>18</td>
<td>QB/T 1093-1991</td>
<td>Longitudinal Dry Shrinkage Intensity and Water Resistance Test</td>
</tr>
<tr>
<td>19</td>
<td>QB/T 1094-1991</td>
<td>Glue Adhesion and Water Resistance Test</td>
</tr>
<tr>
<td>20</td>
<td>QB/T 1097-1991</td>
<td>Steel Filing Cabinet</td>
</tr>
<tr>
<td>21</td>
<td>QB/T 2189-1995</td>
<td>Furniture Fittings and Cotyliform Blind Hinge Test</td>
</tr>
<tr>
<td>22</td>
<td>QB/T 3654-1999</td>
<td>Round Tenon Adhesion</td>
</tr>
<tr>
<td>23</td>
<td>QB/T 3655-1999</td>
<td>Surface Soft Material Peel Strength Test</td>
</tr>
<tr>
<td>24</td>
<td>QB/T 3656-1999</td>
<td>Surface Hard Material Peel Strength Test</td>
</tr>
</tbody>
</table>

*Table 4. Furniture Industry Quality Standard List*
materials when producing furniture such as wood, metal, plastic, paint, filling, glass, glue. Meanwhile, the production process was required the waste minimization, to reduce the use of environmentally harmful elements and to increase the furniture recyclability.

To ensure the environment and the patent protection, China issued full-scale furniture industry standards in 2005 (see Table 4). This table mainly focuses on environmental protection and processing techniques.

**Yu’Xin’Ou Railway.** Chongqing connects the European market and the eastern and western regions of China, it is the traffic hinge conjoining the silk road and the Yangtze economic zone. Under the structure of One Belt One Road Initiatives, Chongqing will play an essential role as the shipping center of Yangtze River upstream and the national logistic hub. The Chongqing government issued a policy in 2014 to enforce the initiatives. According to this policy, Chongqing will invest 1.2 trillion RMB in infrastructure construction. As a policy implemented by the government, it is also economic beneficial for the further development of Chongqing.
Yu’Xin’Ou is the freight rail route improved from the original new Eurasian Continental Bridge. As the road transport channel from the initiatives, it connects western China and Europe along the New Silk Road. This route departs from Chongqing, China, arrives in Duisburg, Germany. The whole route passes through Kazakhstan, Russia, Belarus and Poland before arriving in Duisburg (see Figure 9).

**Shorter transit time.** Yu’Xin’Ou started commissioning from March 18, 2013, it hugely shortens the transit period from western China to Europe. Originally the goods would be shipped from Yangtze River to Shanghai, then transfer to Europe by marine shipping. This process cost 45 to 60 days. Now by Yu’Xin’Ou, the shipping from Chongqing to Germany will cost only 13 days. Moreover, by the end of 2015, the time will be 12 days (Zeng, 2015). Since its commission to the end of 2014, it has run 233 shifts, with a turnover volume of 5.4 billion metric tons, achieved an import-export trade value of 6.8 billion USD. The shifts will be open up to 300 in 2015.

**Decrease rail transport costs.** As a traditional transportation manner, marine shipping is still leading the international logistics. However, Yu’Xin’Ou railway costs 40% less than airlift, and 20 days faster than marine. For instance, regular goods shipping from Chongqing to Europe, it costs 12 RMB per kilogram by Yu’Xin’Ou, 20 RMB per kilogram by air transportation, 5 RMB per kilogram by the marine. With the boost of shipping volume, the transit costs will descend more in future, Yu’Xin’Ou and Chongqing will possess stronger competitiveness as a logistic hub in western China.

**Diversify goods categories.** Chongqing’s industrial development mainly depends on electronics manufacturing and automobile industry, the goods are mostly electronic products and auto parts. In recent years, Chongqing was diversifying its industrial

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development, the shipping also included mechanical devices, food, textiles and other light industrial goods. On the other side, Chongqing started importing German vehicles and their auto parts, and high-end consumer products, lumber, mechanical and chemical equipment from Italy and Spain.

Besides the goods diversity, its shipping destination is spreading beyond the Yu'Xin'Ou railway, and composed a "1+N" mode (Zhong, 2015). Taking the route from Chongqing to Duisburg as the "1". Duisburg is the biggest inland port in Europe, close to the harbor of Rotterdam and Antwerp. Moreover, its vicinity owns the largest population that expressing enormous logistic demand and market potential. Within improving the return trip operating mode, setting distribution points in Belgium, Holland, Russia, Kazakhstan, and Poland, which means the "N". In future, the goods shipping from Europe to China will be further diversified.

The Chongqing Port has joined the Secure and Smart Trade Line Pilot Program after Shenzhen, which is the first pilot port among the interior cities of China. In this term, only the goods exporting from Chongqing will enjoy the minimum limitation and the fastest clearance, and the firms on a "red list" will be free from exemption all the way from Chongqing to Duisburg. The big international players of logistics, for example, Maersk Line and ProLogis have started doing business in Chongqing.

The industrial cluster of laptop producing has established in Chongqing, its output will increase from 60 million laptops up to over 100 million, it grabs one quarter of world laptop producing. There are 40% laptop consuming in Europe, the opening of Yu'Xin'Ou railway is decreasing the transport cost in a large scale.
These enormous economic merits evoked other big inner cities such as Chengdu and Shaanxi to share the market; they began to build railways to shorten the distance from Europe. However, currently, the Yu’Xin’Ou railway possesses 80% of the market regarding the goods transportation from China to Europe. Once after the accomplishment of the assigned port declaring for raw wood importing, the European house furnishings could join the low-cost merit of Yu’Xin’Ou and the return trip waybill (“Why Yu’Xin’Ou Came Out Top,” 2015).

The 6th China Italy Innovation Cooperation Week just finished on November 18, 2015. In this week, the Italian logistic enterprise BCUBE Spa has signed a contract with Chongqing Foreign Trade and Economic Commission. The chief inspector Andrea Villa indicated that, BCUBE would help broaden Yu’Xin’Ou railway to Italy, the “Made in Chongqing” products have more international communicate possibilities, and more Italian products such as wine and luxuries would be transported to Chongqing. There would build a logistic base in Chongqing, the BCUBE will cooperate with local enterprises of Chongqing.

3.1.2 Economic Analysis

According to the statistic data of NBSC, Chongqing has achieved huge economic advancements (see Figure 9). In 2014, the GDP was 1278.33 billion RMB, and its growth rate was approximately 2%-3% higher than the national GDP growth rate from 2008 to 2014. In the first half of 2015, the growth was 11%, it was higher than the 7% of national speed and higher than the target of 10% from Chongqing government.

The industry is the most imperative for Chongqing’s economy, it takes 53% in the Chongqing’s GDP structure (see Figure 10). Chongqing’s industrial development kept
stable. In 2014, its secondary industry added 653.2 billion RMB, the year-on-year growth rate reached 12.7%, including the value of industrial economy added 517.6 billion RMB, increased 12.3%. The industrial scale has achieved staircase-like increasing, industrial enterprises actualized a total output value of 2.15 trillion RMB, grew 14% (“Overall Smooth Economic Operation,” 2015).

![Figure 10. Structure of Chongqing’s GDP](image)

The export-import market business is gradually becoming fundamental for Chongqing economic development. The total export-import volume reached 68.7 billion USD in 2013, and comparing to Chongqing GDP, the volume roughly occupied 32% of Chongqing’s economy, the proportion was less than 10% in 2008 (see Figure 11). Chongqing’s rapid growth was mostly boosted by high-tech product exportation. The electronic information industry had an import and export volume of 271.3 billion RMB, added 22.2%, taking 46.3% of the total import-export volume. There exported 58.54 million laptops with a value of 156 billion RMB, increased 27%. In the export-import

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volume, one third is import and two thirds is export. Chongqing also started the international e-commerce trial, the online orders contributed 60 million RMB for import volume.

A number of economic activities in Chongqing take place in the special economic zones, some foreign investors can receive preferential policies. The figure of international presence indicates that there are a wide variety of international brands have invested their capital into Chongqing’s market (see Figure 12). There are the interregional Chongqing-Chengdu Economic Zone and the national-level Liangjiang New Area zone, these two zones ranked the third in the survey of China’s most competitive economic zones in 2013. Chongqing’s GDP and welfare indicators such as GDP per capital and average salaries in absolute terms are below national average level, but Chongqing’s rapid economic booming is still growing (Chongqing Municipality Profile, 2014, p. 4), it offers numerous opportunities for international capitals.

Figure 11. National and Chongqing’s GDP and Chongqing’s Export-import Total

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Electronic plus automobile industry contributed in large deal for Chongqing’s GDP. Electronic manufacture has established the worldwide biggest computer industry cluster, cellphone output added 1.2 times than last year, in addition, there were 76 PCs and 207 mobile phones per 100 households, this is a promising advantage for e-commerce possibilities considering the population structure. Automobile industry has built the national biggest production base, cumulative increase of its added value was 20.5%. The strategic emerging industries such as integrate circuit, liquid crystal display (LCD) panel, shale gas, robots, internet of things have positive growth tendency.

