

Case Study of Online Retailing Fast Fashion Industry

Wei Zhenxiang and Zhou Lijie

Abstract—The study investigates into the fast fashion industry worldwide, specifically on Zara, H&M and UNIQLO with respect to efficient supply chain management, scarce value creation, low costs promotions and positioning strategy, supported by comparisons between several typical well-known fast fashion brands. Through the overall analysis of B2C apparel online retailing in China, statistics show an enormous space for online retailing fast fashion industry to explore but a far way to catch up with the leading enterprises in the world in terms of e-commerce scale. The next main part demonstrates a case of a Chinese fast fashion online retailer-Vancl, analyzing its keys to success in aspects of proper product positioning, brand positioning, business mode, marketing strategy, products and services, user experience, logistics and team management. In addition, relevant suggestions for further prosperity are proposed in the end of the paper.

Index Terms—fast fashion industry, e-commerce, B2C, online retailing

I. INTRODUCTION

The traditional marketing and management of fast fashion industry is experiencing a revolution because of the emerging of e-commerce. Since the birth of e-commerce, businesses have been able to make use of the Internet in reducing costs associated with purchasing, managing supplier relationships, streamlining logistics and inventory, and developing strategic advantage and successful implementation of business re-engineering. E-commerce allows companies to improve communications within the supply chain and enhance service offering, thus providing chances for competitive differentiation. That may explain why so many online retailing companies merged in China recently, such as Joyo Amazon, Dangdang, Taobao, Vancl and 360 Buy. This article takes Zara and Vancl in comparison for case study to analyze the success of the newly merging online retailing company in fast fashion industry and raises suggestions for Chinese fast fashion industry to stay competitive in the future.

II. BRIEF ON THE FAST FASHION INDUSTRY WORLDWIDE

Consumers are reluctant to spend on discretionary items, and when they do, they expect fashion, quality and low cost items. Fast fashion is a contemporary term used by fashion

retailers to acknowledge that designs move from catwalk to store in the fastest time to capture current trends in the market. The apparel products are designed and manufactured quickly and cheaply to allow the mainstream consumer to take advantage of current clothing styles at a lower price.

Since the primary objective of the fast fashion is to quickly produce a product in a cost efficient manner, most companies in fast fashion industry appear as a vertical integration of design, just-in-time production, delivery and sales. Also, it places great emphasis on the efficiency of the supply chain. Because of competitive forces and reducing fashion cycles, retailers have been forced to develop strategies, enabling them to control the supply chain more closely, thus allowing them to source quality products at competitive prices [1].

TABLE I: WORLDWIDE APPAREL SPECIALTY STORES

Company Name (Flagship Brand)	Country	End of Fiscal Year		Sales (¥Billions)
Hennes & Mauritz	Sweden	Nov.	2009	1,208.70
INDITEX(Zara)	Spain	Jan.	2010	1,208.40
Gap	USA	Jan.	2010	1,187.00
UNIQLO	Japan	Aug.	2010	814.8

(Source: FAST RETAILING Industry Ranking, Dec. 2010)

*Figures calculated in yen using the end of November, 2010 foreign exchange rates.

The philosophy of quick manufacturing at an affordable price is applied to large global retailers such as Zara, Hennes & Mauritz(H&M), Gap, UNIQLO and Topshop. Zara is a specialist fashion chain and an important example of a fast fashion retailer, with rapid stock turnaround and vertical integration. It belongs to Inditex, one of the largest distribution groups in the world, which operated 1558 stores in 45 countries out of which nearly 550 were Zara stores. 46% of the group's sales were from Spain with France as the largest international market. Zara generated 73.3% of the group's sales and 60% of the Zara sales were from its products for women.

Their success is no incident. The above typical fast fashion brands gain their success mainly in the following aspects:

A. Strong supply chain management

Gap is an America's giant casual-fashion chain. Zara mimics Gap's merchandising strategy of offering differentiated stylish-yet-affordable basic apparel to the masses. Fashion is highly perishable, quickly influenced by the latest thing seen on the catwalk or on the back of a celebrity. Retailers have tried to shorten the ordering cycle and minimize their inventory, so that manufacturers end up carrying more of the risk of managing stock. Many are trying to replace the standard four annual "seasonal" orders with as many as 16 orders a year [2]. Five years ago only Zara followed such a strategy. Zara's designers follow fashion

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trends closely. In general, a typical clothing company manufacturing in Asia could take six to nine months to get a new design into the shops. With a strong logistics system, an entirely new Zara garment takes about five weeks from design to delivery, while a new version of an existing model can be in the shops within two weeks. In a typical year, Zara launches some 11,000 new items, compared with the 2,000-4,000 from companies like H&M or Gap.

