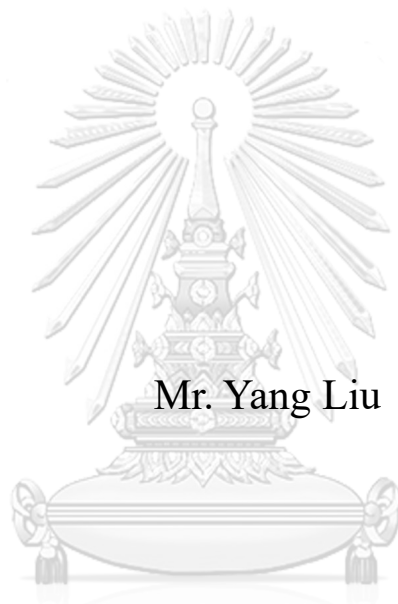


# Marketing Strategy Analysis of Luolai Home Textile Company



Mr. Yang Liu

An Independent Study Submitted in Partial Fulfillment of the  
Requirements

for the Degree of Master of Arts in Business and Managerial Economics

Field of Study of Business and Managerial Economics

FACULTY OF ECONOMICS

Chulalongkorn University

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จำกัด



นายหยาง หลิว

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จุฬาลงกรณ์มหาวิทยาลัย  
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Independent Study Title      Marketing Strategy Analysis of Luolai Home Textile  
Company  
By                                      Mr. Yang Liu  
Field of Study                      Business and Managerial Economics  
Thesis Advisor                      Assistant Professor SAN SAMPATTAVANIJA, Ph.D.

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งานวิจัยนี้ได้ใช้บริษัท หลัวไห่ล โสมเท็กซ์ไทล์ จำกัดเป็นกรณีศึกษา โครงสร้างงานวิจัยเริ่มจากการแนะนำภูมิหลังที่เกี่ยวข้องของตลาดสิ่งทอในบ้านของจีนเพื่อกำหนดพื้นที่การพัฒนาอันกว้างขวาง จากนั้นได้วิเคราะห์สภาพแวดล้อมทางการตลาดและกลยุทธ์ทางการตลาดที่มีอยู่ของบริษัท หลัวไห่ล โสมเท็กซ์ไทล์ จำกัด โดยใช้ทฤษฎี PEST วิธีการวิเคราะห์ SWOT และทฤษฎี 4Ps เป็นหลัก จากการวิเคราะห์สภาพแวดล้อมทางการตลาดภายในและภายนอกนั้น พบว่าสภาพแวดล้อมทางการตลาดภายนอกของบริษัท หลัวไห่ล โสมเท็กซ์ไทล์ จำกัดนั้นค่อนข้างสมบูรณ์ ซึ่งเอื้อต่อการพัฒนา อย่างไรก็ตาม เมื่อรวมกับผลการวิเคราะห์สภาพแวดล้อมทางการตลาดภายในของบริษัทหลัวไห่ล และกลยุทธ์ทางการตลาดที่มีอยู่แล้ว พบว่าบริษัทหลัวไห่ลกำลังเผชิญกับการแข่งขันในอุตสาหกรรมที่รุนแรง โดยเฉพาะอย่างยิ่งแรงกดดันด้านการแข่งขันจากบริษัทสิ่งทอในบ้านขนาดใหญ่หลายแห่งในประเทศจีน และเพื่อรักษาตำแหน่งผู้นำในอุตสาหกรรมสิ่งทอในบ้านของจีนต่อไป บริษัท หลัวไห่ล โสมเท็กซ์ไทล์ จำกัดควรปรับปรุงกลยุทธ์ทางการตลาดที่มีอยู่เล็กน้อย ตัวอย่างเช่น จำเป็นต้องปรับปรุงกลยุทธ์ทางการตลาดตามนโยบายระดับชาติที่ได้ประกาศล่าสุด ปรับตัวให้เข้ากับการเปลี่ยนแปลงในสังคมและการเปลี่ยนแปลงในความต้องการของลูกค้า และให้

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D:

Yang Liu : Marketing Strategy Analysis of Luolai Home Textile Company.  
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This paper takes Luolai Home Textile Company as the research object. Firstly, it introduces some relevant backgrounds of China's domestic home textile market to determine its great development space. Then it analyzes the marketing environment of Luolai Home Textile Company and its existing marketing strategy by mainly using the PEST theory, SWOT analysis method, and 4Ps theory. Through analysis of the marketing environment, it is found that the external marketing environment of Luolai Home Textile Company is healthy, which is conducive to its development. However, by combining the analysis of Luolai's internal marketing environment and its existing marketing strategies, it is found that Luolai is facing a fierce industry competition, especially the competitive pressure from several other large-scale home textile companies in China. In order to continue to maintain its leading position in China's home textile industry, Luolai Home Textile Company should improve its existing marketing strategies. For example, it is necessary to improve marketing strategies in accordance with the latest national policies, adapt to changes in society and changes in customer requirements, and pay more attention to e-commerce.



Field of Study:	Business and Managerial Economics	Student's Signature .....
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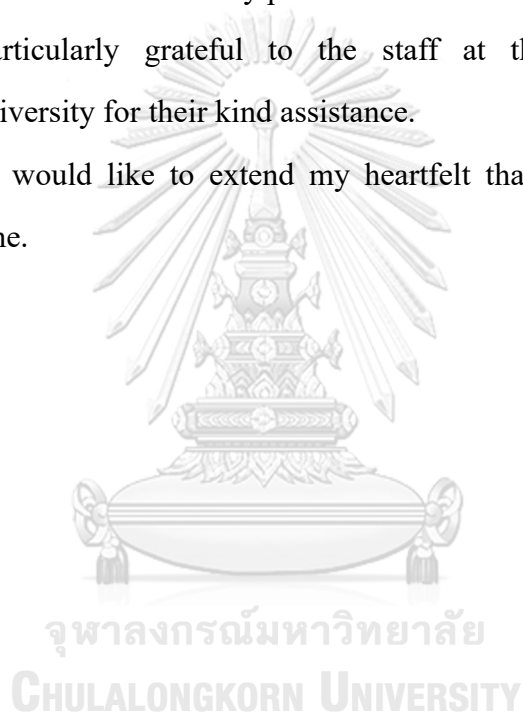
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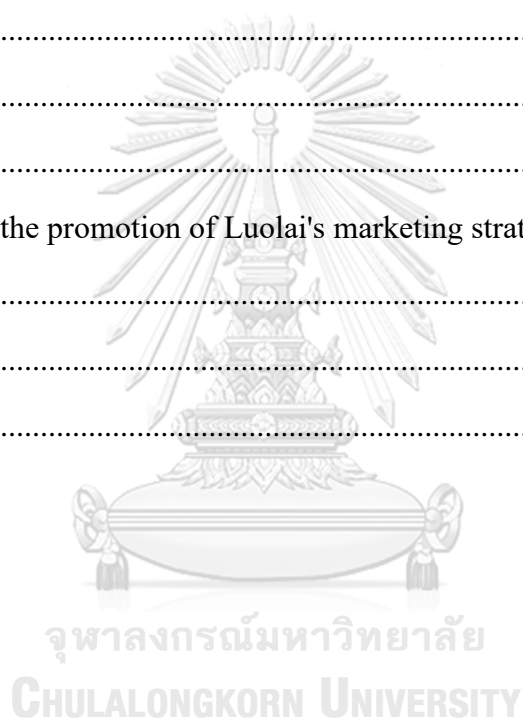


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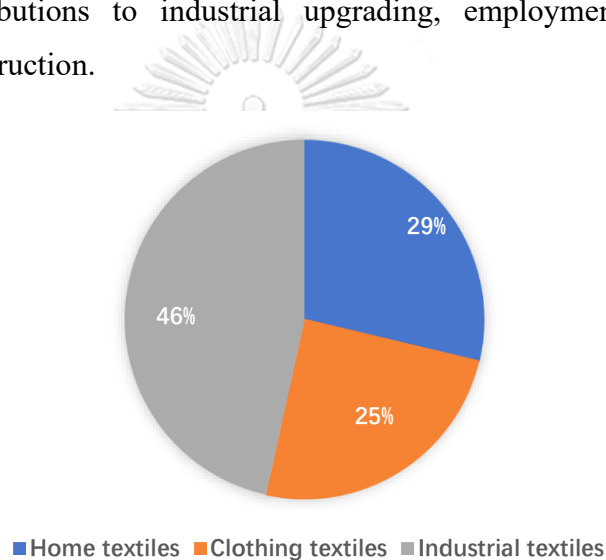
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## 1. Introduction

### 1.1 Research background

Home textiles are closely related to people's daily lives; they significantly impact people's living environment and quality of life and occupy a dominant market position in the entire modern textile industry. Over the past century, the home textile industry, one of the three significant textile terminals, developed rapidly in China, making outstanding contributions to industrial upgrading, employment promotion, and infrastructure construction.

