



Stylish Chinese consumers outside Cartier's new store in remote Lanzhou, Gansu Province in May this year.

CREDIT: WTP

The lap of luxury

China is now officially the second biggest economy in the world and is on course to be the third biggest for luxury goods within the next five years. Growth in the consumption of leathersgoods, shoes and cars and furniture with leather upholstery is strong.

Asatisfying global picture for leather in high-end consumers goods in 2010 had China as its brightest spot.

Specialist consultancy firm Bain and Company said the luxury goods market across the globe grew by 10% in 2010 and put its total value for the year at \$168 billion, close to the highest ever value, \$170 billion, recorded in 2007. Across all the categories of consumer goods that Bain takes into account, accessories, shoes and leathersgoods achieved the highest growth, 16%, and came close to topping apparel as the category with the highest revenues. Bain's figures suggested growth of 8% for

apparel, 13% for watches and jewellery and 4% for perfume and cosmetics. "Consumers seem unwilling to compromise on bags and shoes, even when they may mix and match luxury and non-luxury items in their wardrobes," explained Claudia D'Arpizio, a Bain partner based in Milan.

Her company is predicting continued growth (of between 3% and 5%) in 2011, which is good news for whole industry. However Ms D'Arpizio says she thinks the luxury consumer of the years ahead is more likely to be younger and more likely to be Chinese. The growth of luxury goods sales among Chinese consumers was up by 30%

last year, according to Bain, reaching a value of \$9.2 billion. This puts the Chinese market ahead of all others except Japan, which was declining even before the tragic events of March 2011, especially among younger shoppers, and the US, where the value of the market, in spite of recent hard times economically, is still around \$42 billion a year.

Shaun Rein, Shanghai-based managing director of China Market Research Group, believes that big-name brands from Europe and the US will be at the forefront of China's drive to bridge this gap, but he has witnessed quite a few false steps so far in



Young, rich and famous. Chinese film star Fan Bing Bing at the Shanghai Motor Show with Ulrich Walker, chief executive of Daimler Northeast Asia. The average age of buyers of Mercedes-Benz cars in China is 39. The average in the US is 53. CREDIT: DAIMLER AG

some companies' attempts to woo Chinese buyers. He said in a recent interview with broadcaster CNBC: "There are definitely going to be more losers than winners in the luxury market in China in years to come. One of the major problems luxury brands have in China is they focus on the wrong age-group. The reality in China is that younger people tend to be buying most of the luxury products. For instance, the average Mercedes-Benz buyer here is only 39 years old, compared to 53 years old in the US. If luxury brands are going to get China right, they really need to make sure that they focus on the right age-group and the right location, and they create the right brand image."

He confirms that the super-rich from the biggest cities (the municipalities of Beijing and Shanghai) are roaming the globe to buy in the most prestigious shopping streets of Paris, Milan, London and Los Angeles. So great is the importance of this contribution that Mr Rein reckons 60% of the more than €9 billion Chinese consumers spent on luxury goods in 2010 was spent outside China on trips such as these. "Very few of the true ultra-rich people actually shop in mainland China," he says, "because there's more cachet for buying a Bulgari bag in Milan than in Beijing."

Of the companies that are doing well in China, he highlights Chinese-Canadian brand Ports International. Founded in Toronto by the late Mike Tanabe, Ports International is celebrating its fiftieth anniversary this year. Its collections,

including highly stylish leather jackets, as well as bags, belts, wallets and other small leathers, are popular in China, where the company now has more than 350 points of sale across the land. "They've

realised that Shanghai and Beijing are not the major growth areas for luxury goods in China," Mr Rein continues. "Too many of the large multinationals put their flagships into Beijing and Shanghai. Ports, on the other hand, is going into second-, third-, fourth-tier cities, places like [Hunan provincial capital] Changsha and Dalian, and that's where the real growth is. The second thing is they've done a real good job of catering to local Chinese tastes; their stores are very nice and they have a lot of product selection."

Among the companies whose approach has impressed him less is Tiffany's, which, upon arrival in China several years ago, pushed its platinum jewellery lines and diamonds for exceptionally wealthy buyers. "But the rich don't buy in mainland China," he insists. "So they should have come in with their silver collection. Tiffany's is opening a new flagship store in Shanghai and if they target the aspirational buyer, I still think they could do very well."

