

Luxury retailers pin hopes on Chinese nouveau riche

Susan Fenton



Models display goods from Cartier during a private dinner in Shanghai in January 2007. (Nir Elias/Reuters)

European and American fashion designers feeling the pinch from the credit crisis can look to the growing ranks of the Chinese nouveau riche to raise sales.

The millionaires' club in China is expanding rapidly, and many new members are women who do not blink when asked to pay \$10,000 for a cocktail dress from a top international designer.

"The Chinese are the newcomers to the global market," said Sebastian Suhl, Asia-Pacific chief executive of the Italian fashion house Prada, which has nine stores in China. "They're very hungry to learn about fashion. Fashion represents obviously status, but luxury is also a kind of bridge to the modern world for them."

With the Chinese economy growing more than 10 percent annually over the past five years, the country had 345,000 dollar-millionaires at the end of 2006, a third of whom were women, according to a report by Merrill Lynch and Capgemini, a consulting company.

Some 5,000 mainland Chinese had assets exceeding \$30 million, accounting for a third of the super-rich in the Asia-Pacific region.

Even affluent Chinese women without millions in the bank are willing to spend their savings on designer fashions, seen as the ultimate status symbol in a communist country that is increasingly becoming preoccupied with the trappings of wealth.

China is already the world's No. 3 market for high-end fashion, behind Japan and the United States, with sales of more than \$2 billion a year and set to top \$11.5 billion in 2015, according to Ernst & Young.

Zhang Ning, a 30-year-old Chinese manager, has never been to France but said she liked wearing Hermes, which she called the epitome of style.

"I like its simplicity, it makes me feel elegant," said Zhang, who works as a manager at an electric power company in Guangzhou. "France for me is elegance, good fashion and wines."

Fashion can come at a price. Imported goods, including luxury items, are subject to duties as high as 20 percent. On top of that, China imposes a 17 percent sales tax on all goods. Like many mainland Chinese, Zhang goes to Hong Kong to shop at Hermes. The former British

colony has no import duties and no sales tax, which means luxury items are up to 30 percent cheaper than on the mainland.

While luxury goods makers like Louis Vuitton have benefited from the booming demand of Chinese who want to show off their newfound wealth by wearing clothes and accessories emblazoned with prestigious logos, Western fashion houses like Hermes are tapping into the more discreet tastes of the super-rich.

"The mainland Chinese market is still very accessories oriented but we believe that will change," said Alex Bolen, chief executive of the New York-based couture house Oscar de la Renta, whose sleek cocktail dresses retail for up to \$10,000, while its evening gowns approach double that.

"There's definitely a market for the cocktail dress," Bolen said. "But what has surprised us, pleasantly, is how rapidly the customer has also adopted our daywear."

Leading the charge is the upscale Hong Kong department store Lane Crawford, which is bringing designers to China who are seen as being on the cutting edge in the West but are not well-known on the mainland.

The opening of Lane Crawford's first store in Beijing last October has expanded the China presence of British designers like Alexander McQueen and Stella McCartney, and heralded the arrival of more niche designers including Dries Van Noten, Hussein Chalayan and Rick Owens.

Buyers from Lane Crawford now take prized front-row seats at fashion shows in Paris and Milan, alongside buyers from high-end U.S. retailers like Saks and Neiman Marcus.

Meanwhile, Chinese fashion editors, headed by Vogue China, have become an influential presence on the European fashion scene.

The ongoing transition in China to a more market-oriented economy after decades of strict communist rule is producing a constant stream of newly rich.

Their purchasing power and the growing sophistication of a more established wealthy clientele is creating a very diverse market for fashion, says Angelica Cheung, editor of Vogue China, which started in 2005 and has a circulation of 320,000.

"It's very different from the West; there are a lot of entrepreneurial opportunities and there are wealthy people emerging all the time," Cheung said.

"A young woman who might now be on a monthly salary of 5,000 yuan could next year be running her own business," she said. That would be \$720 a month. "Her first luxury product might be a Louis Vuitton bag but within a few years she might move on to something more niche such as Marni," she said.

Chanel is the most preferred high-end fashion brand for affluent Chinese followed by Giorgio Armani, according to a report by MasterCard. Oscar de la Renta says China is central to its strategy for Asia, which it hopes will account for 20 percent of its sales within five years, up from 5 percent at present, helped by its burgeoning accessories' business.

Luxury brands can easily sell their perfume and cosmetics in mainland department stores. But when it comes to ready-to-wear fashion, they are competing for space and customers in a handful of luxury venues like the Plaza 66 mall in Shanghai and Lane Crawford in Beijing where rents are expensive.

"They're overpaying" on rent "but they're looking at China as an investment," said Marcel Braun, a Hong Kong-based executive vice-president of the Swiss company DKSH, which

advises luxury goods companies on market expansion. "Fifteen years ago brands came and left. Now they can't do that anymore, China's too important."

Rampant copying of accessories brands remains a problem for luxury goods companies in China, but it is much less evident among high-end apparel. Still, high-quality copies of designer handbags can be purchased across Beijing and Shanghai for just a pittance of the retail price of the originals.

The mainland Chinese luxury market is still in its infancy and luxury retailers are experimenting to find the right model and get the sales strategy right, analysts say.

Lane Crawford has modern art on display in its spacious Beijing store, aiming to offer a new concept in mainland shopping. It sells more than 600 high-end fashion brands, but visitors to the store say shoppers are often scarce.

Lane Crawford says its Beijing store is the first stage in a long-term plan for China and other stores will be opened in the future.

Retail analysts say that having a flagship store rather than being among dozens of brands carried in a luxury department store is the best way to achieve brand recognition and exclusivity in China.

Reaching out beyond Beijing and Shanghai is the next step. In 2007, Shenzhen replaced Chengdu as the mainland city with the highest average spending on luxury goods, according to Credit Suisse, and the size of the luxury markets in Shenzhen and Wuhan doubled.

Braun of DKSH said fast-growing northeastern Chinese cities like Dalian offered better opportunities for expansion than southern cities.

But Hong Kong, a long-established market for luxury goods, still offers a much wider choice of designers.

Macao, the former Portuguese enclave, is becoming a shopping hub for affluent mainland Chinese following the arrival of U.S. casino operators in the past few years.

Prada's edgier offshoot brand Miu Miu staged its first fashion show in Asia earlier this year in Macao, flying in the Crazy Horse cabaret revue from Paris to perform in front of local elite at the Wynn Macau casino resort, which houses Prada and Chanel boutiques in its lobby.

"I believe Macao will be comparable to Hong Kong in terms of sales in the next few years," Suhl of Prada said.

Miu Miu, which sells at Lane Crawford in Beijing, plans to open its first independent mainland China store in Shenzhen this year. Meanwhile, Hermès plans to open a 500-square-meter, or 5,400-square-foot, store in Beijing before the Olympic Games in August.

Sales in China will help offset a long-term decline in business in Japan, aggravated by its rapidly aging population, it said.

Disponível em: <<http://www.iht.com>>. Acesso em 30/5/2008.