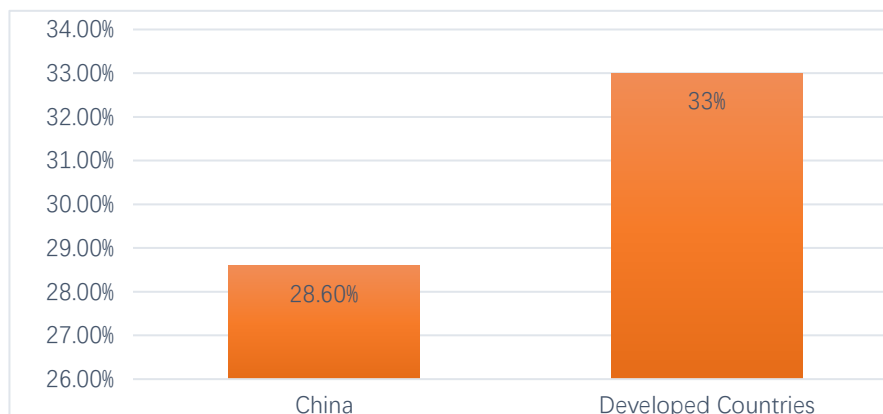


The proportion of the three major textile terminals products

(Source: ASKCI Consulting)

Wenzheng Sun (2018) mentioned that from 1996 to now, the development of China's textile industry could be summarized in three stages: 1996-2000 is the initial stage; 2000-2005, the industry ushered in an explosive growth stage for the first time; since 2005, the industry has gradually entered a phase of steady growth. At present, the overall scale of China's home textile industry has expanded and will maintain continued growth. According to iiMedia Research (2019), in 2018, China's home textile industry reached 220.37 billion yuan, with a year-on-year growth rate of 4.1%. Furthermore, it is expected to reach 258.71 billion yuan this year, with a year-on-year growth rate of 5.8%. Compared with 33% in developed countries, the consumption proportion of China's home textile products is only 28.6%, which indicates a

significant growth space in the future.



Comparison of consumption ratio of home textile products between China and developed countries in 2019 (%)

*(Source: iiMedia Research)*

Founded in 1992, Luolai Home Textile Company is one of the leading manufacturers and the first stock-holding home textile enterprises in Mainland China. It is a large enterprise specialized in the R&D, design, manufacture, and sale of home textile products with unique styles and advantages. Till now, more than 2000 regular chain stores and franchise stores have been built up in more than 500 cities all over China, and the target market of Luolai is the high-end home textile market. "LuoLai" Brand has been entitled as "China's 500 most valuable brands", and "the most famous brand" and others. From 2005 to 2019, Luolai ranked NO.1 in China's home textile market share for 15 consecutive years.

However, in recent years, we can notice that as a traditional industry, the textile industry has a low entry threshold, many products of the same type, and severe product homogeneity, resulting in fierce competition in the textile market. Furthermore, the competition between home textile brands is no longer limited to product prices, fabrics, patterns, etc., but is reflected in product marketing strategy and brand reputation. To meet these challenges, various home textile brands have also taken multiple countermeasures. Some companies have achieved specific results by improving the marketing strategy of their products. However, from the perspective of the company's long-term development, if a company wants to be invincible in the

fierce competition, it must have a unique marketing strategy that suits itself to accumulate power for its subsequent and rapid development. Moreover, due to the emergence and rapid development of e-commerce in China, Chinese consumers will be more inclined to use e-commerce platforms to purchase home textile products that they like, which has brought a massive impact to the offline sales of the home textile industry and directly increased the pressure of competition among home textile companies. As a result, the development pressure of the entire home textile industry is increasing day by day, and the difficulty of survival of home textile enterprises has increased significantly.

## 1.2 Objectives

Firstly, through the analysis of the marketing environment of the home textile industry, this paper aims to help Luolai company accurately understand the external marketing environment of the whole home textile industry and clarify its internal environment. At the same time, through sorting out the existing marketing strategy of Luolai company based on the 4Ps theory (product, price, place, and promotion), in order to provide new ideas and practical suggestions for the future marketing activities of Luolai Company and help Luolai Company maintain its competitive advantage in the fierce market competition. In addition, it also provides a feasible reference for home textile enterprises that have the same confusion as Luolai. This paper uses the combination of PEST analysis, SWOT analysis, and 4Ps marketing mix strategy in order to construct the research framework of the marketing strategy of Luolai, deepen the practical significance of marketing mix strategy and further expand the research of marketing strategy theory.

## 1.3 Methodology

This paper mainly uses the following three methods:

### (1) Literature analysis

During this research, books, papers, journals, reports, and other materials were sorted and analyzed; simultaneously, the research results on the definition, development, and

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strategy of marketing were sorted and summarized. Finally, based on many theories and data, the marketing strategy issues of Luolai Company were discussed.

### (2) Case analysis

This article takes Luolai company as a case, analyzes its marketing strategy problems and causes, and puts forward corresponding marketing strategy improvement programs based on its actual situation.

### (3) Chart analysis

The research enumerates many data charts, such as company sales, operating income, competitor-related data, etc., through the analysis of various data, finds out the problems in Luolai's marketing strategy, and provides practical suggestions for improving its existing marketing strategy.

## **2. Literature review and related theories**

### **2.1 Literature review**

At the beginning of the 20th century, the United States first began marketing research. With the development of society, the definition of marketing is also constantly changing. The main illustrations are as follows: The earliest concept of marketing can be traced back to 1960. The definition proposed by the American Marketing Association (AMA): "Various business activities in the process of products and services flowing from manufacturers to consumers or users." This definition is too one-sided. Marketing includes not only the behaviour that the enterprise takes to sell the product after the product is produced but also the product development and after-sales service. In 1985, the American Marketing Association (AMA) improved the definition of marketing: "The exchange between individuals and organizations through the conception of goods and the design, pricing, promotion and distribution of services. "

Carlos Aguiar de Medeiros and Nicholas Trebat (2017) believe that during the specific marketing period, companies need to consider the impact of various location factors in the external environment in order to obtain more development advantages in the

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challenging market competition, corporate managers and marketing teams need to fully pay attention to the external marketing environment, and understand the specific changes in the marketing environment, identify potential development opportunities in the market as soon as possible, and appropriately avoid negative factors to achieve the stable development and growth of the company.

EconoBenli and Bahtiyari (2018) specifically analyzed and studied the sales efficiency of marketing. They believe that marketing strategy needs to consider the enterprise's own development goals from its point of view. In order to ensure the marketing efficiency of the enterprise, we should analyze the development goal of the enterprise in a specific market and find a suitable and feasible marketing strategy based on the marketing demand of specific products.

Carlos Aguiar de Medeiros and Nicholas Trebat (2017) researched the market sales of textile companies in the United States. Firstly, they pointed out that companies implementing appropriate marketing strategies can enhance their location, time, and form for manufacturers and buyers. Secondly, the effect can improve buyers' convenience; secondly, they pointed out that the intermediary of textile enterprises combing and distributing products and information can help manufacturers and buyers solve information asymmetry in marketing.