For the majority of international corporations outside China, Chongqing is generally considered invisible, it is possible that they have never heard of this city. However, this city possesses one of the most potential consumer markets the world must take into account. In 2014, the national disposable income was 28,844 RMB, added 6.8% from the last year; Chongqing’s urban disposable income reached 25,147 RMB, increased 9.1%.

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While the indicator was lower than the national average, its growth rate is still encouraging for retailers. Retail business takes 68.9% of Chongqing’s consumer market. The retail department achieved 351.3 billion RMB of sales, added 12.6% (data from the Statistical Bureau of Chongqing). The automobile consumption pulled the consumer market in a large scale, the sales of automobile added 24.9%. The exhibition promotion had positive effects, a wide variety of exhibitions also attracted foreign investors and entrepreneurs, and contributed in hotel and restaurant consumption. There are other fast growing industries: communications equipment (44.5%), furniture (44.1%), household decoration materials (35.4%) and pharmaceuticals (30.2%). (Chongqing Municipality Profile, 2014, p. 9)

In 2015 and in future, Chongqing is still facing the development pressure. Firstly, Chongqing lacks of industrial innovation capability, industrial corporations expend 0.6% of their total revenue on research department, while the level is from 2.5% to 4% in developed countries. Secondly, financing cost has increased. From a government conducted survey among 1274 industrial corporations, 27.7% stated the financial strain, and 21.27% indicate the difficulty of financing, especially for small- and medium-sized companies. Thirdly, slow growth appeared in big retail entities. Chongqing’s big retail corporations such as Chongqing Department Store, Chongkelong Supermarket, and Chongqing Carrefour lost 5.2% of the total retail sales. (data from the Statistical Bureau of Chongqing)

The positive side is there are development merits that push Chongqing to grow in a stable speed. The automobile and electronic information will continuously support the industrial economy; Chongqing will finish building the trading and logistic center in the

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upstream Yangtze and the financial center, this is the new economic growth point; the positive effects of easing policy from the central government will stimulate the overall growth.

Before 2004, Chongqing’s traditional department store expanded rapidly; from 2005 to 2010, Chongqing’s business was in the development period of shopping center; from 2011, Chongqing started the development of urban complex. The business environment of Chongqing in future, will take good advantage of tourism resources and historical and cultural merits to build a series of commercial and food streets.

The geographical area is wide and spread in the main city of Chongqing, every region has its shopping district. The main shopping districts include:

**Liberation Monument.** The average daily population flow around the Liberation Monument could be over 300 thousand, in some big holidays or events it would exceed one million. This place is one of the most important for local residents, and some businessman take the entering in the Liberation Monument as showcasing the brand image.

In the wake of commercial and financial development, the central business district of Liberation Monument has become the core role, the project of Liberation Monument financial and business street will officially start. There are already 88 financial institutions at the municipal level and above, taking over 90% of the main city, it is the district that possessing the most financial institutions and the most complete financial products in Chongqing, even in Western China.

Meanwhile, the shopping district of Liberation Monument has aggregated 120 of the global 500 companies, over 200 famous international brands, becoming the priority area in top brand’s consideration. The Liberation Monument shopping district collected LV, Gucci,
Prada, Burberry and other luxury brands, built up Time Square, Metropolitan Oriental Plaza, and so on, targeting the high-end groups. Counting in the traditional department store formats such as Chongqing Department Store, New Century Department Store, Far Eastern Department Store, the Liberation Monument has become the shopping district with most shopping malls.

**Guanyin Bridge.** Guanyin Bridge shopping district is in the Jiangbei district. In 2013, Guanyin Bridge shopping district reached 210.6 billion RMB of sales. In 2014, this shopping district attracted 460 thousand average daily population flow. The Jiangbei district proposed to aggregate more high-end industries, and represent urban life in this region, the Guanyin Bridge will update the business area from 1.78 million square meter to 3.6 million square meter.

A market survey indicated that, 53% internet users stated they were used to shop in Guanyin Bridge shopping district, they could find the best experience and the convenient transportation (“Chongqing Consumer Market Overview,” 2015). In last a few years, Guanyin Bridge shopping district started a differentiating road, it introduced restaurants, entertainment spaces, child industries, transforming the traditional shopping mode to a brand new experience concerning art and life. Since 2014, the Guanyin Bridge shopping district introduced about 400 new brands, and 20 international brands. The top bookstore, the premium Starbucks shop, the biggest Samsung direct selling shop continuously open in this district. There are other store combining clothing, books, entertainment, and international exhibitions that make this shopping district a top place.

**Shapingba.** As a traditional and cultural district, Shapingba has collected Chongqing’s flow of people, products, and information. Shapingba shopping district,
taking Sanxia Square as the center, has been taken the second shopping district before ten years right after Liberation Monument. Additionally, Shapingba is the second biggest shopping district in Chongqing, and it is an educational area, surrounding by Chongqing University and Chongqing Normal University. At present, there is a business area of 450 thousand square meter.

**Nanping.** Nanping shopping district is in a special geographic position, it is the only district that collects Jiangbei, Nanan, and Yuzhong districts in ten minutes. In the first half of 2014, the sales of Nanping shopping district achieved 20 billion RMB. In this district, there have some pedestrian streets consisted by City Square, Shanghai City, Wanda Plaza, and Starlight Era, it will grow into a place with a 2.5 million square meter radiation area. There are Le Méridien Hotel, and big shopping mall such as Tianfukela Square, Wanda Plaza, Starlight Era, and Shanghai Bailian. There also introduced international top brands such as Hugo Boss, Armani, Zegna, Versace, and the best skating rink in Chongqing.

**Yangjiaping.** The Mix City shopping center of China Resources was established in 2014 in Yangjiaping shopping district. This Mix City is the biggest in China, having 310 brands and 3,300 parking space, representing the newest level of Chongqing business. The Yangjiaping shopping district started its rapid growth as the fifth shopping district, along with the opening of Mix City.

Inside the Yangjiaping shopping district, there are developing new projects such as China Resources center, Kowloon Binjiang Plaza, Xiejiawan redevelopment. All these efforts will support Yangjiaping shopping district become the fashion hub in the western Chongqing. According to the plan, Yangjiaping shopping district will achieve 35 billion RMB retail sales in 2016, and achieve 60 billion in 2020.
Dashihua. This is the six shopping district in the main city of Chongqing. There are four rail lines crossing this region, it has become a potential district for commercial investment and consuming. In 2013, the fixed-assets investment in this region achieved 9.81 billion RMB, it was 35.9% of Yuzhong district. Inside the district, there are conducting more than 10 big real estate and shopping mall projects. The Dashihua shopping district will target the mass consumers, differing from other shopping districts in the main city. The business formats will be consisted by child education, real skating rink, department store, parent-child park, gym, bookstore, and clothing.

3.1.3 Social Analysis

Chongqing’s population distribution has a structure of circular layer, there are significant difference among regions. The whole Chongqing Municipality has a population density of 363 persons per square kilometer, added 17 persons per square kilometer compared with 2000. The Yuzhong District owns the highest population density with 28,278 persons per square kilometer. The lowest region of Chongqing Municipality has 57 persons per square kilometer, it is 1/496 of Yuzhong District.

Figure 13. Five Urban Functional Areas
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There are five urban functional areas in Chongqing (see Figure 13). The core area of urban functions, and area of 197.5 square kilometers, has a population of 3.68 million people. It puts together political, economical, cultural, and historical functions, it is an urban center possessing national impact. The expanding area of urban functions has an area of 5275.5 square kilometers, there are 4.51 million residents. This region represents the economic radiation and service influence capabilities as a national central city. It is the center of education, logistics, it is also an integrated junction and the portal of international communication. The new area of urban development takes 23.2 thousand square kilometers with a population of 10.79 million. This area is the future of industrialization and urbanization. The ecological conservation area of northeast Chongqing has a population of 8.17 million with and area of 33.9 thousand square kilometers. This part is one of the national ecological function areas, it also is the main production district of farm products. The ecological protection area of southeast Chongqing has 2.77 million residents, with an area of 19.8 thousand square kilometers. This region is one of the national ecological function areas and the district of animal district.

The structure of circular layer stands out in the five urban functional areas. The core area of urban functions has the highest population density, 3458 people per square kilometer; the expanding area of urban functions has 805 people per square kilometer; the new area of urban development has 465 people per square kilometer; the ecological conservation area of northeast Chongqing has 241 people per square kilometer; the ecological protection area of southeast Chongqing has 139 people per square kilometer.

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In 2014, the average disposable income of Chongqing was 25,147 RMB, the average consumption was 18,279 RMB (see Figure 14). Based on the data of 2013, the average disposable income of the high income people was up to 47,561 RMB, the average consumption was 30,078 RMB.

