

APPAREL AND ACCESSORIES

## What Richemont's divorce from Shanghai Tang reveals about these Western-owned Chinese luxury labels

July 10, 2017



*Screengrab from Hemms' Chinese brand Shang Xia's Web site*

By **Yiling Pan**

Subscribe to **Luxury Daily**  
Plus: Just released  
State of Luxury 2019 **Save \$246 ▶**

What went wrong with the union of Richemont and Shanghai Tang?

The Swiss luxury conglomerate Richemont Group has **sold the Hong Kong-based luxury brand Shanghai Tang** to the Italian investor, Alessandro Bastagli, and private equity fund Cassia Investments Ltd. on July 3, ending its 19-year partnership with the first Chinese luxury brand.

Since its inception in 1994, **Shanghai Tang** has positioned itself as an international brand that offers its global clientele upscale, high-end goods with an innovative "Chinese touch." One such item is the qipao, or traditional body-hugging Chinese dress popular among Shanghai's socialites in the 1920s.

Besides clothing, the company offers a wide range of products from accessories to home furnishings, and has won over a number of Asian markets.

In 1998, Richemont Group took a controlling stake in the company, and did a full takeover in 2008, which coincided with the taking off of the luxury market in China. Shanghai Tang's unique positioning helped Richemont Group move into that market.

The success of the brand in Asia, however, did not translate into a win in major Western markets.

"Shanghai Tang's brand performance is barely satisfactory since the acquisition," said Vinchy Chan, luxury consultant at Brand Finance, "which I think is the main reason for this divorce."

In **2013**, Shanghai Tang's executive chairman, Raphael le Masne de Chermont, told fashion writer Divia Harilela in the ***Business of Fashion*** that the brand's top consumers were from mainland China, while Asians "as a whole" represented 51 percent of the consumer base.

The fundamental design concept unfortunately did not resonate with the rising Chinese millennial consumers who, in recent years, have shown that they clearly prefer Western luxury brands.

"Shanghai Tang is immaterial in the broader CFR portfolio," said Luca Solca, head of luxury goods at Exane BNP Paribas. "It ended up being a distraction, while the business has been going nowhere."

### *Shanghai Tang's spring-summer 2017 collection*

LVMH also ditched the upscale Chinese spirits label Wen Jun this year. Richemont is not the first Western luxury group that has started to sell off brands with strong connections to traditional Chinese culture.

This past January, the French luxury group LVMH's wine and spirits business line Mot Hennessy took a similar move when it disposed of Wen Jun Distillery, a Chinese premium white spirits company that has a rich history dating back to the ancient Han Dynasty.

LVMH first acquired a 55 percent stake in Wen Jun Distillery in May 2007 from Jiannanchun, according to the [official statement](#) by LVMH. Many [market analysts](#) saw the investment as a smart move by LVMH to take advantage of China's emerging upper middle class, given the popularity of white spirits consumption then.

However, high-end wine and spirits consumption has been hit hard by the anti-corruption campaign launched by Chinese President Xi Jinping in 2013. Wen Jun has had very poor market performance in recent years, which made divestiture a logical step for LVMH.

Will Herms-backed Shang Xia be the next one?

The sales of Shanghai Tang and Wenjun further spark concern over other similar collaborations between Western and Chinese businesses including Herms and high-end luxury lifestyle and furnishings brand Shang Xia.

Shang Xia was cofounded by Herms International and the Chinese designer Jiang Qiong Er back in 2008. The fundamental design concept of Shang Xia is inspired strongly by the ancient and modern Chinese aesthetics and culture.

Positioning Herms as a kind of "slow luxury," global CEO Patrick Thomas is not rushing to see profits coming from Shang Xia. According to an [interview](#) with *The Wall Street Journal* in 2014, Thomas expected the costs and benefits of the brand to break even in 2016, which was eight years after its foundation.

Even though the patience is much appreciated, Herms still cannot afford to ignore one question, which is whether Chinese luxury buyers will someday arrive at a point when they are fond of paying big on a Qing dynasty-inspired wooden chair or bamboo woven bags. Currently, these products are more favored by a group of niche customers who have strong interests in Chinese traditional culture.

"I think for Shang Xia is a little bit different," Brand Finance's Mr. Chan said. "They don't really have a rich brand heritage. I can see they are successfully leveraging the bond with Herms to build the luxury brand image. Brand positioning is unique, but they need to invest in building up their brand awareness."

However, Mr. Chan also recognizes that "being niche is a double-edged sword. It's easy to create a brand premium in terms of price, but this also limits your reach to consumers."

In May, [Shang Xia launched a store on Alibaba's Tmall platform](#), officially breaking into the ecommerce market and attempting to reach out to a wider consumer group.

The move got varied reception from the market with some experts calling the move a signal that Herms is not happy with the brand's performance. But there is little doubt that Shang Xia is now expected to capture the mass market, which is an unclear path for a niche brand.

### *The making of Shanghai Tang's spring-summer 2017 collection*

*Yiling (Sienna) Pan is luxury business and fashion reporter at [Jing Daily](#), the leading digital publication on luxury consumer trends in China. Reproduced with permission.*