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COMMERCE

What role is the Chinese consumer playing in growth rates?

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Gucci spring/summer 2016 collection

By FORREST CARDAMENIS

High sales in Western Europe and Japan led to decent third quarter results for Kering, suggesting strong business from Chinese tourists.

The Kering Group saw luxury sales increase by 14 percent on a reported basis and slightly more than 3 percent on a comparable basis in the third quarter of 2015 compared to the year-ago. Much of this improvement can be attributed to a variety of economic factors taking Chinese consumers to Western Europe and Japan, where Kering's presence is relatively strong.

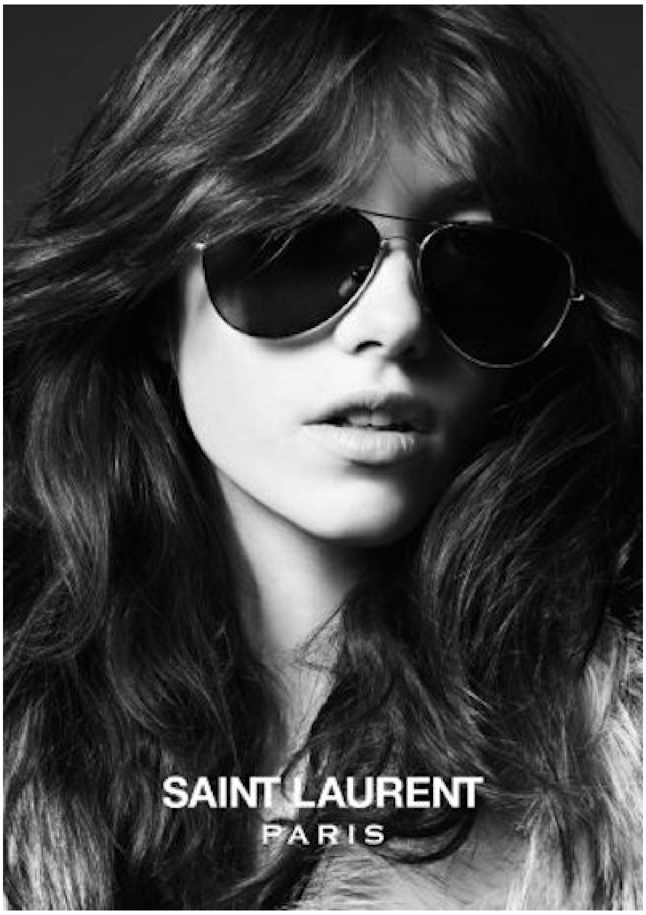
"[The key is to] have a global view of your consumer and not just a local or domestic view," said Brian Buchwald, CEO of Bomoda, a consumer intelligence company focused on the Chinese outbound consumer. "It's important to understand where the consumer is visiting, why they are visiting those locations, how you can effectively communicate with them, how you can effectively sell to them, and then how you can re-market to them and build a longstanding relationship.

"If you're tracking the Chinese consumer, you have to be aware of what they're doing when they leave China, and how they can be incentivized in that journey. From a headquarters perspective, global teams need to be highly aware of these Chinese tourists and build relationships with them in order to sell to them more effectively no matter where they land."

Globalizing local markets

Survey data from Bomoda shows shifts in the perception of various Kering brands. For example, Italian fashion house Gucci, among the best known luxury brands in China, is among the top 3 most-purchased brands but only ranked as eighth out of 50 in perception as luxury among consumers.

Saint Laurent made the biggest improvement among Kering-owned brands, with comparable sales increasing by more than 25 percent. The growth is spurred largely by Western Europe and Japan, where comparable growth was 40 percent and 77 percent, respectively, whereas sales in China dropped.



Saint Laurent eyewear

Rival conglomerate LVMH, as well as Hugo Boss and Burberry, have all cited decreased demand in China for disappointing growth.

China has recently seen a number of factors contribute to slowed growth, ranging from the devaluation of the yuan and the drop in the Shanghai Stock Exchange to protests in Hong Kong and rooting out of corruption within the government. China is continuing to grow, but the law of diminishing returns necessitates that growth will gradually slow in terms of percentage, and, moreover, growth in luxury purchases among Chinese consumers has moved online and to foreign markets.