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In 2014, there were 29.91 million inhabitants in Chongqing, it added 6.9% compared with the 27.98 million. Based on the population census of 2010, there are 51% male of the population, and 17% was 0-14 years, 72% was 15-64 years, 11% was 65 years and over (see Figure 15). In the inhabitants, 8.6% had university education, 13.2% had high school education, 33% had junior high school education, and 33.8% had elementary school education. Compared with the population census ten years ago, the population that received university education in every 100 thousand people increased up to 8642 from 2802.

Chongqing’s overall urbanization level is not in the lead. However, in the core area of urban functions and the expanding area of urban functions, the urbanization ratios are 99.8% and 77.9% respectively.

Chongqing’s residents are generally honest and frank, the consuming preferences are mostly based on local specialties, especially the local restaurant industry keeps booming. For some expensive products such as automobiles real estate, these residents are willing to pay. Some industrial promotion events or some exhibitions could stimulate the consumption of Chongqing’s residents.

Came along with the living standard improvement, Chongqing’s residents are becoming more mature regarding consumption, they would pay more money on better products and services. In respect of luxury products, the demand in Chongqing is raising. However, people tend to shop abroad and use the international e-commerce channel, thus, the in-shop consumption of luxury products is slowing down. As a high-end experience, luxury products are more popular during holidays mostly regarded as gifts, the consumption is less in ordinary days.
The growth of luxury product market is also influenced by the growing number of millionaires. The Wealth Report was published in 2014 stating that China is the third-fast country in the world at producing millionaires. In 2013, the people having more than 1 million USD to invest reached 758 thousand in China added 17.8%. By 2023, the number of “very wealthy individuals” is expected to boost 80%. At that time, the number of billionaires in China will be 322, it will be more than the combination of UK, France, Switzerland, and Russia.

In China’s second-tier cities, the wealthy population is rising the fastest. On a list of global cities ranking by the growth predictions of very wealthy individuals from 2013 to 2023, there were 19 Chinese cities recorded in the top 30. Among these Chinese cities, Chongqing ranked the 10th with a growth rate of 99% (see Table 5). Chongqing was the first among all Chinese ranked cities (“Chongqing Consumer Market Overview,” 2015, p. 9).

<table>
<thead>
<tr>
<th>City</th>
<th>2013</th>
<th>2023</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chongqing</td>
<td>96</td>
<td>191</td>
<td>99%</td>
</tr>
<tr>
<td>Chengdu</td>
<td>120</td>
<td>217</td>
<td>81%</td>
</tr>
<tr>
<td>Xi’an</td>
<td>61</td>
<td>96</td>
<td>57%</td>
</tr>
<tr>
<td>Beijing</td>
<td>1318</td>
<td>1872</td>
<td>42%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>1028</td>
<td>1542</td>
<td>50%</td>
</tr>
</tbody>
</table>

*Table 5. The Ranking of Chinese Very Wealthy Individuals*

3.1.4 Technological Analysis

After the reforming and opening policy, China has trained a large number of furniture producing and designing professionals. However, Chinese furniture industry still lack of
highly professionals. To meet the labor demand from furniture business, there need 30 to 50 thousand professional furniture designers (Liu, 2008).

Because of the low labor cost in China, most furniture firms care less on the labor efficiency. And in virtue of low specialization level, Chinese furniture industry has low labor productivity, and leads to material wasting. Considering the design, quality, and post-service, Chinese furnishing products are under inferior position compared with foreign advanced competition.

The related companies in Chinese furniture business have not built up enough big brands, and the product overstocking every year varies from 30 billion RMB to 40 billion RMB. This is caused by the lacking of effective demands, but the most imperative reason is that most furniture products have problems such as bad design or style imitation.

At present, big furniture countries, take for instance, Germany and Italy, have their furniture academies, there has professional education from design to manufacturing. However, China has approximately 3000 designers, and only part of them are from professional education, there is no international-recognized designers. Additionally, Chinese furniture designers primarily take the functioning into consideration, it leads to the lacking of aesthetic, cultural value, consumers can hardly accept emotional attachment. Currently, the low- and medium-end market has saturated, on the contrary, good furnishing products with premium design and quality is still behind the requirement in medium- and high-end market. Improving the capability of design has become one of the keys to compete in this business.
3.2 Chongqing Real Estate Market Status

With the central and local government continue to implement reforms, the property market in Chongqing will see a new wave of unprecedented opportunities for development and the demand for housing products in the coming years.

The Chinese housing market was in a boom since 2007, the boom was also in Chongqing (see Table 6). There were a few times of vibration, but the overall performance was raising. The residence supply increased 6060 thousand m$^2$ from 2009 to 2014, and the average price raised 2850 RMB per m$^2$.

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply Area (thousand m$^2$)</td>
<td>18230</td>
<td>20760</td>
<td>20830</td>
<td>21810</td>
<td>24080</td>
<td>24290</td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td>-7.7</td>
<td>13.9</td>
<td>0.3</td>
<td>4.7</td>
<td>10.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Transacted Volume</td>
<td>263787</td>
<td>237990</td>
<td>171459</td>
<td>239108</td>
<td>265452</td>
<td>271826</td>
</tr>
<tr>
<td>Transacted Area (thousand m$^2$)</td>
<td>24370</td>
<td>21990</td>
<td>15370</td>
<td>22470</td>
<td>23810</td>
<td>23550</td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td>92.2</td>
<td>-9.7</td>
<td>-30.1</td>
<td>46.2</td>
<td>6</td>
<td>-1.1</td>
</tr>
<tr>
<td>Turnover (billion RMB)</td>
<td>105.1</td>
<td>131</td>
<td>104.9</td>
<td>152.3</td>
<td>171.9</td>
<td>168.8</td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td>107.2</td>
<td>24.7</td>
<td>-19.9</td>
<td>45.1</td>
<td>12.9</td>
<td>-1.8</td>
</tr>
<tr>
<td>Average Price (RMB/m$^2$)</td>
<td>4311</td>
<td>5956</td>
<td>6824</td>
<td>6775</td>
<td>7221</td>
<td>7168</td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td>7.8</td>
<td>38.1</td>
<td>14.6</td>
<td>-0.7</td>
<td>6.6</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

*Table 6. Commercial Residence Supply and Demand Situation of Chongqing City*

Under the pressure of overall economic decline, the Chongqing real estate market was facing an adjustment. In 2014, the real estate market had entered the phase of structural surplus, it meant that the supply of this market exceeds its demand, therefore, the national investment growth of this market dropped from 19.3% of the first two months of 2014 to 10.5% by the end of this year. In this adverse environment, Chongqing achieved 245.14 billion RMB into commercial residence investment.
Influenced by the macroeconomic performance, there was wait-and-see atmosphere among consumers. From April 2014, real estate companies started to cutting down selling prices to stabilize the transacted volume. As discussed in economic analysis (see Figure 2), the People’s Bank of China started decreasing the leading rate and the reserved-requirement ratio since November 2014, it delivered less financial pressure on consumers, and endowed commercial banks with more loan issuing spaces. Moreover, a policy relaxed the purchase restriction for the first and second time home buyers (“China’s Recent Policies,” 2015), it cut down payment ratio when using housing provident fund. By the end of 2014, the transacted volume reached 271826 (Shenzhen WorldUnion Properties Consultancy Co., 2015), the volume increased 5840 in December, which was the highest in that year (“2014 Chongqing Real Estate Market Summary,” 2015).

In the long term, the real estate industry of Chongqing has finished rapid growth, it is building a healthier development environment. Followed by this trend, the cities will focus on the concept of individualization, a variety of residence products with different appearances and structures will satisfy the individualized demands. The real estate
development will transfer from the big scale and unified mode to a smaller scale and a mode of diversity and uniqueness.

The central government was loosening the limitations since the end of 2014 to encourage the recovery of this business, and the overall market would improve in a stable way. From the supply side, real estate corporations would ease the provision to digest inventory; from the demand side, consumers would rebuild confidence on this market under the easing of credit policies, and the urbanization would create more housing demand. The price is tending towards stability, and its expansion capacity is limited.
4 Chongqing's Furniture Market Profile

4.1 Interior Decoration Market

4.1.1 Market status

The interior decoration market of Chongqing started from the start of early 80s. After 20 years’ development, this industry has established a big scale, the decorating business covers hotel, restaurant, public facility, and living residence. This market is important to the economic development of Chongqing, it even exceeded Chongqing’s traditional industrial such as clothing and textile. At perspective of industrial output, the GDP of Chongqing in 2012 reached 1141 billion RMB, the output of construction decoration industry was 10 billion RMB (see Figure 17), it was one percent of the total economy (data from NBSC).