Ralph Lauren is another company of which he has been critical, in this case for "placing stores improperly", for example in the Peninsula Hotel on the Bund in Shanghai. This is "a bad location for mainland Chinese". Visitors from abroad



Choosing the right Chinese locations can be the key to success in this market for luxury brands. The Peninsula Hotel on The Bund in Shanghai, site of a new Ralph Lauren outlet, is stunning, but may not be the best place to attract wealthy Chinese shoppers. CREDIT: PENINSULA HOTELS



like the Bund, he insists, but rich Chinese consumers don't go shopping there because there isn't a lot of parking and it's viewed more as "a foreign area". Ralph Lauren has also made a mistake by using too many western models in its publicity in mainland China, blondes and people with a preppy look lounging around boat-decks in The Hamptons. Shaun Rein's view is that this type of image doesn't really resonate with people in mainland China: "They don't like sailing and they don't understand what The Hamptons and preppiness are." There is a need for brands to "localise their marketing campaigns".

By contrast, he believes that French luxury leathersgoods brand Hermès has been "one of the savviest" in the way it has approached the Chinese market and there is evidence of the success of its strategy in numbers of people queuing up in the street to enter its stores there, sometimes waiting an hour for the privilege. It opened a new store in Harbin, the capital and largest city of Heilongjiang Province in China's far north-east, in the course of 2010. "There are a lot of really rich people in Harbin," Mr Rein reckons, "and they are buying up all of the luxury products there and they really like Hermès. People in Beijing or Shanghai are able to travel abroad to buy luxury products because it's easy for them

to get visas. But people in Harbin? It's not so easy for them to travel abroad so they have to buy in mainland China. Harbin is one of the hottest places in the country for luxury. Up there it can take a year to get a Porsche or a Ferrari."

Louis Vuitton, Ermenegildo Zegna and Ports International are other luxury brands that are doing well in China because they have multiple points of sale in the right places. Zegna achieved high levels of growth in 2009, but not in Beijing in Shanghai; its growth came in cities such as Chengdu, capital of Sichuan province. ©

The luxury goods market in China grew by 30% in 2010 to reach \$9.2 billion.

CREDIT: LVMH



Strong and growing stronger

China exported just over a billion pairs of leather shoes in 2010, an increase of 13.5% compared to 2009. The export revenue that Chinese footwear manufacturers earned from these shoes was close to \$10.5 billion. The increase in value from 2009 to 2010 was 25%.

This picture repeats itself across China's leather landscape for the year. The country's tanneries exported 45,000 tonnes of finished and semi-finished leather over the 12-month period, earning more than \$408 million dollars in the process. These figures represent a rise of 51.5% in volume and of 71.3% in value. In terms of other finished leathersgoods, China exported more than 600 million pairs, valued at \$932 million, an 18% increase in volume and a 37.2% jump in value. Even when the volume of exports fell, as it did with leather garments, by 1.5% to 18.4 million pieces, the value of these items, \$855.5 million, was greater than in 2009, in this case by 9.6%.

Chinese manufacturers also exported 65,000 pieces of machinery linked to leather and leathersgoods production in the course of 2010, which is 63.5% more than in 2009. This equipment had a value of \$125.9 million, an increase of 171.2% compared to the previous year.

On the import side, Chinese tanners and traders imported fewer raw hides and skins last year compared to 2009. The figure is given by the Chinese customs authorities as just over 1.2

million tonnes, down by 3.8% year on year. However, the value of this raw material was 41.1% higher than in 2009 at just over \$2 billion. The value of imports of finished and semi-finished leather was almost double that amount, just short of \$3.9 billion, an increase of 29.1% on the 2009 amount. The volume of imports of finished leather, crust and wet blue was 951,000 tonnes, 16.6% up on the previous year. There was a large drop in the volume of tanning machinery imported by Chinese tanners in 2010 compared to the year before, with just 2,385 pieces coming through, 49.1% less than in 2009. As in other categories, though, the value of machinery imports went up, in this case by 42.1% to reach \$42.8 million, an average of nearly \$18,000 per item of machinery.

With all the appetite for luxury described elsewhere in this regional commentary, it's perhaps no surprise to learn that imports of leather footwear, which in China mostly means medium- or high-end imports, were up in volume and in value in 2010. Importers brought in 15.6 million pairs of leather shoes, an increase of 18.8% on the 2009 volume. In terms of value, these products were worth \$573.1 million to the overseas footwear manufacturers that have secured a toe-hold to supply Chinese consumers. This represents a rise of 32.8% compared to 2009 leather footwear imports, and an average of more than \$36 per pair wholesale. ©