B. Scarce Value Creation

Apart from the supply chain management, contributing to Zara's success is its focus on a limited range, basic shapes and small sizes, so that it deals with a rather narrow product range. Zara avoids over supply. Although some stock is replenished, its clothing, for both men and women, is deliberately made in small batches. This helps create a scarce value. It also keeps shops looking fresh and reduces markdowns. At Zara, the number of items that end up in a sale is about half the industry average. The result is that Zara's production cycles are much faster than its rival, H&M.

C. Low Costs on promotions

A well-known brand takes a great deal of time to create—partly because, unlike manufacturers, whose products are promoted by shops, retailers must do all the promoting themselves. To compete with Gap, Zara keeps its inventories very lean, meaning it avoids profit-damaging promotions and sales. It avoids advertising in order to cut down on costs. In consideration of promotion, Zara is parsimonious with advertising and discounts. It spends just 0.3% of sales on ads, compared with the 3-4% typically spent by rivals.

D. Flexible brand positioning strategy

Entering in the Chinese market in 2002, UNIQLO originally positioned itself to deliver good quality clothes to all population at a low price. However, the low cost strategy did not drive to success. In 2006, UNIQLO switched its strategic direction to target urban middle class, providing apparels which are easy to mix and match with other brands. New strategy led to 6 times growth in sales in the Chinese market from 2006 to 2008. Major customer groups are aged from 20 to 30. Both online and offline channel experienced a fast growth in 2009. The online shop was opened on Taobao platform in April 2009. The number of physical shops reached 34 in China, and 26 of them are built in 2009.

Online fashion sales, however, are proving remarkably resilient. Zara and H&M are two more in a long line of fashion stores that have moved into the online retail market. Neither H&M nor Inditex disclose what proportion of sales comes from their online outfits. U.S. rival Gap Inc. generated about 8% of its Gap-branded sales in the U.S. on the Web.

Above all, apparel specialties worldwide tend to gain right balance between fashion, quality and price at the right time.

III. AN OVERALL ANALYSIS ON TRANSACTION OF CHINESE ONLINE FASHION

China's online retailing market value has been roughly doubling in value continuously for several years, and keeps showing a rapid pace of growth. Meanwhile, every six months the population of China's cyberspace increases by

about a third. The annual growth rate of the total online sales market reached 95.9% during the year 2004 to 2010, C2C included, compared to 87.4% of B2C over the same period. However, B2C has accelerated to become segment with the highest growth rate among the total internet transactions forms. Increasingly, confidence in retailers and payment methods, as well as more well-rounded information privacy policies are driving more consumers to shop online, especially towards those identifiable as bone fide companies.

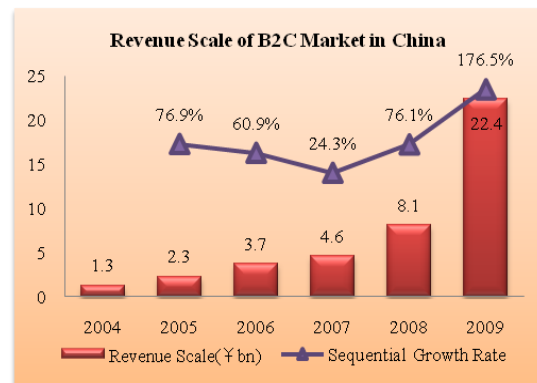


Fig. 1. Revenue Scale of B2C market in China

(Source: "2010 Chinese B2C Market Investigation", Zero2IPO Research Centre, 2010)

As we can see in Fig.1, the transaction scale of Chinese e-commerce has grown steadily from 2004 to 2009, 57.1% of which in terms of quantity is mainly engaged by apparel consumption (refer to Table II), indicating that the apparel industry in China provides an enormous space for e-commerce. On the basis of the figures gained in the previous years, IResearch estimates the prosperous future trend of Chinese apparel e-commerce transaction scale.