No matter in Chongqing, or in the whole country, the construction decoration industry is a potential business with solid market growth, especially the interior

Figure 17. The Chongqing Construction Decoration Industry Output

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decoration part. Until 2014, there already have 2426 registered construction decoration companies, and 231.4 thousand employees (data from NBSC). The raising demand from the surrounding counties and cities is help develop this decoration market, and some small scale firms exited this business under the fierce competition.

For a business still in an improving pathway, there exist some problems.

**Small scale.** Compared with real estate industry or big construction, decoration business is consisted by small business entities. Recently interior design and decoration projects have received invest in a large number, however, because of the strong artistic style and complex process, consumers tend to split a project into various parts, and choose different companies and contractors to finish diversified works. Under this condition, single project receive limited investment and labor for decoration firms, so they have to seek for more possibilities to reach higher profits. Therefore, decoration projects are scattered, and hard to be integrated. This raised difficulty for management and operating.

**Low entering threshold.** The lack of technical requirement and no need for big scale investment and equipment, this industry is easy to enter. Originally, interior design and decoration business just needs a hand and a few tool to keep running, even at present, employees just need to design graphics, and works do the rest with some professional equipment. From the perspective of construction, the new techniques are restricted by material manufacturing, the design and decoration department has no technical advantages.

Until now, there are approximately 300 thousand related firms all around China, and 23 million employees. Lots of small scale firms cannot compete with big companies with management or technical merits, thus, they use abnormal means to aggravate disordered decoration market, such as price war, and behind-scene conducting.

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Limited personnel quality. Some feedback from consumers revealed that the majority of interior designers and construction works can only fulfil the basic requests, their design and construction capabilities are not under integrated training and management. Because of the disordered decoration market, there is lacking of strict screening standard for designing and constructing experience and capability,

Weak market exploitation ability. The market exploitation ability depends on the product quality, the customer satisfaction, the market strategy, and the innovative and technical content of products and service. At present, there is no big players in decoration industry, the ten most famous interior decoration firms are mostly at the same level. They manage business in a normal way, weak new business exploitation, weak radiation of surrounding markets, and weak corporate regroup, no international cooperation.

4.1.2 Interior Decoration Companies

Goodstyle Decoration. Founded in 1999, the Goodstyle Decoration is dedicating at home decoration and the design, construction, and post-service for villas and townhouses. It became famous in Chongqing through high cost performance and word of mouth communication (WOM). Differing from the traditional communication channel, such as newspaper and television advertisement, this decoration company pushes online WOM reputation with a strong cost performance, consumers could discover large amount of positive information in Chinese big search engines, and some decoration rating website.

Besides, Goodstyle Decoration release innovative craft in 2009, utilizing red and blue colors to distinguish strong and weak electrical wires, this differed from the popular unified grey color. This technical application ensured the construction quality and the living safety.
**Yenova Decoration.** This company was founded in 1997, working on house designing and construction, also concerning some big public facility projects. The Yenova group has established over 200 designing offices in 25 big cities in China, and employed over 2 thousand designers and 20 thousand constructors.

In 2008, Yenova Decoration released the “Fengge Hui Furnishing”, the newest furnishing service mode, combining design, material direct selling, project construction, and decorating complement to provide a complete home furnishing service system, consumers could receive a decoration related service with best convenience and cost performance.

Yenova Decoration cooperated with Sina.com in 2009, created the “Sina Case Library” to collect qualified designing and decorating cases. At present, there has already over 10 thousand design projects, and received over 400 million page views. This platform provides a space for designers and consumers to learn and communicate, meanwhile, the Yenova Decoration receives its reputation in this industry.

**Guangzhou Xingyi Decoration.** Founded in 1991, devoting to house, villa, shop, restaurant, and hotel decoration and construction, providing a complete one-stop decoration related service, including construction material, decorating accessory, and cultural communication. Until today, Xingyi Decoration has established 23 Subsidiaries and over 200 branch offices surrounding 23 main cities of China. The Xingyi Art Academy was built in 2003 by Xingyi Decoration to train design and project management professionals, and communicate with international related industries.

**Pinkhun Decoration.** Founded in 2000, Pinkhun Decoration has established its design, logistic, trading, landscape branches. As a local decoration group, Pinkhun ten brand
offices, five project management departments, seven quality control systems, one customer service center, and one post-service department, providing a complete service chain combining design, customer service, project, supervision, and logistics. They also cooperate with upstream and downstream industries to offer a better communication and integration.

**Brother Decoration.** It is a local decoration company founded in 1994, up to now, it has open over ten branch design offices and established decoration and logistic business, and Brother Decoration is the leading role in the medium- and high-end class business. From 2011, Brother Decoration started seeking collectivization development and building its own brand, it received the national AAA credit rating in 2012, it is the first decoration corporation entitled this credit. Until 2012, Brother Decoration has received no complain for the last 18 years from consumers.

**Voglass Decoration.** This decoration company was founded in 2006, and it entered Chongqing decoration market in 2014. Differs from the conventional decoration business, Voglass Decoration dedicates in providing premium villa decoration projects for social elites and high-end customers and only focuses on this field. It offers personalized trusteeship services including villa overall planning, construction, principle material supplying. The design capability, the service quality, and the brand image are leading the high-end decoration market.

**Mingdiao Decorative Incorporated.** Mingdiao was founded in 1999, it set foot in house decoration, material logistics, furniture manufacturing, professional training, and providing service for medium and large residence units. It has established 50 branch organizations in the main cities of China.
In decoration industry of Chongqing, there exist problems such as chaotic pricing, material cheating, and construction pollution. Mingdiao released its unified pricing, material managing, and construction supervision system to solve the problems appeared in the conventional decorating process.

4.2 Home Furniture Store

In the furniture market of Chongqing, consumers generally choose to visit some big furniture stores to buy furnishing products. Except the purchasing behavior in these stores, consumers also need the experience of discovering to collect more furnishing information, to receive a better communication result with the designer, and to find the best option.

In these a few years, three furniture superstores have raised and earned their places in the furniture business of Chongqing.

4.2.1 Red Star Macalline

Founded in 1986, Red Star Macalline started as a small local furniture store. Up to 2014, it has open 163 stores in 115 cities, such as Beijing, Shanghai, Tianjin, Nanjing, Chongqing, the total business area is over 10 million square meters with over 18 thousand brands, and the revenue in 2013 achieved 6.7 billion RMB. Wang Wei, the vice president of Macalline claimed in a interview that they planed to open aggregately 300 stores until 2020 (“Red Star Macalline Plans to Build More Stores in Chongqing,” 2015), and develop the meticulous and individualization post-service. It has turned into one of the top brands in home furnishing industry of China. In 1996, Macalline initiative introduced the shopping mall mode into home furniture industry. It transformed from a channel into a platform, bringing in manufactories and local distributors to try direct on-site selling, and
the store only perform as a service supplier, offering integrated marketing, training, and post-sale service, profiting with rents.

Macalline built an online house decoration platform named Decoration Worker, connecting decorating workers and interior designers. With the help of the brand advantages and the local resources of Macalline, it offers a service center for customers through internet, providing professional design, construction, quality control, and material recommendation in a simplified and unrestricted manner. All staff of this platform are under integrated management, consumers have the unified post-service and the same guarantee. Consumers only need to provide their decoration budgets and aesthetic preferences, and pick interior designers and construction service provider, the rest works would be done by the brand and the platform. They can even check the construction and decoration status through a cellphone application in real time. This O2O trial of Macalline started a new direction for the development of furniture business in China.

Macalline took the biggest market share in 2014. It took 10.8% of the chain retail store industry, 3.9% of shopping mall industry, 2.6% of the total retail market. In Macalline stores, 60%-70% are domestic premium brands, 20% are high-end and luxury brands, 10%-20% are potential normal brands. There are three Macalline stores in Chongqing, they are Jiangbei store, Nanping store, and Erlang store. The three stores located respectively in the north, southeast, and southwest of Chongqing. The three regions include economic developed districts and new boom zones, and three stores connect various real estate properties. Consumers can find the imported brands (especially Italian brands) in Jiangbei store.

**Jiangbei store.** This store has an area of 120 thousand m², dedicating to establish a
high-end mega furniture store. Approximately forty pure imported brands in store, such as Natuzzi, Gardenia Orchidea, Villeroy & Boch; about five hundred domestic front-line furniture brands. A number of brands choose this store to open flagship shops and image shops. The product categories include sofa, dining table, ceramic tile, floor board, and bathroom accessory.

This store collects the most Italian pure imported brands in the Macalline store system, consumers can find best imported furniture products with premium product experience in Jiangbei store.

**Nanping store.** This store has a total business area of 10 thousand m², focusing on mass-market brands and providing petite bourgeoisie experience. Consumers can find all decorating materials in the store, the products vary include house furnishings, sanitary ware, floor board, wallpaper, curtain, painting, lighting, intelligent domestic electronics, ironware, ceramic tile, cabinet, and so on. Chongqing citizens can receive one-stop experience in this store.