Yang Jialing (2016) believes that from the perspective of the development of China's textile enterprises, market micro-environmental factors have a significant impact on the development of enterprises. In the internet marketing environment, to promote the sustainable development of enterprises, textiles companies need to adapt to the external market environment quickly and adjust themselves as much as possible to affect the external environment. The article also mentioned that China's textile enterprises need to consider the dynamic changes of the market environment in different periods to optimize and adjust their marketing strategies and promote the steady development of enterprises under the premise of adapting to the external environment.

Zhao Yanfeng (2016) believes that at present, for home textile companies, precision marketing is the best choice for them to break through the market due to the

significant investment of capital, unclear target customers, and the limitation of marketing effect.

Zeng Lishan (2016) carried out an in-depth and comprehensive analysis and research on optimizing the textile industry's marketing strategy. Based on the various problems faced by the market development, he elaborated on the design ideas of the textile enterprise's marketing strategy. He firstly summarized the characteristics of the marketing strategies of foreign textile enterprises, and then explicitly judged the features, types, and related influencing factors of the marketing of Chinese textile enterprises, and proposed that in order to promote their sustainable development, Chinese textile enterprises need to understand their development situations fully. Thus, upgrading their marketing channels through considering the specific demand in the market.

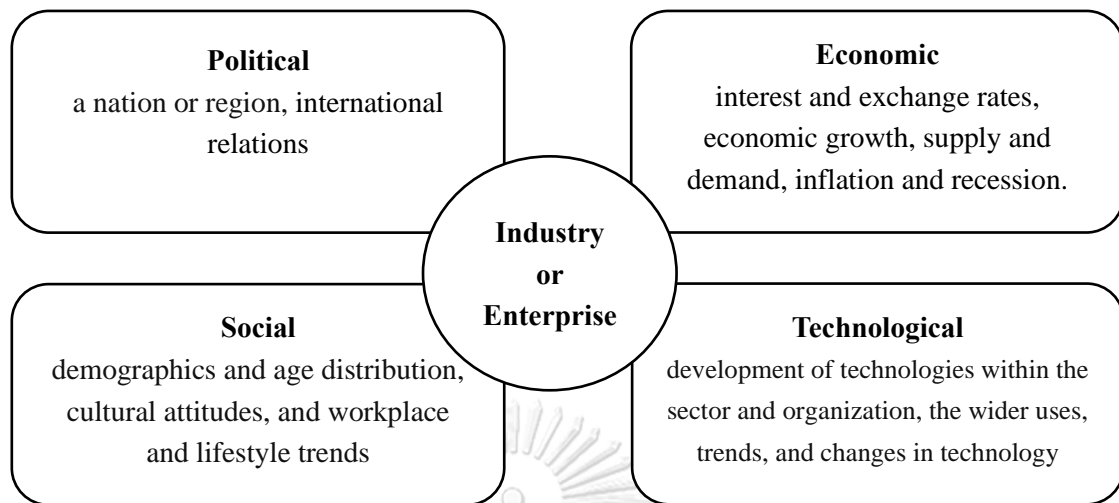
Hui Lulu (2017) believes that in order to ensure that textile companies have sufficient development potential at all stages of development, companies need to consider the fluctuations of the market environment to continuously optimize their marketing mix strategies and achieve the convergence of marketing mix strategy changes.

## **2.2 Related theories**

### **2.2.1 PEST analysis**

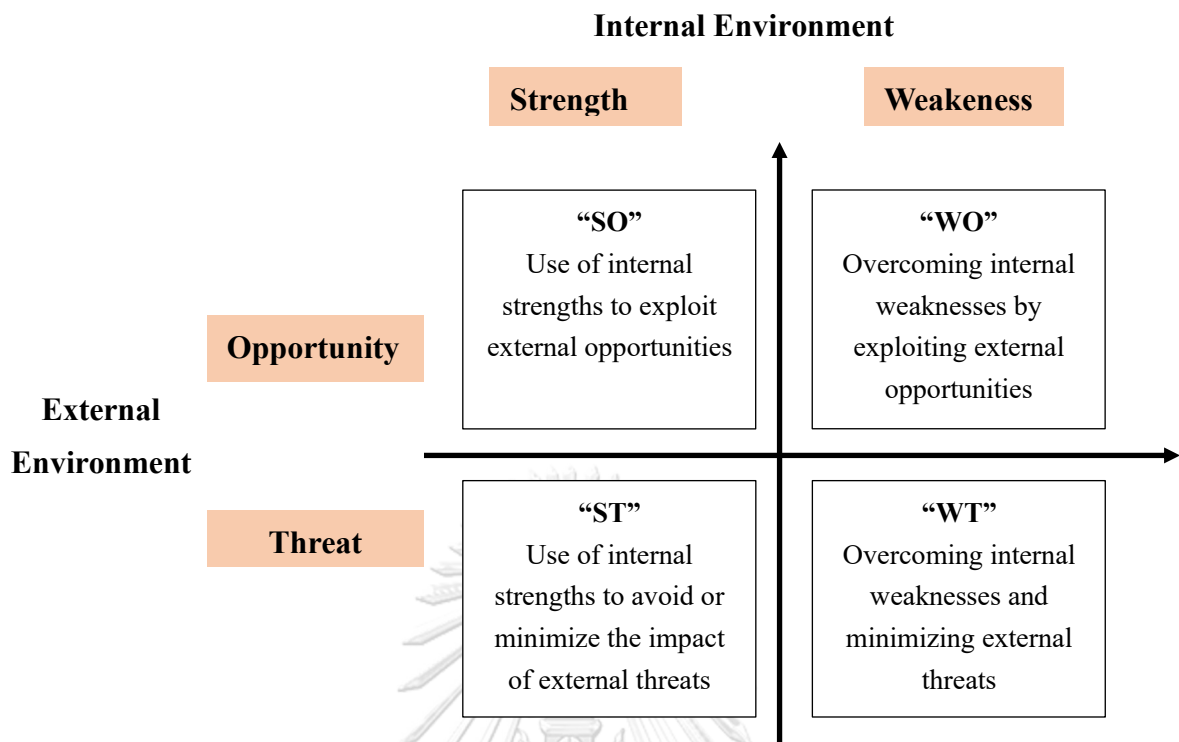
PEST analysis refers to the analysis of the macro-environment. Different industries and companies will have individual differences in the analysis content according to their own characteristics and business needs. Still, they respond to the four major categories of the political and legal environment, economic environment, technological environment, and social and cultural environment. The main external environmental factors of the enterprise are analyzed. In general, the PEST analysis method is an essential tool for comprehensive analysis of all industries and enterprises according to their own macro environment.





### 2.2.2 SWOT analysis

In the early 1980s, Heinz Weihrich, professor of international management and behavioural sciences at the University of San Francisco in the United States, proposed the SWOT analysis method. The SWOT analysis method is based on the established internal conditions of the enterprise itself and combined with the external environment to analyze the advantages and disadvantages of the enterprise. Thus, SWOT analysis is a comprehensive analysis of the four dimensions of opportunities, risks, advantages, and disadvantages formed by a company or organization's internal and external environment. Use various investigation and research methods to analyze the enterprise's external environmental factors and internal capability factors and arrange the relevant factors obtained by the investigation according to the areas where the advantages, disadvantages, opportunities, and threats belong to, forming the SWOT matrix analysis model. Then, find and formulate a marketing strategy suitable for the company's actual situation or organization.



**SWOT matrix analysis model**

### 2.2.3 4Ps theory

In 1960, Professor Jerome McCarthy from the University of Michigan of the United States summarized marketing elements into four categories in his book "Basic Marketing": Product, Price, Place, Promotion, known as the 4Ps theory.

#### (1) Product strategy

The marketing process is essentially how the company produces products to satisfy consumers, which is a prerequisite for completing the transaction. Therefore, only through continuously improving products can we stand out from the fierce competition and facilitate product transactions.