When Bomoda began tracking in 2011, 60 percent of luxury purchases made by Chinese consumers were made outside of China. That number has since increased to 80 percent.

Chinese consumers waiting to enter a Louis Vuitton store

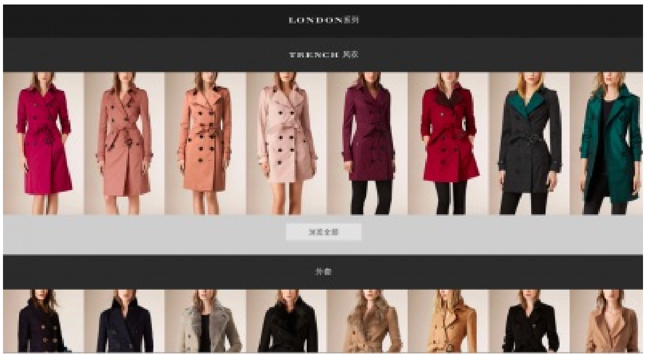
"I don't think it's an easily reversible trend nor is it a flash in the pan," Mr. Buchwald said. "In the long term it might balance out a bit, but there is a significant and persistent purchase behavior exhibited by China's consumers since they've entered the luxury market they are buying outside of China."

Because the Chinese yuan has become more favorable against the Japanese yen and depreciated against the Korean won, the United States dollar and the British pound, Chinese luxury consumers are visiting Europe and Japan rather than South Korea, the U.S. or the United Kingdom.

Global teams need to be highly aware of when Chinese tourists are visiting and building relationships with them so they can sell to them more effectively," Mr. Buchwald said. "Most brands have a substantial infrastructure team in

China.

"Sales and marketing teams in China primarily focus on driving sales in mainland China despite consumers desire to visit and purchase in foreign markets," Mr. Buchwald said. "These teams don't really have the tools and the means, nor the proper incentive for that matter, to communicate and sell effectively to outbound focused Chinese consumers."



Burberry's Chinese ecommerce site

Also of note, 40 percent of luxuries purchases from Chinese consumers outside of China are made by Daigou. Daigou searches the market for favorable buying rates rates and then sells high in China on platforms like JD.com.

Localizing global markets
Other data also show the impact that arbitrage is having on the luxury market.

A lack of pricing transparency is driving foreign consumers to the gray market, according to a recent report from L2.

Even with attempted price leveling, a Burberry trench coat is still 40 percent more expensive in China than the U.S., and those that haven't made attempts to equalize price are even worse, with Calvin Klein women's jeans nearly triple the price. To better court a loyal global consumer-base, a brand needs to be consistent and transparent in its price offerings both through its own outlets and through retailers (see story).

Just as significant as arbitrage in tapping into the global market are localization efforts.

Global heterogeneity presents many obstacles for brands looking to maximize their share through localization efforts, according to another recent report from L2.

The share of ecommerce sales in the luxury industry has tripled since 2009 and is set to triple again by 2025, but obstacles such as currency, language, selection and payment method may make it difficult for brands to expand and capitalize on their reach. As social media, the Web the development of BRIC, Asian and soon Sub-Saharan African nations give brands more visibility, it is essential that they monetize global consumers (see story).

When examining recent growth, brands and conglomerates must look beyond the raw numbers and determine carefully what caused those numbers.

"What we are looking at is a market where companies are benefitting or suffering from luck to a certain extent," Mr. Buchwald said. "Brands that have had more significant exposure in Japan had a great quarter. Brands that have had more significant exposure to Great Britain had a tougher quarter.

"That's not necessarily because they have currency traders working at the company who, 36 months ago, said we should open up more stores in Japan because Chinese tourists are going to visit because there's going to be an RMB devaluation and a yen devaluation and a strong pound.' That's not why, it kind of just happened.

"So what we [at Bomoda} are saying is, you should build out the global infrastructure so that you understand before [consumers] travel where they are likely to go, why they are likely visiting and what they are likely to want to purchase, so you can communicate to them effectively. And this should be an integrated experience that spans markets."

Final Take
Forrest Cardamenis, editorial assistant at Luxury Daily, New York