**Erlang Store.** This store established in 2014, it was the third Macalline store entered Chongqing. Other than traditional furniture market, the Erlang store integrates furniture, construction materials, decoration accessories, domestic electronics, interior design, catering, entertainment, and art exhibition into cohesive whole, building the first all formats furniture store in Chongqing, and in southwest of China. This store has different positioning compared with another two. Jiangbei store reflects its international brand image, Nanping store has the fashion style and targeting the petite bourgeoisie group, Erlang store focuses on brand integration.
4.2.2 Easyhome

Easyhome was founded in 1999, and it entered Chongqing in 2006. The shops in Easyhome include almost all premium brands and products, and integrated with furniture, construction material, construction, decorating accessories, hardware, and painting. Until 2014, Easyhome has established 107 stores in large- and medium-sized cities of China, with an area of 6 million m² in total, its annual sales surplus 35 billion RMB. In future five years, Easyhome plans to establish ten to fifteen stores every year.

Easyhome is famous for its “easy mode”. This mode means the store is a theme shopping center for furnishing products, it was integrated with stalls, brand specialty stores, and material supermarkets, consumers can find all products through the one-stop experience. This integration differs from the general furniture stores with stall system, or some construction material supermarkets.

Various furniture stores in China collect all kind of brands without level differentiation, and have a confused brand image. Easyhome is targeting high-end income group, offering customized purchasing experience with premium furnishing products. Easyhome has strict controlling mechanism on the in-store shops to protect the unified store image. At present, Easyhome has introduced imported brands, national chain brands, and regional brands.

On the service side, Easyhome offered commitments about post-service, shipping, product guarantee, and environment protection to satisfy customers.

There are two Easyhome stores locating in the south and the north of Chongqing, Jinyuan store and Erlang store.

**Jinyuan store.** The Jinyuan store located in the north core commercial circle of Chongqing. It has an area of 12 thousand m², close to a shopping mall, big restaurants, a
theme park, supermarkets, and an electrical equipment store. This store is surrounded by a convenient transportation network leading to the main city and the north high-tech development zone. Aiming at the high- and medium-end consumers, the Jinyuan store offers the best furnishing products and the construction materials with hundreds of unique brands. And only in this store, pure imported brands are integrated in an individual pavilion, named “JiaZhiZun”, collecting the best luxury foreign brands and premium furniture products in Chongqing. Consumers can find products from various country in the pavilion, especially from Italian.

Italian furniture brands take the biggest portion in the pavilion, they principally provide sofa, dining table, and wardrobe with premium design and quality. Other competitors such as America, Switzerland, Germany offer different products, take for instance, mattress, kitchen ware, and sanitary appliance, it’s not competing directly with Italian producers.

**Erlang store.** Located in the south of Chongqing, the Erlang store connects four different city center groups, Yangjia Ping, Shiqiao Pu, Shaping Ba, Dadu Kou. This store has 100 thousand m² of business area, and collected about 300 international and domestic furniture brands, among them approximately 100 brands are unique in Easyhome stores. Differing from the Jinyuan store, the target of Erlang store is the mass popularity, the levels of its brands are mixed.

**4.2.3 Longfor MOCO Home Life Museum**

Based on the newly built real estate Longfor MOCO, in 2011, Longfor constructed a high-end furniture store called the home life museum next to the MOCO community. The store has a business area of 30 thousand m², close to other real estate districts and the north

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circle of Chongqing. It sells products in several themes in this store, there are themes such as imported products, domestic premium brands, innovative furnishing products, fashion furnishings, and furniture related products. Among 41 brands in the store, 50% are pure imported, 40% are the brands firstly entered Chongqing, and 50% are unique only in the MOCO store.

With the offering of international furniture products, the store provides a globally synchronized experience to the consumers that have a fashion and artistic taste. From 2011 to 2014, the Longfor MOCO home life museum kept growing with a ratio of 15%.

Generally, the American based brands are famous for the mattress production, the MOCO furniture store has open an America style furnishing shop named Harbor House. It provides sofa, dining table, bed, and all the household objects, such as lighting, bathroom furniture, wall hanging, and kitchen ware. The fresh and unified design presents a new choice differ from Italian luxury products. However, Harbor House is not based on pure imported products, only the raw materials are from America, the products are assembled in China.

4.3 Survey Conclusions.

Chongqing, under the national development tendency, has achieved great economic results. The growth of real estate market and consumption capacity of consumers coming along the overall advancing stimulated the home furniture business to boost. The home furniture industry in Chongqing has developed into a rapid raising, highly competitive industry.

However, the furniture business in Chongqing is facing the problems such as product
homogeneity, disordered competition, reducing market space, economic benefit reduction. Along with the economic advancing, small and disorganized firms would be eliminated, and the home furniture market would face reintegration, professional production and marketing would lead the business to a coordinated direction.

In the imported furniture market, Italian furnishing products are the most dominant. American and Swiss brands are mostly regarding mattress products, Germany furnishings brands are engaging in kitchen ware and bathroom accessories. French furniture is ware in the market of Chongqing, it particularly is regarding brand and product cooperation.

Chongqing’s distributors, designers, and consumers all have good recognition for Italian furnishing products based on the worldwide reputation of designing and manufacturing capability. But there are only limited choices concerning Italian furniture products, this market is expecting more opportunities to cooperate with Italian furniture producers.

The distribution of Italian furniture is still in a small scale. In current furniture market of Chongqing, Italian furniture shops are scattered in some big furniture stores, for example, Gobbo Salotti, Natuzzi. The distributors of Italian brands also agent other furniture brands. Except a few pure imported brands, the other Italian products are assembled in China, only the raw materials are imported from Italy.

Originally, most interior designers have their own channel to fulfil decoration projects, they would cooperate with some distributors to promote furnishing products and earn more profits. Recently, the market competition made this business more transparent, designers only accompany consumers to finish furniture selection, the professional opinion for consumers are just reference. Currently, the cooperation between interior designers and

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distributors is serving for the high-end projects, because the high-end consumers have limited energy to accomplish the whole decoration process, and they have the capability to afford high decorating costs.

The majority of consumers consider that Italian furniture offers modernized design, complex manufacture, solid quality, and luxury experience. Yet, the higher-priced positioning is the primary factor that causes the hesitation when consumers are making the acquisition decision. For those who can afford expensive Italian products, they usually only received inferior cultural education and lack of aesthetic judgment, some implicit design of Italian furniture cannot be well appreciated.

4.3.1 Perception of Italian Furniture Products

Italian products are famous for its modernized designing and manufacturing capability, and so as the Italian furniture products. Chongqing’s market is highly recognized the luxury and premium lifestyle the Italian furniture is providing, but there still are some problems in this imported Italian products in Chongqing (see Table 6).

For distributors, the imported Italian furnishing products represent the prominent design level in the world, and the reputation is worldly recognized, the consumers can receive luxury and premium experience from the Italian design and the lifestyle of the furniture. Distributors can collect the newest trends and product categories mostly from their producers. However, some distributors stated that, the scale of imported Italian furniture in Chongqing is still limited, the related market is still underdeveloped; the high importing and operating costs lead to the low profits, the revenue is under expectation; the current home furniture market in Chongqing is intensely competitive and disorganized, for a large content, the distributors of Italian furniture can hardly compete with the distributors

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of domestically produced furniture in price wars or some promotional events.

<table>
<thead>
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<th></th>
<th>Perception</th>
<th>Info Search</th>
<th>Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributor</td>
<td>Prominent design; worldwide reputation; luxury experience;</td>
<td>From their producers</td>
<td>The market is still limited; high costs, low profits; local market is intensely competitive and disorganized.</td>
</tr>
<tr>
<td>Designer</td>
<td>Best quality; high-end price; top design; lead the design trend.</td>
<td>The internet and specialized magazines, and some events and exhibitions; also from distributors.</td>
<td>Weak relationship with distributor of Italian products,</td>
</tr>
<tr>
<td>Consumer</td>
<td>Luxury lifestyle; high-end price; represent western design compared with Chinese style</td>
<td>Internet, furniture stores, and from the designer</td>
<td>High price influence on final choice.</td>
</tr>
</tbody>
</table>

Table 6. Italian Furniture Perception and Existing Problems

For interior designers, Italian furnishing products always set the trend of design, it represents the best quality and the modernized and European taste, using Italian furniture is possible to raise their design projects to a greater level. But the price limits the acceptance from the side of consumers, and there have some clients with the purchasing capability but they request other more exaggerated styles. The designer groups are more dedicated to the furniture information. Therefore, they regularly seek for news and new information on the internet, and they subscribe specialized furniture-related magazines to stay in the trend. They also receive information from the distributors they cooperate. However, the

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distributors they cooperate with are mostly low- and medium-end organizations, because designers need to cut down the costs to have more profitable space and propose a reasonable price for their clients.