#### (2) Price strategy

Pricing is the ability that products must master when participating in market competition. The accuracy of pricing can also reflect the level of market research and

judgment of enterprises to a certain extent, which is conducive to accomplishing marketing goals.

### (3) Place strategy

The Place here actually refers to the channel, which is the bridge between the producers and the consumers. It helps realize the whole process of the product, from manufacturing to consumption. Products can only be sold to customers at the most reasonable price at the most appropriate time and place through proper and efficient marketing channels.

### (4) Promotion strategy

After the products are marketed, due to the relatively large number of competitors for homogenized products, it is necessary to adopt price adjustment methods to attract consumers' attention, thereby stimulating consumers to complete transaction behaviours, including advertising, event promotion, etc.

## **3. Luolai's marketing environment and SWOT analysis**

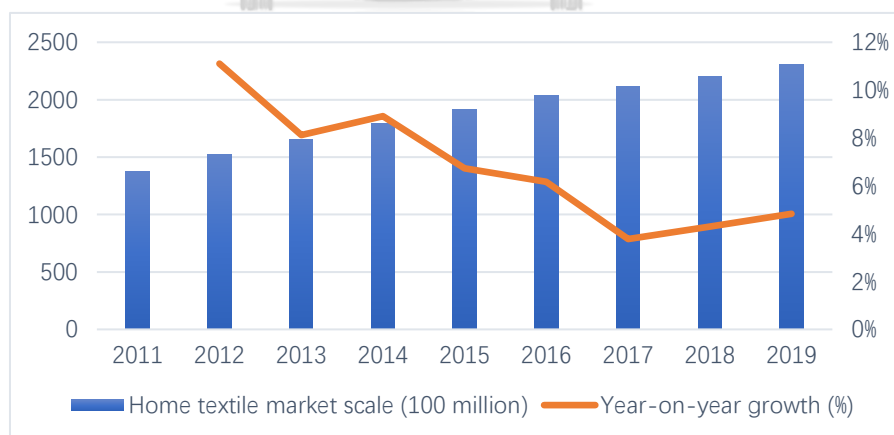
### **3.1 Analysis of Luolai's marketing environment**

#### **3.1.1 PEST analysis of the external environment**

Use the PEST analysis tool to analyze the external environment of the Luolai company through the four factors of politics, economy, society and technology. It will help Luolai company recognizes the situation they are facing, seize the potential opportunities, and meet challenges.

##### **3.1.1.1 Politics**

In recent years, people are paying more and more attention to the home textile industry with the continuous improvement of people's living standards and quality. As a result, the requirements for the price, quality, and brand of home textile products are also getting higher and higher. At this stage, China has issued many laws and regulations to regulate the development of the home textile industry. The Chinese government attaches great importance to the development of the home textile industry. It advocates that the home textile industry can introduce innovative elements in the development process to complete industrial transformation and optimization and ensure that the industry can have high production efficiency and achieve sustainability. At the beginning of 2018, China launched the "National Basic Safety Technical Specifications for Textile Products," which can ensure the healthy development of the entire home textile industry. In China's 13th Five-Year Plan, its tasks assigned to the home textile industry are to ensure product quality and enhance product competitiveness. Compared with the Twelfth Five-Year Plan, China's textile industry sales should increase by 7% each year. By 2025, the turnover of China's textile enterprises should show an annual growth trend of 7%. Through the efforts of textile enterprises, the profit level of the entire textile industry can be increased steadily, ensuring that Chinese textile enterprises have strong competitiveness in the world. The market scale of China's home textile industry from 2011 to 2019 are as follow:



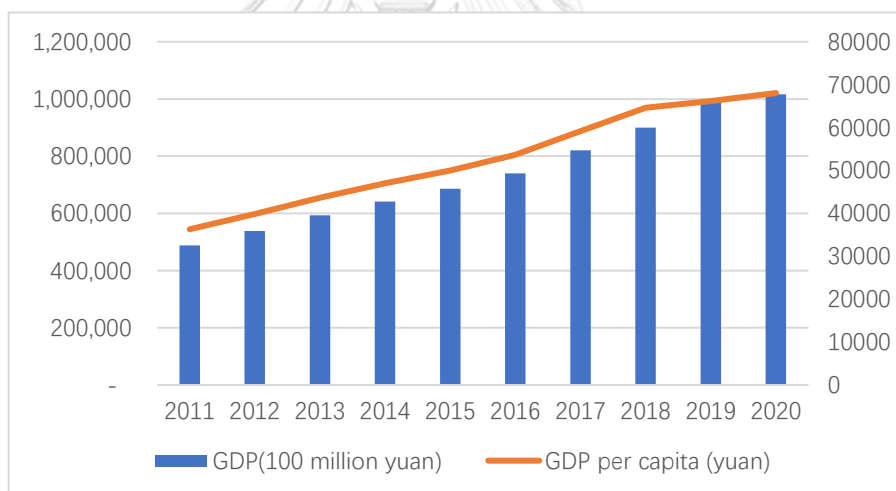
The market scale of China's home textile industry from 2011 to 2019  
*(Source: China National Textile Association)*

From the graph above, we see that the scale of China's home textile industry has expanded year by year since 2011. Although the growth rate has declined year by year

from 2011 to 2017, the growth rate has continued to grow since 2017, showing a steady upward trend.

### 3.1.1.2 Economy

GDP is an important indicator to measure a country's economic development. From the data in the graph below, we can see that China's GDP has been steadily increasing in the past ten years. In 2020, it reached 100 trillion yuan for the first time in history. Although some uncertain factors such as the covid-19 epidemic have impacted economic development, overall GDP is still showing a steady rise. In addition, GDP per capita has also increased from 36,302 yuan in 2011 to 68,055 yuan in 2020, which almost doubled. This means that the Chinese people are getting richer and richer and have more money in their hands, which is very beneficial to the development of the home textile industry.

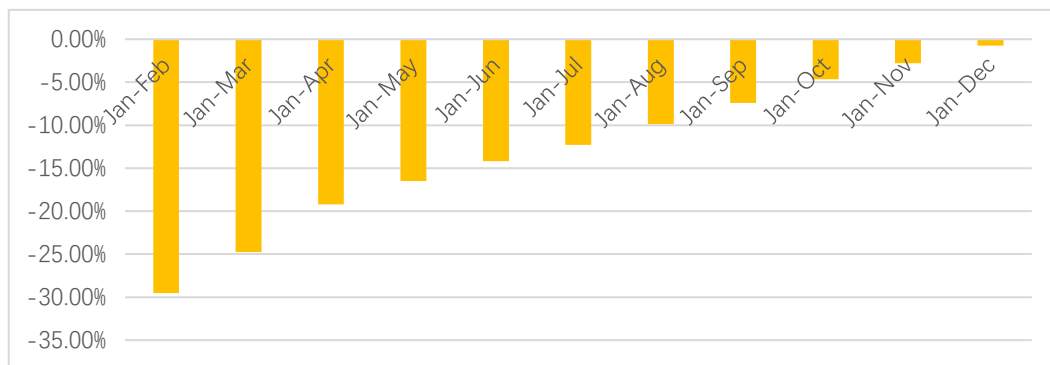


China's GDP and GDP per capita in the past ten years

*(Source: National Bureau of Statistics of China)*

At the beginning of 2020, the sudden covid-19 epidemic disrupted the pace of operations in all walks of life. In the first quarter, the home textile industry fell into a state of shutdown and production cuts, and industry revenue fell by nearly 30% compared with the same period last year. However, with China's effective control of the epidemic, industry companies have overcome numerous difficulties and actively organized the resumption of work and production. The operation of the industry has

been steadily restored. The industry has returned to positive growth in the second half of the year. The quality and efficiency of the industry have remained stable. From the statistics shown in the graph below, we can see that most of China's home textile companies have recovered to the level of the same period last year.