One difference between offline and online shopping is that physical supermarket in the neighborhood without price advantages or product differentiation can still survive by its convenience. However, online retailers are easily neglected if product distinction or further values are not provided. Moreover, purchasing online involves less opportunity costs relative to offline shopping because price comparison between several online malls can be realized within a second. This aggravates the price competition and lead to squeezed profits in the market.

For existing bricks-and-mortar retail companies, online sales are creating new avenues to new consumers in regions of China where they have not yet managed to cover. Without the need to invest in the building physical store chains or management of franchisees, online retailers financially bear less. What does lag, and stalls the more rapid growth of retailer penetration across more of the country via the Internet, is the lack of product delivery infrastructure and on-going weaknesses in the transaction clearing infrastructure.

For emerging online-only retailers, there is the prospect of creating the kind of strong competition with the traditional retailers that can act as a strong lever for increasing capital investment, or negotiating into partnerships with the traditional retailers, where established online retail expertise and technologies are hugely valuable.

TABLE II: RANKING OF BEST SOLD ITEMS IN CHINA OVER INTERNET

Ranking	Items	Purchased by % of Online Buyers
1	Apparel, accessories and footwear	57.1%
2	Books, CDs and DVDs	46.0%
3	Cosmetics	40.6%
4	Electronics (Cameras, MP3)	35.4%
5	Rechargeable cards for games and cell phones	32.1%
6	Home decorations	29.2%
7	Cell phones and electronic accessories	27.4%
8	Gifts and toys	24.7%
9	Computer, laptops and hardware	23.0%
10	Home appliances	22.1%
11	Jewelries, watches, accessories, glasses	20.3%
12	Foods	19.7%
13	Maternity and baby products	11.5%
14	White goods (fridges, washing machines, air conditionings)	2.9%
15	Others	2.0%

(Source: IResearch, March 13, 2009)

The online shopping industry is going through a period of fast growth and turbulence with fierce competition. Major players compete to gain a controlling share of the market in all aspects. Common promotional activities including price discounts and shipping cost reductions are widely used to gain customers. As one online shopping mall takes initiatives on sales promotion, competing firms follow very shortly. Automatic price comparison system is adopted by top players to offer best prices among competitors and modify automatically online price to a comparable level if rivalry companies reduce their prices. Due to the intense price competition, online buyers are swayed by lower prices with relatively low brand loyalty.

Online fashion has had a ‘budget’ reputation from the beginning. But there are significant costs for online retailers in logistics and the costs of handling returns. These increased costs will have a high impact on the retailer’s low margin, high quantity business model. Also, the average delivery costs, to be paid by the consumer, can easily be as high as, or even higher, as the price of a single piece of budget clothing [3]. Consequently, clothing manufacturers and retailers must establish a good feedback system and improve levels of supply chain management, logistics, product identification, standardization and automation.

Different from traditional channels, e-commerce appeals as a significant move to target more customers for Chinese apparel industry. Table II shows the revenue of several major apparel online retailers in China from the year 2007 to 2009.

TABLE III: REVENUE OF TRANSACTIONS OF MAJOR APPAREL ONLINE RETAILERS IN CHINA

Brand Name	Founded Year	Revenue (¥bn)		
		2007	2008	2009
Vancl	2007	/	0.88	1.22
Masomaso	2008	0.02	0.05	0.08
Moonbasa	2006	0.02	0.06	0.1
M18	1996	0.11	0.1	0.35

(Source: “2010 Chinese B2C Market Investigation”, Zero2IPO Research Centre, 2010)

Online retailers compete with all means for winner-takes-all markets in the long run. Most large scaled online B2C retailers still struggle to become profitable due to lack of scale economies; therefore, inability to achieved reduced costs per unit. Meanwhile, new comers backed by venture capitalists enter this market to a great extend. A number of young established specialist retailers emerge by offering specific product categories, like online specialists in food, clothes, and shoes.

The apparel retailing industry is investing large sums of money in the Internet technology, delivery infrastructure and transaction systems which will give allowance to secure a significant slice of this market into the future. According to a survey conducted by the China Internet Network Information Center (CINIC), major factors affecting online purchasing decisions involve price and quality of goods, brand recognition, after-sale services, customers’ feedbacks, speed and quality of delivery, promotions, advertisements and user interface of websites.