For consumers, Italian furniture is one of the top furnishing products in this market, they appreciate the luxury lifestyle while using Italian furniture. Compared with the design and quality of Chinese produced furnishings, Italian furniture represents the high standard of western design capacity, and it has a high-end price. The majority of consumers in Chongqing, they only need furniture and decoration related information not long before their decoration projects. Thus, they collect information on the internet and also from their designers. The most imperative problem that is influencing their purchase decision is the price, even though they have the aesthetic capability to accept Italian products, most of them cannot afford to buy.

4.3.2 Decision-making Process

In furniture business, decision-making is the process of identifying and choosing alternatives based on the value perception and aesthetic preferences of the decision-maker. This process involves distributor, designer, developer, and private client (see Figure 18).

**Distributor.** This role directly supplies furniture products to the public. Distributors contact designers based on continuing relationship, or for particular cases, supporting brand and product solutions. For the decision-making process, distributors have minor domination on choosing the brand, the style, and the price level of the products they are supplying.
The distributors are possible to interact with developers and final clients. They offer diverse products with different price levels under corresponding circumstances. However, the majority of them do not supply the purchase experience coherent with their products, and mostly, they lag behind in launching new collections regarding the West furniture market. It is disappointing for those customers that have an international vision and are well-informed.

**Designer.** In this case, the interior designers based on the design proposal they offer, recommend and partly affect consumers’ acquisition decisions, but they are not capable of bringing the full value comprehension of the furniture to the consumers. Interior designers receive various information regarding consumer preferences, market tendency, and enhancing their design capability, and they cannot possess the complete vision of all imported furniture products from the distributors. And there existing the communication gap between Italian design and Chinese market, the value of some less famous brands and products are difficult to communicate to local designers. Besides, the designers generally

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would not put the Italian furniture at the first option. The Italian design is principally very modern and simplified, and it requires the advanced aesthetic appreciation for consumers. And the price is higher than most domestic produced products. Therefore, they come to other choices.

The acquisition behavior of interior designer is effected by three forms: clients state the style preferences and authorize designers to buy decorations and furnishing products on behalf them; some designers famous for the reputation or personal achievements, will subjectively choose the clients they would cooperate with, thus, the designers have the capability to use the products based on the style, in this case, the designers are more possible to entrust the offers from distributors; in Chongqing, most designers would propose to choose final products together with consumers, they visit shops of distributors and give the professional suggestions in real time.

**Developer.** Real estate developers are big-scale entities, and they possess internal organizations dedicating internal design. These organizations are occupied in two main activities: Decoration planning concerning showrooms and trial apartments; consultation service regarding decoration for business clients, for example, office building decoration. The final decision is mostly made by the inside design group to implement showroom projects.

**Private Client.** The final consumers make the acquisition decisions based on the recommendations from friends, the information they received from the internet, the design proposal from designers, and the showroom they visited. A large number of consumers lacked professional decorating experience and integrated aesthetic judgment; the final furniture selections may not perfectly match the original design proposal. Hence, to receive
the best decoration result, one part of consumers tends to consult some professionals or authorizes their designers the right to acquire, they can even receive a discount in virtue of the relationship between designers and distributors.

### 3.3.3 Problems of Italian Furniture Industrial Players

In Chongqing’s furniture business, the pure importing market primarily consists by the products from three countries, they are Italy, Germany, and America. German products are mostly premium kitchenware and household appliances, such as cabinets, cookware, cutting tools, water heater, and refrigerator; American product categories essentially concern expert mattress, only one specialty store is selling American style furniture and decorations, but only the raw materials are imported from America, the assembling is processed in China. There are also products from France and Switzerland, but the portion regarding pure importing market is a small influence, so the discussion only focuses on Italian products.

**Price positioning.** Based on the feedback of salesperson of pure imported Italian furniture, the price of the products is high for Chongqing citizens. For instance, in a brand named Gobbo Salotti, a set of the sofa for the living room costs at least 50 thousand RMB, however, the domestically produced sofa costs usually ten times less.

These Italian furniture products have a price premium of brand, design, and quality, but the consumers of Chongqing can hardly comprehend the concepts. Even for that wealthy class, which has high-end taste and financial capability to understand the value of Italian products, the price is too high to make the acquisition decision in short time. Refer to some local interior designers, they cannot fully make a distinction between Italian imported products and another relative premium furniture from other countries.

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The authenticity perception of imported furniture is another factor that is constantly influencing the decision-making process when consumers are choosing among varieties. There happened a Da Vinci scandal in 2011 which concerning Italian imported furniture. The company named Da Vinci used domestically produced furnishing products to pretend as authentic Italian products under some illegal activities, to sell at a premium price. This adverse event had serious harmful influence in China’s furniture industry, especially for those distributors of Italian imported furniture. As a result of this event, some consumers and interior designers have this doubt and misunderstanding for the furniture “Made in Italy”.

**Waiting time.** Naturally caused by the long importing process and the long distance between Italy and China, the customizing and the shipping term is commonly longer than the domestically produced products. It takes averagely two months for most Italian brands that to finish the whole process from purchasing to shipping, and the brand Gobbo Salotti discussed above would spend four to six months on customizing, manufacturing, and shipping from Italy to China. Regularly, Chinese consumers put at most half a year into house decorating, and some of them have plans to leave it empty for two months to get rid of some poisoning gas derived from the decoration process. Thus, the purchasing experience will take a few months to end, and this would somehow affect consumers’ plans concerning the decoration.

**Strategy inequality.** Some interior designers and final consumers, which have the ability to apperceive an Italian brand’s international marketing strategy, usually will find out that some brands have different price and positioning from place to place. Sometimes the strategy disparity will make them lose interests.
In some international furniture fairs held in Italy, a part of Chinese interior designers and distributors had the intention of cooperation with Italian counterparts, they searched opportunities to agent or purchase in a large volume. However, some Italian exhibitors expressed reluctance to react. These designers and distributors have been informed of this business difference, but it was not profitable for both parts and was not helping the economic and cultural communication.

**Product visibility.** Distributors of imported furniture commonly only display part of their product lines in the shop, interior designers and consumers have limited product visibility in furniture stores, they can only ask for the product catalog or search related information on the internet to get full product line data. Meanwhile, Italian furniture shop in Chongqing cannot receive a timely update when the brand releases its latest design; it usually would take a long time to be available for the consumers of Chongqing. The consumers with global visions can get only through other manners such as the internet or some international furniture fairs to be informed the newest model.

**Style preferences.** There is a phenomenon called conspicuous consumption among the rich class. The conspicuous consumption represents a psychological inclination: consumers have stronger possibilities to pay while the price of a product is higher. The purpose of this kind of consumption is not for direct material satisfaction or the practical value of a product; it is for identity showing off and psychological satisfaction. Price possesses an exclusive function; consumers are possible to reveal the income level and social position through the price of a product, and to be socially separated from the low-income earners. Meanwhile, the form of the furniture should be complicated and exaggerated; the specific styles include Renaissances, Rococo, and Baroque.
5 Investment Prospects

The economic development and the improving of material and cultural life are providing a vast space for Chinese furniture industry. This market is attracting international capitals and professionals in design, management, marketing, and technology. Meanwhile, based on continuous economic reforming, Chinese furniture corporations are improving the product quality and the mechanization level of manufacturing, and investing in design and technical innovation.

5.1 Competition Environment Analysis of Porter Five Forces

In the perspective of the industrial development stage, Chongqing’s furniture market is in the early growth period. This market has achieved a certain scale, but it is consisted by small- and medium-sized corporations. The industrial structure is not stable, furniture manufacturing and distribution still need enhancing, and there is huge space for further development.

Chinese furniture manufacturers are primarily small- and medium-sized corporations, the market concentration level is low. The main production clusters have a trend of homogenization in processing technology and product categories. The products are mostly low- and middle-end with weak brand and image, they have limited design and R&D capabilities. The competitiveness of Chinese furnishing products in the international market is the price.

In virtue of the big demand of China’s domestic market, foreign capitals have started collaborating with local distributors and investing in local manufacturing. In Chongqing, there are big stores of furnishing products covering low-, middle-, and high-end products.
The international furnishing store IKEA has opened the first Chongqing store in 2014.

With the analysis method of Porter five forces, there could have a clearer understanding of the industrial structure; thus, related companies could generate corresponding strategies.

5.1.1 Threat of new entrants

The development of economy and urbanization, Chongqing’s furniture market is attracting more capitals into this business. Because of the globalization, China is continuous implementing reform and market opening, Chongqing as one of the critical cities in China, the entering barrier is vanishing.

Big foreign investors are entering. They are more experienced in international operation and marketing, and providing premium products. It is threatening for domestic middle- and high-end furniture manufacturers. However, Chongqing is the second tier city of China, the consumers have limited financial capabilities and consumption awareness; therefore, the profitability of high-end furniture brands is narrow.