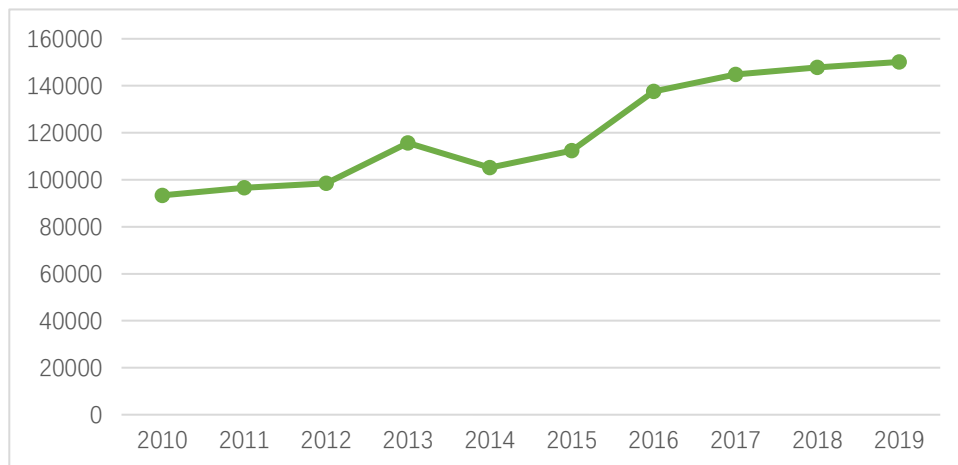


The growth rate of operating income of China's home textile enterprises above designated size in 2020

*(Source: China National Textile Association)*

### 3.1.1.3 Society

The social environment mainly refers to people's customs, values, consumption power, etc. in a particular area. With the improvement of people's pursuit of quality of life in the new era and the promotion of industry-guided consumption concepts, the demand for home textile products continues to grow and upgrade. Daily gift-giving and marriage are important reasons that affect people's purchase of home textiles products. In addition, moving to a new home is also a significant factor for people to increase their demand for home textiles products. In China, in recent years, the real estate industry has developed rapidly, and the development of the real estate industry has become an important reason for the rapid development of the home textile industry. People's demand for housing is mainly affected by the sales area and sales price of commercial housing, affecting their consumer demand for home textiles.



2010-2019 China's commercial housing sales area (ten thousand square meters)

*(Source: China National Textile Association)*

It can be seen from the graph above that from 2011 to 2019, the sales area of commercial housing in China has been on an upward trend as a whole, and only a slight decline occurred in 2014, which means that the development of China's real estate industry is relatively stable. Therefore, the development prospects of the home textile industry are significant.

In addition, the decisive factor of consumption potential and the market size is population size. The total population, population distribution and age structure composition will all impact the demand for the home textile market. According to the latest census data from the National Bureau of Statistics of China, from 2013 to 2020, China's total population has continued to increase steadily, and the total population in 2020 reached 1.41 billion people. With the continuous increase of the total population, coupled with the continuous advancement of the urbanization process, the market scale of China's home textile industry will also expand, the market demand will increase even more, and the development prospects are enormous. However, from the population's age structure, the proportion of the population aged 0-15 is relatively stable, which shows a continuous upward trend. On the other hand, the proportion of the population aged 15-60 has been declining, while the population aged 60 has been on the rise, which means China's population is ageing. Therefore, the demographic dividend will gradually disappear, which is detrimental to the development of the domestic home textile industry.

#### **3.1.1.4 Technology**

With the country's strong advocacy of environmental protection and people's requirements for a high-quality life, the textile industry has also proposed to actively develop and use ecological textiles and environmental protection processing technologies. Ecological textiles are textile products that cannot cause pollution to the environment during their production process; they cannot adversely affect human health during their use; they cannot release harmful substances after they are discarded. This puts forward higher requirements for the sustainable development of the textile industry.

According to the relevant data in 2015, in the textile industry, the internal expenditure of R&D expenditure of large-scale enterprises was 37.63 billion yuan, an increase of 120% compared with 2010; the number of invention patent applications was 16004, an increase of 50% compared with 2010. In 2015, the textile fibre processing ratio of clothing textiles, home textiles and industrial textiles was adjusted to 46.6:28.1:25.3, and the proportion of chemical fibre in the total textile fibre processing reached 84%, which increased 14% compared with 2010. These data show that China attaches great importance to the textile industry. The home textile industry, as an essential part of the textile industry, has broad development prospects.

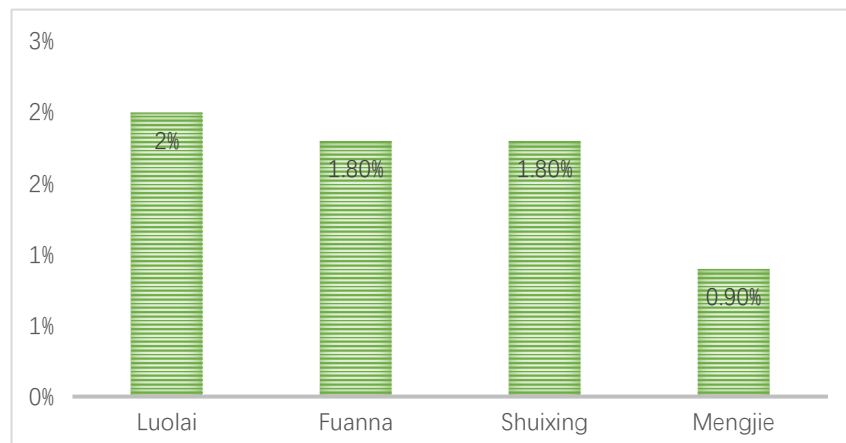
#### **3.1.2 Analysis of the internal environment**

##### **3.1.2.1 Competitor**

The low-tech content of the home textile industry has resulted in relatively low entry barriers and so that there are many unbranded products on the market. According to the China National Textile Association statistics, there are nearly 1,000 active home textile brands in major cities in China, and 75 of them have been assessed as "China Famous Brand Products." Luolai's main competitors are represented by some outstanding home textile brands such as Fu Anna Home Textiles, Shuixing Home Textiles, and Mengjie Home Textiles.



In 2018, the top four companies in China's textile industry were Luolai Home Textiles, Shuixing Home Textiles, Fu Anna and Mengjie Home Textiles, which accounted for 2%, 1.8%, 1.8%, and 0.9% of the market, respectively.



Market share of the top four Chinese textile companies in 2018

(Source: Euromonitor)

From the perspective of brand positioning, the main brands of Luolai Home Textiles and Mengjie Home Textiles are positioned at the mid-high and low-end, with a broader brand coverage. Fuanna is positioned at the mid-to-high end, and Shuixing Home Textiles is positioned at the mid-end. In terms of the number of brands, the number of independent brands of Mengjie leads the industry, and the number of agent brands of Luolai ranks first. In terms of market share, the main brand "Luolai Home Textile" under Luolai Company was the brand with the highest market share in the quilt and bedding market in 2018.