IV. CASE STUDY OF CHINESE FAST FASHION ONLINE RETAILING—VANCL

Vancl, rated as the largest online and phone-based own-brand apparel retailer in China, was formally established in 2007, led the Deloitte Technology Fast 500 Asia Pacific 2009 ranking with a three-year revenue growth rate of 29,577%. It took over its rival---PPG in terms of sales only 5 months after its establishment, creating a commercial marketing myth in the Chinese garment industry [4]. Vancl has fast become China’s first (online) business-to-consumer brand for men’s clothing. Through a series of brand and product positioning, Vancl successfully extended the range of products from men’s shirts to POLO shirts, pants, shoes and other clothing and household goods which mainly target at the white collar workers and students. In 2009, the company continued to expand its product lines by entering the women’s clothing market and by marketing footwear. Vancl has quickly made itself a familiar name to netizens in China under a unique marketing model using online advertisements. The company sells more than 30,000 items ranging from shirts and shoes to home textiles. The company currently has more than 800 employees.

According to "2010 China's Online Shopping Market Monitoring Report" raised by IResearch Consulting Group, Vancl took a share of 5.3% of independent sales turnover of Chinese B2C online shopping market in the 3rd quarter of 2008 and enjoyed 28.4% of the domestic apparel e-commerce share (as is shown in Fig.2) in 2009, thus ranking the top in the fast fashion online retailing in China. Sales of Vancl was recorded worth RMB 2 billion in 2010 and expects the figure to grow to RMB 6 billion in 2011, according to Sohu report in Jan. 2011.

Yet Vancl’s success is no accident. It gained success primarily based on the proper product and brand positioning, B2C online direct-selling model, multiple channels promotion, high-quality products, fair price, efficient logistics, favorable user experience and good team management.

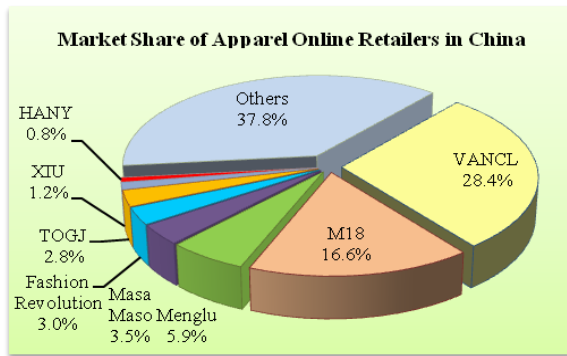


Fig. 2. Market Share of Online Retailers in China
(Source: "2009-2010 Chinese B2C Apparel Transaction Report", IResearch, 2010)

A. Product positioning-Men to Women

What leads to success in the first place is Vancl's right choice of the first entry point into the market-- Men's shirts.

Since users have indirect contact with the online products, Vancl must provide standardized products to improve customer satisfaction and try its best to meet needs of user experience. As criteria for men's shirts are relatively simple, shirts are easier to reach the requirement.

Most of the time, shirts appear as a kind of essential clothing for men, resulting in a high demand in men's shirts.

Trends of urban white-collar clients are subject to foreign influence. Men get used to wear a different shirt every day, thus increasing consumer demand in shirts, which provides Vancl a broad market.

Most of men would haste in shopping, making the demands for shirts relatively simple. Thus, shirts may have similar designs but distinguish by patterns and colors.

In view of the above characteristics of men's shirts consumer market, Vancl creates a model in full compliance with the consuming habits of men on shirts, while providing a more abundant and convenient option. According to the feedbacks of its customers, Vancl began to target at the women clothing later in 2009. Survey showed that over 70% of the visitors on Vancl website were female and apparently there exists a great need to promote women clothing. Currently, Vancl could make total revenue of around 10 million Yuan every day.

B. Brand positioning-Simple, Easy and Natural

The brand name "Vancl" means all customers are ordinary in Chinese. Vancl is always promoting a lifestyle: getting rid of a vanity of things and have a most decent and comfortable way of life. Vancl's slogan goes like "Cotton style is the new formula of life". Clothes of it have common grounds namely simple, classic style, natural and environmental-friendly fabric and easy ways of cutting. And the company is trying to convey a value system to consumers, which is pursuing the brand in a liberate way, being in a style of low profile and simple, seeking calm and elegance and focusing on the details. With a good brand positioning, Vancl gradually establishes a favorable corporate image and forms stable intangible assets.