5.1.2 Threat of substitute products

In Chongqing’s furniture market, the insiders are mostly in small and medium scale, they provide products in various categories. However, these products appeared similarities in price, quality, and design. Consumers or buyers have low switching costs, and there are weak boundaries from increasing the propensity of consumers to switch. Meanwhile, consumers primarily purchase furniture in big furniture stores, the products are displayed closely, there has high furniture availability for consumers.

5.1.3 Bargaining power of customers (buyers)

Furniture is a kind of durable consumer goods with the superior price compared with
other commodities. The furniture consumption in Chongqing happens in big furniture stores, the price is certain, most consumers have to pay the full price.

However, the big buyers for bulk purchasing could receive a reasonable discount depending on the purchase amount. The furniture manufacturing clusters of the south and the north are attracting both domestic and foreign buyers to purchase. Especially in Guangdong area, its export volume takes more than 50% of national total. There are big furniture exhibitions in big cities of China every year, such as Beijing, Shanghai, and Guangzhou. The big events also sell furniture in a big amount. Because of the bulk purchasing, the buyer side usually has stronger bargaining power compared with final consumers.

5.1.4 Bargaining power of suppliers

The supplying of furniture manufacturing concerning wood, panel, painting, ironware, textile, leather, and equipment. The suppliers in Chongqing are mostly small-sized, the concentration ratio is low, and weak ability to forward vertically integrate, so suppliers for manufacturing have no strong bargaining power. The furniture manufacturers have enough space on supplier selection.

For distributors, the supplying of finished furniture products is ample. As a result of rapid development speed and high profitability above normal commodities, this market consists of small- and medium-sized manufacturers, they supply mostly low- and middle-end furniture products, and more manufacturers are entering. Therefore, distributors are possible to find similar products, and they have low switching cost.

Only for the high-end market, high-end furniture distributors have to build a strong relationship with suppliers of high-end products, because these suppliers provide better
products with premium design and quality, the alternative space is limited compared to low- and middle-end product suppliers. Thus, the suppliers of high-end furniture have stronger bargaining power.

5.1.5 Intensity of competitive rivalry

The furniture market includes material suppliers, furniture manufacturers, distributors, and distribution channels. Even though the real estate market keeps stimulating the furniture business, the supplying is exceeding the demanding.

In the low- and middle-end furniture market, there lacks innovation capability, the similarity product level is high. Only in the high-end part, every brand provides particular designs and styles, they possess the sustainable competitive advantage through innovation.

5.2 Further Development Directions

5.2.1 Globalization

Chinese furniture industry is improving towards globalization and diversification like other domestic industries. Under the economic globalization, Chinese furniture business is going out to compete and bring in international products. China joins the World Trade Organization in 2005, currently, China is opening the market of construction, designing, and decoration for international investors, foreign corporations are possible to establish independent organizations in China. After the 22th Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting of 2014, the Asia-Pacific free trade area has started and the tariff has been canceled, more foreign brands and products are coming into the Chinese market.

The globalization for China is no longer the simple imitation of foreign culture and
products, it is the new style after bidirectional integration. The trend of modern and simple design is influencing the Chinese furniture design; the revival of Chinese culture would communicate with the world. At the same time, more foreign capitals and professionals would enter, especially the second-tier cities such as Chongqing, to achieve broader market possibilities and higher profitability.

5.2.2 Expansion of middle- and high-end market

Primarily because of the proceeding of urbanization, more middle class appeared. The surrounding cities of Chongqing, or of other big cities, have increasing demands for middle- and high-end furniture products. Economic development is raising incomes and material life of citizens, they have the desire to improve the living and working condition. Besides, the customers of the younger generation have better aesthetic taste, and they have more solid consumption awareness, the demands for better furniture, especially for imported furniture are in the trend of rising.

Meanwhile, senior citizens possess corresponding consumption capacity and demand to renew house decoration. Chinese citizens tended to fulfill house decoration only once in their lifetime in consequence of the economic situation, cultural practices, and some historical reasons. In big cities, nowadays, senior citizens are in quiet and stable life conditions, they have enough time and money to pursue better living environment. Hence, there have stronger demands for better furniture products.

5.2.3 Brand and image construction

Chinese economy in this stage is under complex environment. Intense international competition, fast market screening, and rising consumer requirements are all forcing Chinese furniture-related corporations into self-updating and improving.
Brand and image construction, focusing on design and innovation, bringing product differentiation, is the most imperative for furniture corporations. Chinese furniture industry primarily consists of small- and medium-sized companies, and they are mostly providing low- and middle-end furniture products, these parts of markets have already saturated. Simultaneously, consumers are seeking products with better design, quality, and service, they cannot be satisfied with domestically produced furniture. The best way to compete with foreign products and stimulate domestic consumers is to update self-brand and image.

### 5.2.4 E-commerce

Furniture products naturally cover more selling area in the marketplace, in virtue of furniture diversity and different distribution channel, the profitability is limited. Some furniture corporations concerning big furniture stores or manufacturers have started ecommerce exploration. For instance, Red Star Macalline has established the online store in the official website, and many furniture manufacturers started direct distribution in the biggest online store Taobao.com.

The marketing of furnishing products will implement the mode of online to offline. The online store offers all information regarding products, combining on-site service of designers, and consumers can have related furniture experience in big furniture stores. Another possible direction is that online store and offline shop of one brand sell different products, guarding against the conflicts between these two channels.

However, the e-commerce in China at present is under much controversy. The internet is not as regulated as the commercial market; there are already a large number of product problems and customer complaints in the market. High-end customers have less trust on e-commerce, they would choose the physical store to receive better service and better product...
guarantee. To establish a complete market, the online market has a long way to go. Besides the product quality, the players of the online store have to concern with screening system for distributors and products and providing stable and robust post-service.

5.2.5 Overall decoration

The overall decoration is highly appreciated in developed countries. However, Chinese consumers are used to following the whole process from the beginning to the end. The fast economic development finally gives them the financial capability and the awareness to accept this overall decoration concept, and there is already this overall decoration tendency during villa decoration.

In Chongqing, the consumers of overall decoration are mostly new-rich class, they are less educated to accept this concept. However, there are some decoration companies dedicating on villa decoration and overall decoration such as Gemei Decoration. It is promoting overall decoration over a few years, and it plans to build up a warehouse of international furnishing products to provide better service.

5.3 Investment Suggestions

In Chongqing, there are certain gaps compared with western countries regarding scale of production, designing level, and management capability, and additionally, Chongqing still needs more specialized manufacturers and skilled workers for more advanced furniture products.

Foreign brands, especially Italian companies possess the comparative advantages on the top design, advanced manufacturing techniques, and modern equipment. On the down side for Italian manufacturers, the labor costs are high, the shipping periods are expensive
and long, the operation costs are high, all these factors are disadvantages in foreseeing future.

The core of receiving a successful result for Italian brands is minimizing the disadvantages and consolidating the advantages. For Italian furniture merchants, they have the image of the premium design, high quality, and durability, the high-end furniture market need persistent consolidation; to minimize disadvantages, they should collaborate with local manufacturers and bring innovation to this market.

5.3.1 Localization

Currently, the most prominent operation of foreign furniture brands is to collaborate with local distributors. In this way, foreign brands could care less on the marketing, only focusing on the design and quality can attract international distributors through furniture exhibitions or other channels. International distributors possess comprehensive understanding of local furniture markets and distribution network; therefore, most foreign furniture corporations tend to cooperate with these distributors to save efforts.

However, there usually existing interest conflicts between manufacturers and distributors. Some distributors agent several brands, including both domestic and foreign brands. The profitability of a particular brand cannot be constantly satisfying. And sometimes one single incident could cause severe negative influence. For the marketing, manufacturers tend to impute the costs of promotional events and marketing efforts to local distributors with the purpose of reducing marketing workflow. Simultaneously, distributors tend to rely on the market operating of the foreign brands, which may be opposite to the operation system of the brand.

The performance of a company is influenced by political, economic, cultural, and
geographical factors. Thus, localization is one of the best ways for international investors to adapt to local market and receive a better market respond. Considering the reality of foreign brands in Chongqing, there are several improvement directions to receive a better result.

**Local collaboration.** Entering Chongqing furniture market as an independent corporation is a good way to reduce some competition disadvantages. Preferably, Italian brands could seek for local partners regarding setting up factories, joint venture or supplying furniture materials and components.

Collaborating with Chongqing’s furniture companies is an easier method to understand the market. Foreign investors build co-partnership with Chongqing’s related companies could receive local relationships and local market experience, and they can sell products with the original distribution channel. Italian furniture already has achieved high product recognition among Chongqing’s furniture market with the design and quality, Italian investors are possible to introduce only the design capability and technical guidance into Chongqing, the other segments such as materials, manufacturing, and distribution can be assigned to local groups. Meanwhile, the local manufacturing will decrease the waiting time from customization to shipping.

There are already collaboration samples such as Milano and Design (as know as M&D). Their products are based on semi-customization, Italian side provides all materials, assembling work is in Shanghai. The selling price is obviously lower than pure imported products, and the waiting time is two to three months, at least half time less compared with five to eight months.