### 3.1.2.2 Supplier

Luolai Company is a home textile company whose raw material is mainly cotton. The violent fluctuation of cotton prices will directly affect the production and operation of the home textile industry. The sharp rise in cotton prices in 2010 and the fall in cotton prices in 2011 have had a lasting impact on the home textile industry. In 2018, the cotton market remained stable, with output increasing steadily, but uncertainties

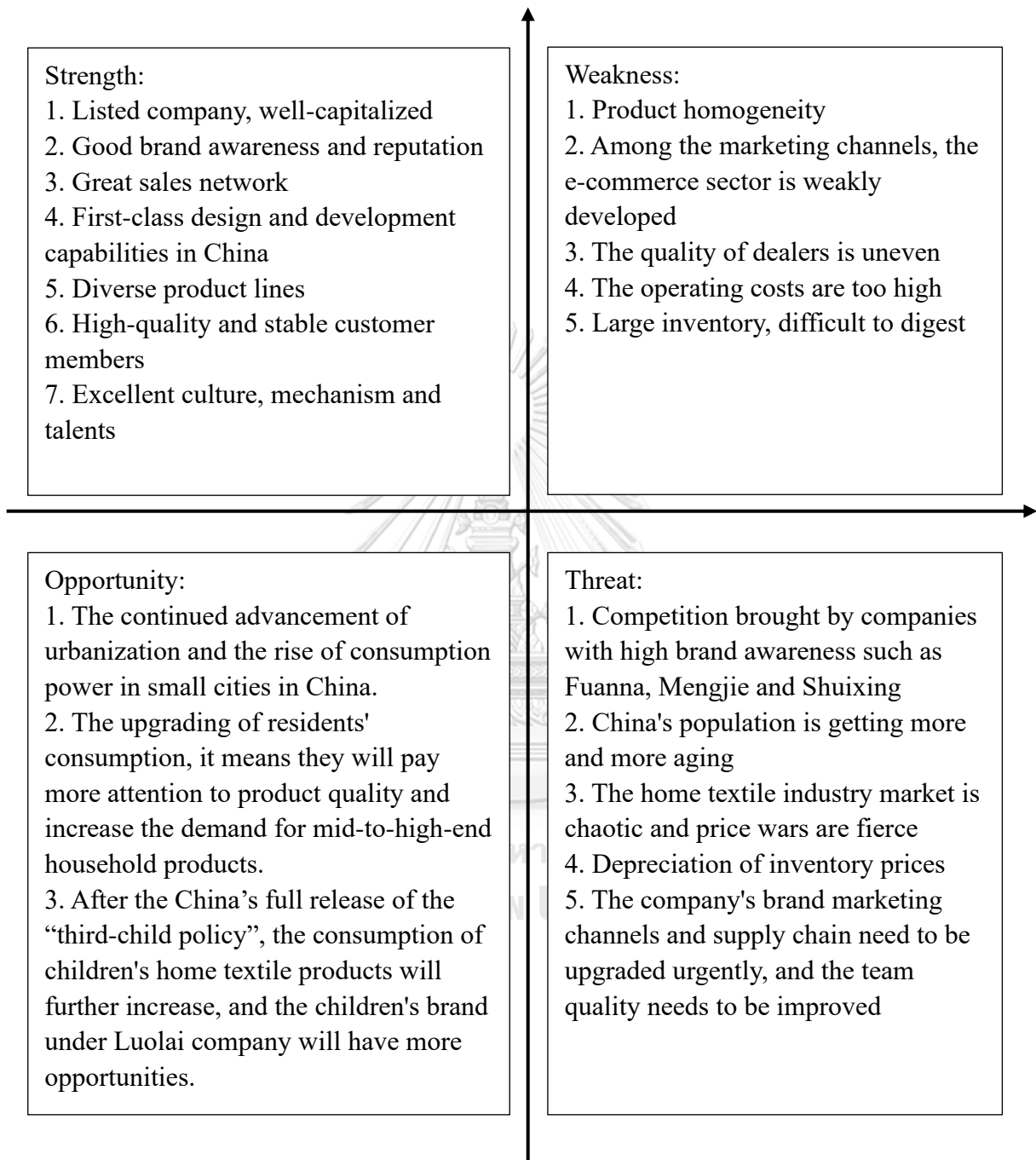
increased. Relevant data show that as China's national reserve cotton stocks were cleared in 2019, China's domestic cotton quota will increase significantly. The proportion of imported cotton in China's total domestic cotton consumption will continue to increase. As the proportion of foreign cotton continues to increase, international cotton prices will increase China's domestic cotton prices. From the perspective of labour costs, labour costs are increasing daily, and the pressure on home textile companies has increased sharply. The rise in labour costs has directly weakened the price competitiveness of the textile industry, resulting in minimal space for China's domestic textile companies to reduce costs, which will eventually squeeze the profit margin of the textile industry.

### **3.1.2.3 Customer**

Setting marketing strategy is inseparable from the participation and cooperation of customers. The enterprises should first put the pursuit of customer satisfaction first and consider the preferences and convenience during consumers' purchasing, instead of determining the strategy only from the perspective of the enterprise. It should implement effective marketing communication with the consumers. Philip Kotler pointed out that customer satisfaction is crucial during the entire business activities of a company, and companies should study the real needs of consumers from their perspective.

Luolai Home Textiles is a mid-to-high-end brand, and its leading target group is females. The company positions the target consumer group as the middle and high-income female group aged 22-55. This consumer group pursues a high-quality life and advocates a warm, comfortable and luxurious lifestyle. Although the post-90s are not the most important consumer group, the post-90s will be the leading force in purchasing wedding bedding in the future. People of different ages have different tastes; therefore, in product design, Luolai Company should make some adjustments, dig deeper into the preferences of young people, and combine modern design elements based on traditional Chinese custom design to meet the fashion needs of young people.

### 3.2 Luolai's SWOT analysis



From the matrix chart above, we can see that Luolai company has advantages in brand awareness, talent reserves, research and development capabilities, etc. However, in terms of product homogeneity and e-commerce part, they must make some adjustments. With urbanization and third-child policies, there are still many

opportunities in the future home textile market. Nevertheless, at the same time, the fierce competition among Chinese home textile companies, the ageing population, and inventory problems cannot be ignored.

#### 4. "4Ps" analysis of Luolai's existing marketing strategy

From the operating performance table of Luolai Company from 2014 to 2019 below, we can see that the company's operating income is on the rise, especially in 2017. Compared with 2016, the company's operating income has grown dramatically at a rate of 47.91%. After 2017, the growth rate of operating income has slowed down substantially. The net profit has shown a dangerous trend, but the net profit has risen in most years. The instability of the net profit may be caused by the fierce market competition and the increase of various costs, such as labour costs and operating costs.

Year	2014	2015	2016	2017	2018	2019
Operation Revenue	27.61	29.16	31.52	46.62	48.13	48.60
Operation Revenue growth	9.39%	5.61%	8.09%	47.91%	3.24%	0.98%
Net Profit	3.98	4.10	3.17	4.28	5.35	5.46
Net Profit growth	19.88%	3.02%	-22.68%	35.02%	24.92%	2.16%

Luolai company operating performance table (100 million yuan)

*(Source: Luolai's financial statements over the years)*

#### 4.1 Product

Luolai adopts a multi-brand development strategy. The company's brand matrix covers consumer groups of different ages. At the same time, the diversified brand positioning also enables the company's products to meet the consumer needs among different consumer groups. At present, Luolai company has a total of more than 20 brands, including its own brands, "Luolai Home Textiles," "LOVO," and other acquiring and agent brands. Luolai has approximately 3,000 offline stores, and its

sales networks have been established in nearly 32 provinces and cities across China. Facing the rapid development of the Internet, Luolai keeps pace with the times and vigorously develops e-commerce. Luolai has developed close cooperation with major Chinese e-commerce platforms. Its online business has grown rapidly in recent years.

	Brand name	Category
Own brands	Luolai Home Textile	middle and high-end home textiles
	LOVO	Internet home textiles
	Luolai Kids	children home textiles
	Laviehome	home furnishing boutiques
	Yolanna	Italian style high-end boutiques
Acquisition	Lexington	American style high-end boutiques
Wholly-owned	Uchino	Japanese style home textiles
Agent brands	Sheridan, Zucchi, Bassetti, Christy	

Luolai Home Textile Company's brand matrix

(Source: Luolai company's public information)

## 4.2 Price

The price of home textile products of Luolai company mainly adopts the cost pricing method and the pricing based on consumers' psychology.

Luolai's core brands are based on mid-to-high-end products, and the product prices are relatively high. Bedding sets are priced at 400-10,000 yuan, quilts are priced at 2,000-10,000 yuan, and pillows are 69-600 yuan. The price is based on the cost of the product; that is, the cost of the product is added to a standard ratio to get the product price, and the price markup rate of the Luolai brand is 5-8 times. In terms of product prices, Luolai's online product prices are slightly lower than offline prices, and the LOVO brand has a price markup rate of 2-2.5 times, which provides home textile products with slightly higher cost performance to young customers.