C. Business mode-B2C Direct Selling

Vancl applies the B2C (Business to Customers) model for online retailing. It doesn't possess any fabrication plants or

any physical sales channels. Vancl's direct selling model mainly consists of raw material suppliers, garment processors, shopping sites and logistics. In this model, Apart from its brand's design and part of the logistic delivery, Vancl outsources the production process to OEM or other plants. Vancl sells goods directly through the website, phone orders and catalog mail, hence eliminating the need for the traditional maternity shops. Hence, consumers could enjoy a much lower price of commodity at Vancl than other conventional purchasing channels. That's how Vancl shortens the production cycle and save amounts of money on stock, leading to reduction in cost of products. Therefore, B2C online direct selling model could be regarded as one key ingredient of Vancl's success.

D. Marketing Strategy-Ads in multiple channels

Vancl attempted to deliver ads through various channels. Take network advertising for instance, Vancl's network media advertising is believed to be successful considering its depth, breadth and accuracy. Here are some tips in its marketing strategies:

- Vancl makes use of large banners to cover the largest area on the page to attract attention when making advertisements on Sina, Tencent, Netease, Sohu and other portal websites in mainland China.
- Ads are posted on the most popular and frequently visited mainstream communities, forums and some instant communication tools to achieve deep penetration of key target groups.
- Vancl's pay per click advertisement operates just as Google AdWords and gives permission to sellers to bid on relevant keywords used by target audiences to search for desired products. Pay per click advertisements will mostly be shown on the right up side of the front-page.
- The search engines keyword ads and content ads are utilized to seize the potential customers on the "long tail" [5].
- Popular celebrities were once invited to be the image prolocutors of Vancl's products, arousing a "Vancl introduction style" in the summer of 2010.

Despite the amount of the ads, clear selling points, nice arrangement and high qualified pictures of ads play important role in catching the attention of consumers to some extent, thus enhancing sales simultaneously.

There are many types of physical ads as well. Billboards of Vancl are placed aside the passengers of subways and even on the buses in Beijing. Notably, all the products (accessories and packages included) would have an obvious print of "Vancl" logo, making it easy for buyers' acquaintance to remember the brand name.

With a wide range of strategies on publicity and promotion, Vancl is bound to win its market.

E. High-quality products

Vancl have greatly invested in the selection of suppliers in the upstream, the establishment of the tracking system and the introduction of the design team. Highly trained quality checking staff, usually stationed in the plant of OEM to monitor the entire production process and make product

sampling tests occasionally. Then dedicated quality control personnel would conduct a comprehensive examination towards the finished products stocked in the warehouse. Only the products that got passed the check of the appearance, cuffs, buttons, threads and other aspects could be sent to the warehouses.

F. Fair price

Vancl deems to provide good quality products with fair price. The most typical example is its famous "VT" requesting just 29RMB. The T-shirts it offers are all of high-quality and dedicated designed by professional designing team abroad. The same applies to its canvas shoes and shirts for men and women. For top consumers, Vancl provides Vjia (V+) products to satisfy their consuming needs.

G. Efficient logistics

Most online retailing companies would naturally outsource logistic to TLC so as to lower down the total operation cost [6]. But who should be blamed for and pay for the loss of customers in case that delivery was delayed? There suppose to be no definite answer in most cases. To solve the problem, Vancl combined the wholly-owned logistic department and third party partners, with the order tracking system ensuring the company receives fewer complaints for delivery.

H. Favorable user experience

Vancl has improved a lot in its user experience services. Vancl firstly activated a service of trial before payment and cash on delivery (C.O.D). And customers would have the right to reject purchase without any reason within 30 days in the validation of orders [7]. Additionally, the site offers enhanced services such as tracking of goods and management of inventory. Apart from that, Vancl provides spaces for customers to comment on the goods they purchased as feedbacks on the website. In order to better fit the needs of customers, the company has bought a 3D virtual model system and is planning to develop its own trial-online animation system based on that.

I. Good team Management

It is the team management, which forms the fundamental difference among other direct marketing online projects, plays a key role in the whole project in Vancl. CEO-Chen Nian, who was also the founder and former executive vice president of Joyo Amazon, led the following job-hopping members form the core team that later became backbones of Vancl. Their experience of network marketing, an accurate grasp of China's Internet environment and the actual operation experience of B2C e-commerce are the best explanations for the Vancl miracle [8].