In the perspective of overall decoration, Italian investors can collaborate with
companies such as Gemei Design. The companies dedicating on villa decoration and overall decoration have more opportunities to choose an integrated style, the products from the supply side could be more directive. In the meantime, the international warehouse plan of Gemei Design could largely save the waiting time.

For those big-scaled brands, an individual store is a good option. Without being affected by local furniture stores or distributors, an individual store can display most related products to local tastes, and decorate the store with Italian concept.

No matter which direction the Italian merchants utilize, the cost would reduce if they use the Yu’Xin’Ou railway to do the material shipping.

**Price.** The price of furniture is a tool to distinguish different type of consumers. Italian brands should keep the price positioning in the high-end furniture market, to maintain the image and receive high profitability.

However, the price of imported Italian furniture is a key barrier to obtaining bigger market share, because the majority of furniture consuming is paying close attention to middle-end furniture products. Chongqing is a second tier city of China, its consumers are mostly price-sensitive; they highly appreciate the cost performance of a product. In the perspective of consuming volume, the middle-end furniture market has ample growth potential. Lower the final price to a level that more consumers could accept, and slightly higher than other domestic produced furniture product, it will reach more target consumers, and it is a good way to cultivate their aesthetic taste and consumption awareness.

**Technical innovation.** Italian products usually will meet the copy problem. A large number of small- and medium-scale local furniture companies will copy the successful furniture products to save the design and projecting costs, so their products can sell at a
lower price. Some foreign furniture brands could not pass the price war. Therefore, they left Chinese furniture market.

Chinese legal system only provides protection for the exterior design of furniture. The intellectual property office would issue the certification and related patent number, but this patent only works when the copy imitates over 80% of the original product. For duplicators, they could just change the material, the manufacturing craft, the color, and the modeling, the patents of the original products would be invalid.

Italian merchants can step ahead the local manufacturers, stimulate the technical innovation, producing products with high quality and high technological content. Meanwhile, fast product generation is a way to lead the market and step ahead duplicators. This is the best way to be inimitable and survive the price war.

**5.3.2 Market communication**

The economic condition of Chongqing is in the front rank of China; high-end furniture products should have the corresponding market share. However, the consumers with financial capabilities possess low aesthetic taste and consumption awareness, some luxury house were decorated with normal middle- and high-end furnishing product.

There are consumers who can really appreciate Italian design and quality, and understand the concept of certain brands and products. But this group are among the young generation, they have limited consuming capabilities. So for Italian brands at present, the best way is to cultivate the consumption awareness of consumers who can afford high-end furniture product, rather than purchasing for showing off.

**Precise targeting.** To achieve effective communication, the targeting is one of the most important. The phenomenon of conspicuous consumption among the rich class has
two inclinations: they need expensive products to show off the financial strength; they need exaggerated design and sculpt to raise the furniture visibility. Big Italian brand could produce related products with the style of Renaissances, Rococo, and Baroque to receive higher profits.

However, Italian furniture represents the modernized and simplified design and sculpt in the worldwide furniture market, this aesthetic taste in Chongqing can be fully appreciated mostly in the young generation. This group of consumers has less financial strength, therefore, to cultivate the consumption habits and the customer loyalty, Italian brands are possible to lower the price by utilizing fewer premium materials and online selling. Meanwhile, the furniture products can open up a new product line with brand new designs for those who have high educational level and living standard requirement.

**Local exhibitions.** The furniture exhibition in China is a big event for industrial communication, it provides a trading platform for manufacturers, upstream and downstream corporations, supporting enterprises, and marketing channels. The exhibition integrates the industrial chain of the furniture business, supports exhibitors to communicate new products, innovation concepts, design trends, and industrial directions.

The International Furniture Fair of China started from 1993, until now, it has established the most powerful influence in China. The potential of the west attracted this furniture fair; it was held in Chongqing in 2013, and Chengdu will hold the next one in 2016. Italian brands could utilize this opportunity to exhibit their design and concept, to reach more local distributors and final consumers.

**Media cooperation.** The communication through the channel of media is a direction that is possible to reach more potential consumers. Imported furniture is high-class product,
the target consumers are financially capable and interested, so the particular media selection is imperative.

From the offline side, for instance, related furniture merchants should invest magazine or video commercials in first-class stateroom cabins and business class in all flights arriving Chongqing or departing from Chongqing, it would reach the Chongqing-related businessman and wealthy class. There are local magazines concerning business or social elites such as Business and Leader Domain Taste, and their target readers include the most financially powerful and socially influential, therefore, the there would be advertising effectivity. For interior designers, the professional magazines are influential to their work, the advertisement about the brand concept and new product can reach local designers.

From the online side, the most effective and efficient channel is advertising in Dayu Net. Dayu Net is a news and information website designed by Tencent, especially for Chongqing citizens. This channel covers most locals by virtue of its all-sided information, and when Chongqing citizens log in the messaging software QQ, it would push the highlighted and edited daily new and information to users from the web site Dayu Net. This channel is greatly adaptable for medium-sized Italian brands.

**Stick to the customization concept.** The furniture products of Chongqing are mostly made-to-purchase; local consumers have weak awareness or relationship with the concept of customization. Italian brands are the best option for them to experience the personalization, but the price is a barrier for consumers.

However, customization is the big distinction of Italian furniture products from domestically produced furniture, and it stands for the premium experience and value of Italian furniture. Therefore, the most imperative is to cut down the price by cooperating
with local manufacturers and utilizing less expensive material, and then the local customers have the abilities to try furniture customization. This will cultivate consumers to upgrade their consumption awareness and understand more the Italian culture.

Besides the customization of textile, leather, and size, the structure is also as important. Asian people have slight differences in body structure compared American or European citizens, if the structure could be adjusted by Asian average body structure, even the particular consumer, the consumption process and the user experience would be largely upgraded.

5.3.3 E-commerce

The most popular distribution and retail channel are the big furniture store. The distributors who agent imported furniture have to rent large space to display and prepay part of all displayed products to receive a complete shop. However, it is potentially dangerous for distributors; they may fail to communicate the full product and brand value just because of lacking of capitals. For most medium-sized Italian brands, the e-commerce trial in Chongqing is one of the best pathways to open the market.

The costs of management, labor, logistics and raw materials force manufacturers into new channel experiencing to realize further channel construction. E-commerce as a popular channel in Chongqing, it could largely reduce the stock, save rentals in the furniture store, face final consumers directly, and at the same time be dominant in product and logistics. In virtue of the cost reduction, the price would be lower on a large scale. Thus, medium-sized Italian brands are most suitable to provide products for those who are aesthetically advanced but lacking financial affordability.

There are different options regarding furniture e-commerce. The first is building up stores
in big e-commerce websites such as taobao.com or iliangcang.com (this website is selling products containing the concept of life aesthetics), and anticipating some promotional events of the website. It is suitable for medium-sized brands because it requires less effort of website construction and operating, many costs can be saved. Another way is to build an independent online shop with the name of the brand. It requires more time and financial support in building a website, finding an effective logistic channel. However, the online shop saves rentals of the big furniture store and possess flexible operation, and there needs no abundant stock in the warehouse, products can be manufactured once receiving orders.

Undoubtedly, the disadvantage of e-commerce lacks physical experience. To compensate for it, related brands could open experience pavilion in furniture stores or build individual ones. Customers can fully experience the texture, the size, the design of one particular product, and consult to the salesman with decisive problems. Furthermore, Complete post-service is imperative to imported furniture brands regarding e-commerce. The product suppliers could employ professional designers to contact personal consumers and to customize the furniture products, and they should provide a whole set of product return and exchange regulations to be trustworthy.

5.3.4 Authentication and post-service

After the Da Vinci scandal in 2011, a part of Chongqing citizens has doubts towards imported furniture, because they pay a big price without receiving an authentic product. To improve the quality and origin authentication, the first is to ensure the originality of the product, providing related documents such as origin certification, packing list, and declaration form. Secondly, the manufacturers should label clear information regarding brand, origin, materials, manufacturing craft. The third is the post-service, the merchants
should prepare complete after-sale service such as return and exchange regulation, delivering and assembling, environmental protection.
Reference


Peijian Yu 814304


## Appendix

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<th>Interviewee</th>
<th>Role</th>
<th>Organization</th>
<th>Organization Type</th>
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<tr>
<td>Yang Sen</td>
<td>CEO</td>
<td>Gemei Design</td>
<td>Interior Luxury Design and Construction</td>
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<tr>
<td>Wu Yang</td>
<td>Designer</td>
<td>Jiatianxia Decoration</td>
<td>Interior Design</td>
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<td>Bai Lu</td>
<td>Salesperson</td>
<td>Tanyue Home Furnishing</td>
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<tr>
<td>Luo Lilu</td>
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<td>Serta Mattress</td>
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