In addition, Luolai company also likes to use the mantissa pricing method to price goods, which is also a pricing strategy often used by many companies. Mantissa

pricing refers to reserve the mantissa of the price and uses the odd to price products. For example, Luolai's products are mostly priced with nine as the end of the price, which makes consumers feel that the price is low, and also the number "9" in Chinese is similar to the pronunciation of "久," which implies longevity and happiness, which can satisfy consumers' pursuit. The auspicious and wishful psychology guides consumers to buy.



(Source: Luolai's online flagship store in Tmall)

Luolai's marketing strategy takes Chinese consumers' preference for luck as one of the marketing decision factors. Choosing lucky numbers as the last figure of the product price in China can increase the possibility of consumers buying and improving consumers' brand perception to influence consumers' final decision-making positively.

Luolai's offline stores often sell several products at prices lower than market prices, such as a pair of pillows for 9 yuan and a kerchief for 1 yuan, which is aimed to attract consumers to walk into the stores. And then the staff can recommend other hot-selling products or new products to consumers to get more store sales. If customers passing by the store see many people in the store, they will think that it is popular. A popular store means that the products are attractive and sound, so they will naturally enter the store to see any products they may want to buy. This is also how Luolai Company uses pricing strategies to attract customers and increase popularity in the store.

### 4.3 Place

#### (1) Luolai company's offline channels

Luolai's physical channels are mainly mall counters, directly operated stores, franchised stores, and direct online sales, mainly relying on Internet malls (Taobao and Jingdong). In terms of channel structure, Luolai still focuses on offline channels. However, in recent years, e-commerce has increased year after year, which has become the driving force for companies' development. In 2019, the Luolai company's e-commerce channel revenue accounted for approximately 27%, offline direct sales accounted for 17%, and offline franchise revenue accounted for 56%. The number of offline stores totalled 2,700, of which the number of Luolai Company's leading brand stores was about 1,700.

In the offline market, Luolai's products are mainly focused on the mid-to-high-end customer group. Franchise and direct sales coexist, with franchising as the mainstay and self-operating as a supplement. In 2019, the company opened more than 200 new stores, and in all these 2700 offline stores around China, the proportion of franchise and self-operated stores was approximately 2:8.



Self-operated stores use direct distribution channels to display home textile products from manufacturers to consumers directly. There is no intermediary intervention in sales, which is the shortest type of marketing channel. The Luolai company has expanded their traditional bedding stores into full-category home life museums and continuously improved the management level of the directly operated stores to

improve brand awareness. For Luolai, the franchise model has much lower pressure on the inventory of home textile products. The company only needs to sell its own products to franchisees. Regardless of whether the products are sold or not, they can be recognized as the company's income, thereby increasing its book income and profits and alleviating inventory pressure. In 2019, its franchise channels accounted for about 80%, but its revenue only accounted for 56%, which has a lower efficiency than directly operated stores.

The franchise-based model has helped Luolai Home Textiles open the market with minimal investment. In recent years, Luolai has been vigorously developing franchise channels and has been perfecting the development of direct sales channels, allowing Luolai to establish a strong sales network in China quickly, and let Luolai Home Textiles become the leading enterprise in China's textile industry

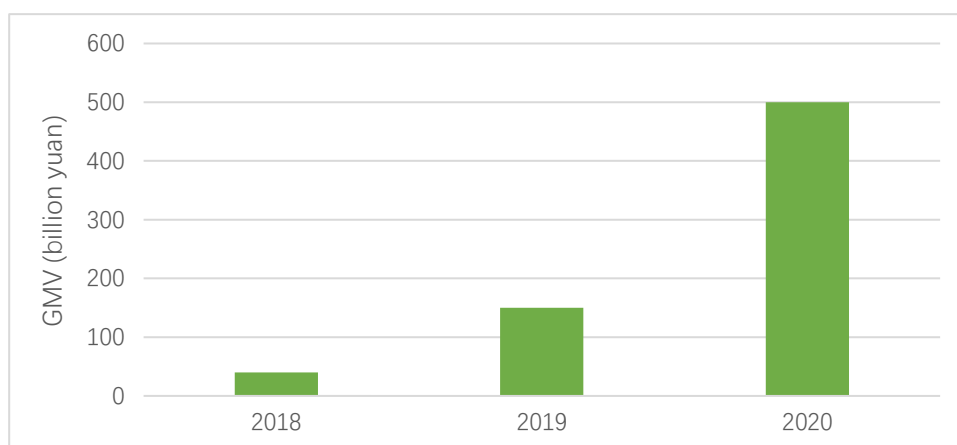
#### (2) Luolai company's online channels

Luolai Home Textiles started establishing online sales channels in 2009, explicitly launching LOVO's online direct sales brand for young customer groups. It currently has a team of about 300 people. The production, quality, and equipment of the LOVO products can meet the same standards as the top brand products. LOVO has cooperated with many online platforms. In 2013, it reached 15.8% of total sales. In 2017, online revenue reached 1.02 billion, accounting for 26% of total revenue. In 2019, the company's online sales were nearly 252 million yuan.

#### (3) Emerging of new sales channels

Actually, except for Chinese traditional e-commerce platforms like Taobao and Jingdong, popular live streaming and short video apps became effective marketing channels in recent years in China, generating billions in merchant sales by connecting viewers to existing e-commerce sites or their own.





GMV generated by Douyin (Chinese TikTok) from 2018-2020

(Source: Bytedance annual report)

From the report released by Bytedance, more than 500 billion yuan (\$77.3 billion) worth of goods was traded through the short-video platform Douyin, the Chinese version of TikTok, in 2020. Moreover, from the graph above, we can see significant growth in GMV from 2019-2020. Therefore, in the future, using this kind of new sales channel will be another effective way for Luolai to increase sales and improve corporate competitiveness.

#### 4.4 Promotion

Luolai's current sales promotion strategy mainly uses four modes of membership activities, public relations, online sales promotion and offline promotion to increase product sales.

##### (1) Member recruitment and management

Luolai Company introduced a membership marketing system to maintain regular customers and enhance consumer retention and loyalty. According to the amount of consumption, it is divided into silver card members and gold card members, and they enjoy different discounts. One-time consumption of more than RMB 800, or cumulative consumption of RMB 2,000 within a year can register as a silver card member and enjoy an 8% discount on regular-priced products. A gold card member

with a one-time consumption of more than 3,000 yuan, or cumulative consumption of more than 20,000 yuan within a year, enjoys a 12% discount on regular-priced products. In addition to enjoying discounts on regular-priced products, members can accumulate points after their consumption. Regular-priced products earn 1 point for every RMB 1 consumption, and special-priced commodities earn 1 point for every RMB 2 consumption. The points are valid for two years and can be exchanged for prizes at the end of each year.