V. SUGGESTIONS FOR VANCL'S FUTURE PROSPER

A. Strengthen supply chain integration and supervision

It has always been a hot potato as how to ensure the quality of clothing from upstream suppliers as well as the quality of delivery service provided by the TPL companies. The most effective way to solve it is to strengthen the supervision and control of all aspects during the process. There should be appropriate supervision in the process from the fabric

transported into the plant, onto various assembly lines and to final order fulfillment. Whether outsourcing quality supervision to a third party or establishing its own monitoring team, Vancl must strengthen the integration of the supply chain and all aspects of supervision during the process from production to the final delivery. It could establish relevant integrity systems and service quality system for the cooperative enterprise, in which it judges the integrity and quality of service companies according to their business performance, and selects the more suitable enterprises to cooperate for further development.

B. Enhance quality and service of products

Quality is quite crucial towards the enterprise itself. To guarantee the quality of goods sold online, Vancl has to seek creditworthy channels for manufacturing. Feedbacks of consumers could also reflect the quality of goods. Consequently, greater emphasis should be placed on user experience services. Vancl could devote to designing user-friendly page and interactive forum so as to take advantage of the feedbacks to ensure that consumers could acquire a variety of information about products either displayed on the website or the catalogue [9]. Meanwhile, the website must refresh its information regularly and in time to inform consumers about its new fashion and stock.

C. Innovate and enhance core competitiveness constantly

Large numbers of domestic clothing market or network marketing companies are founded to follow the steps of Vancl recently. And the traditional clothing manufacturers rapidly transformed to e-commerce platform, such as the Saint Angelo, Shanshan, Youngor and so on. Therefore, Vancl should continue to innovate to meet consumer demands to lead the industry [10]. On the one hand, innovation helps to build its powerful competitive advantages, making it difficult for competitors to surpass. On the other hand, Vancl's endeavor for innovation would attract more people's attention in the entire industry, which helps to enhance its fame in the future.

Products and direct sales model could be easily imitated by others. Yet, execution of team is exception. Fast fashion B2C industry changes fast so that the enterprise couldn't just rely on the previous experience of the team. Thus, Vancl has to build a learning team to enhance its core competitiveness and provide the learning team a chance to manage and operate the company, hence allowing the enterprise to turn into a learning-oriented enterprise, so as to ensure that businesses compete in an invincible position in the future [11].

D. Assure balance between cost and quality of delivery

Most online customers are highly price sensitive. Freights can account for a large percentage of the total cost which impedes buyers from purchasing online. If online total costs including delivery fees exceed offline purchases, there is nearly zero incentive to shop online. Therefore, domestic logistic providers are considerably more popular than international logistic companies for the cost reason. Some online stores cover delivery costs for customers in major cities as their sales promotions. Covering delivery costs is feasible for sellers of fast fashion industry.

Online seller should consider delivery quality including

speed, probability of damaged and missing goods, regional coverage, service, price, and complaint management. Online platform and online retailers also creates standardized selection criteria, like secret spontaneous control on logistic companies to provide better online experience for customers. Furthermore, the service of delivery to neighboring convenience stores has been tested in certain cities. In the service areas, customers are able to pick up their parcels in nearby convenience stores. This provides more delivery choices and convenience to online customers. It is expected that the more delicate services will be offered and related logistic problem will be improved in the future.

Online sellers need to assure the balance between cost and quality. It is crucial to cooperate with several logistic providers and reach a full coverage of target customer groups. Firms with larger delivery quantities, like UNIQLO, can set high partner selection standards and reach mutually agreed contracts with delivery companies.

E. Build strong brand credibility

Fast fashion consumption can be also reckoned as spiritual consumption, core spirit of which is embodied in the brand. Customer loyalty will be established afterwards once the brand is established [12]. Otherwise, it is impossible for consumers to trust the brand. PPG's failure lies in the facts that it paid attention to innovative business models, while ignoring to form strong barriers for its rivals using brand and the real core competitiveness relying on brands. Vancl definitely should learn the lesson and enhance its brand management in the future, paying every effort and operate carefully in the market research, product positioning and design, advertising and so on. Only through this way could Vancl build strong brand credibility.

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