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# Richemont bets big on China

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*China is having a crucial impact in the development of the luxury watch market, registering market growth of more than 59 percent. Image credit: Shutterstock*

By Adina-Laura Achim



According to Business Live, "global luxury goods retailer Richemont continues to bet on a more connected world with a clear strategy to target online Chinese customers."

In fact, the positive results in China helped the group register sales growth by 9 percent at actual exchange rates to 7.4 billion and by 6 percent at constant exchange rates for the six month period ended Sept. 30.

Market Screener highlights that Richemont registered "double-digit sales progression at actual exchange rates in China, Korea, Japan, the U.S. and the United Kingdom," but also acknowledged a complex environment in Hong Kong SAR, China.

On the other hand, Richemont's recent partnership with Alibaba has boosted the group's results and visibility in China, and the investment in fashion retailer Yoox Net-a-Porter moved the business further.

"The maker of Cartier jewelry had been benefiting from its fast-growing jewelry business, but a slight slowdown in the division, weak watch sales, and operating losses at online distributors Yoox Net-a-Porter and Watchfinder worried investors," says *Reuters*.

In fact, despite successes, there are even dark clouds on the horizon.

For instance, Richemont was hit by the ongoing protests in Hong Kong and it had reported losses at the newly acquired online platforms.

Furthermore, there are serious concerns that Richemont still does not get the Chinese market.

Investment analyst Liston Meintjies said that "luxury is all about brands and it is not clear whether Richemont brands appeal to the Chinese market."

Additionally, the current protests in Hong Kong have scared off investors, tourists, and shoppers, and deterred the business environment.

This summer, international players cautioned the business community that Hong Kong's street protests could trigger

critical consequences and deal a "serious blow to the city's outlook." Predictably, even luxury brands are vulnerable to the disturbance. And Richemont is no exception.

Furthermore, if LVMH's takeover bid for Tiffany & Co. goes through, it would force Richemont to compete against the world's largest luxury conglomerate. And despite Richemont's premier position as a luxury powerhouse in the jewelry and watch segment, fighting against LVMH might prove challenging.

What strategy should Richemont use to strengthen its brand positioning and increase market share?

At the moment, Richemont should focus on the Chinese mainland where the demand for luxury watch sales and jewelry remains relatively strong.

While "Hong Kong retail sales of jewelry, watches, clocks and valuable gifts dropped 47.1 percent in August and 40.8 percent in September," in China, sales and demand for luxury remain high.

According to Daxue Consulting, "there is a saying in China: The poor play with luxury cars, while the rich play with luxury watches."

Furthermore, Daxue reports that China is having a crucial impact in the development of the luxury watch market, registering market growth of more than 59 percent.

Moreover, the rise in wages and standard of living in tier-2 and tier-3 cities has made these urban settlements appealing options for luxury brands.

Additionally, Richemont should review its expansion strategy for smaller cities where "extravagant shopping malls and high-fashion shops are scarce."

According to Luxe Digital, "45 percent of middle-class consumers in Chinese tier-2 and tier-3 cities are interested in purchasing luxury goods, versus 37% in tier 1 cities."

Consequently, consumers in lower-tier cities can be approached via trunk shows, popup shops and shop in shops.

Likewise, building an effective multi-channel retailing strategy is crucial for Richemont's success. And by partnering with Alibaba Group and creating the Feng Mao luxury joint venture, Richemont has selected a strategy that will drive up sales and fuel business growth.

In fact, through the joint venture, Richemont will efficiently take advantage of Alibaba's technical infrastructure, digital marketing and payment platform, while engaging with a new consumer base in a cost-effective manner.

Evidently, Richemont's focus on Chinese online retail was a strategic move.

"You have to be in China because that is where the growth is. If you are not online, you are nowhere," said Liston Meintjies.

ALONG THESE LINES, we foresee that despite Hong Kong's economic downgrade, Richemont will continue to grow in mainland China and register a rise in operating profits as a result.

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