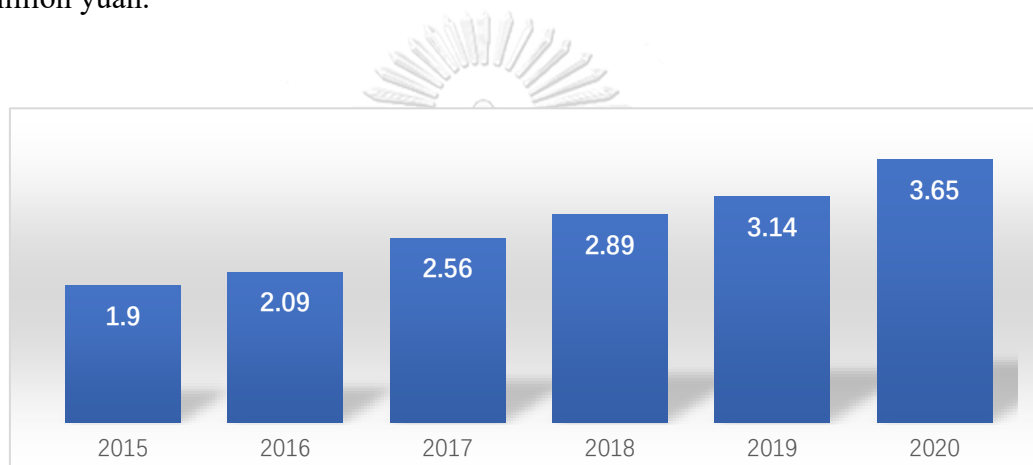
### (2) Public relations

First, cooperate with well-known TV series. Luolai Company has cooperated with well-known Chinese TV dramas many times, such as "Eternal Love." After the TV series was broadcast, Luolai Company launched the "Eternal Love" series of home textile products to satisfy young consumers. In August 2018, Luolai also cooperated with Coca-Cola to design a series of products and cooperated to develop a mobile game, hoping to use the popularity of the famous brand to promote product sales and increase its own brand value. Secondly, reality shows are top-rated in China these years, so Luolai Company has frequently cooperated with many reality shows in recent years. With the help of popular reality shows, Luolai's children home textile brand has been fully displayed, and the core concept of brand value has also been passed to the consumers deeply. Thirdly, Luolai Company also actively participates in many famous exhibitions, such as China International Knitting Expo, China (Shenzhen) International Gifts and Household Goods Exhibition, etc. Through the exhibitions, it can promote the products of Luolai Company to customers at home and abroad and further enhance the brand awareness and reputation.

### (3) Online promotion

When Luolai's online brand LOVO was launched, it concentrated on launching an eye-catching new product called "Love in Provence." It sold more than 8,400 sets a day on Tmall at a price of nearly 400 yuan. Subsequently, the cartoon image of Tusky was introduced, and this bedding with a white rabbit pattern was immediately popular with young customers. Next, LOVO invited American actor Ian Somerhalder as the presenter. He was one of the protagonists of the American hit drama "The Vampire Diaries" and was very popular among Chinese female consumers. After a series of

promotions aimed explicitly at young consumer groups, LOVO brand awareness has gradually increased. Luolai Company also held online sales promotion activities to arouse consumers' desire to purchase its products. On the Taobao platform, Luolai generally participates in various preferential activities organized by the platform. According to statistics from the e-commerce department, each participant in a preferential activity can bring revenue to Luolai company for more than 2 million yuan. Taobao's annual double 11 and double 12 shopping festivals have also brought Luolai a good profit. In double 11 shopping festival 2020, Luolai's sales reached 365 million yuan.



Luolai company's Taobao Double 11 Shopping Festival Sales (100 million yuan)

(Source: Luolai company annual reports)

#### (4) Offline promotion

Luolai company is good at taking advantage of celebrities and using the popularity of celebrities to increase brand awareness. Luolai's offline stores are usually promoted through advertisements around the store, and promotional activities carried out by the offline store, hardware facilities in the offline stores, and self-media advertisements. In general, the transmission mentioned above channels have a relatively small dissemination range and can only attract surrounding consumers. In addition, the content is not attractive enough, which makes it difficult to impress customers and cannot attract customers to enter the store for repeat consumption.

## 5. Suggestions for the promotion of Luolai's marketing strategy

### (1) Pay more attention to the children's home textile market

China has fully implemented the second child policy since January 1, 2016. It is estimated that driven by the second-child policy, more than 8-10 million babies will be born every year in the next ten years. Moreover, the number of newborn babies will peak around 2028, which will continue to promote the children's home textile market. With the economic effects of the latest birth policy, the increase of school-age children in the future will bring new opportunities to the children's home textile market. Although Luolai company currently has its own children's home textile brand, its proportion is not high. If Luolai wants to seize this opportunity, it needs to pay more attention to developing the children's home textile market. First of all, the most important thing for children's home textiles is safety and comfort. Children belong to a unique consumer group, and children's home textile products have stricter quality inspection standards. To meet these standards, Luolai needs to invest more money and pay more attention to ensure product safety to attract parents to purchase. Secondly, Luolai must improve the design of children's home textile products. Compared with adult home textile products, the design of children's home textile products must conform to children's aesthetics. Children's home textiles can only attract the attention and purchase of target customers if they are designed according to the colour of the image that children love.

### (2) Develop customized home textile services

With the continuous improvement of the living standards of the Chinese people, their requirements for the quality of life are getting higher and higher, and many things are pursuing personalized customization. Although home textile product customization is still in the groping stage, the customization model is likely to be a new field for future home textile enterprises based on the rapid development of modern information technology and network technology. Luolai company can try to develop the customized home textile model, allowing consumers to participate in the design process of home textile products according to their preferences and requirements. Combining Luolai's own brand advantages, the target customer group can be positioned as white-collar workers and high-income families. Using the customized

home textile model, Luolai company can gain more high-end customers and bring more possibilities for its future development.

### (3) Cooperation with more e-commerce platforms

Besides its self-built Luolai home textiles official mall, Luolai also cooperates with e-commerce platforms such as Taobao, Tmall, and JD. Nevertheless, that is not enough. Looking at the current development of e-commerce, there are many other platforms that Luolai company can cooperate with, such as "Suning" and "Gome." Furthermore, Luolai can even cooperate with some foreign e-commerce platforms such as "Amazon," "Lazada," and "Shopee" to open up overseas markets. Through cooperation with more e-commerce platforms, the Luolai company can reach more consumers and increase its product sales.

### (4) Sell products through Tik Tok live streaming

TikTok live streaming has been prevalent among Chinese consumers in recent years. This kind of live streaming is positioned in commercial live streaming, where customers watch and buy, helping customers obtain more realistic and three-dimensional product information. This new business model combines e-commerce, promotion, and live streaming to enhance the interaction between buyers and sellers. Luolai company can also use this kind of live streaming for promotion. They can cooperate with some famous internet celebrities because they have a massive influence on fans, which can be used by Luolai company to attract customers and increase product sales. Besides, it can also indirectly increase the online brand awareness of LOVO effectively.

## **6. Conclusion**

The development of the home textile industry is closely related to people's daily life. China's home textile industry has developed rapidly in recent years, and there is still a vast development space.

1. There are more than 1,000 brands in China's home textile market, indicating fierce

competition.

2. Luolai Home Textile Company is a leading company in China's home textile industry, and it has ranked NO.1 in China's home textile market share for 15 consecutive years. It enjoys a high reputation in China's home textile market.

3. Fierce competition in the industry and continuous changes in the social environment push Luolai company to improve its existing marketing strategies if it wants to maintain its leading position.

4. Currently, the Chinese home textile industry is strongly supported by the Chinese government, with relevant policy support and specific development plans. Especially the recently released three-child policy has laid the foundation for the future development of the children's home textile market.

5. The rapid development of China's economy and society guarantees China's home textile market development.

6. Chinese people's living standards continue to improve, the requirements for home textile products will also increase in the future.

7. As for Luolai company, in terms of products, it adopts a multi-brand marketing strategy that can meet the needs of different customers, but its children's home textile products do not account for a high proportion. In terms of product pricing, Luolai's combination of cost and consumer psychology can effectively stimulate consumers to purchase. In terms of marketing channels, Luolai adopts a strategy of combining online and offline sales, but it mainly focuses on offline stores. With the rapid development of e-commerce and the continuous emergence of new sales channels, Luolai is bound to improve its sales channels. In terms of product promotion, Luolai used the membership system and public relations cleverly, and the market responded well.

8. Luolai itself has excellent advantages in brand awareness, talent reserves and R&D. In the future development, Luolai needs to utilize its advantages further and make appropriate adjustments following the current social environment and market conditions to maintain its industry leadership.

9. In the future, Luolai may adjust its product structure and pay more attention to the children's home textile market. Moreover, to meet consumers' requirements for quality of life, Luolai can try in the field of customized home textiles to seize the future market. In addition, the current e-commerce market accounts for a considerable proportion, and new sales channels are constantly emerging. The gradual transfer of offline markets to online markets and continuous attempts of new sales channels are also the things that Luolai can have a try.



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