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RETAIL

How luxury brands will overcome the continued lack of Chinese tourists

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After nearly two years of pandemic disruptions, the arrival of Omicron guarantees even more strife for the luxury tourism market. Image credit: Shutterstock

By Adina-Laura Achim

After nearly two years of pandemic disruptions, luxury conglomerates have learned China's new rules and managed to design and implement winning strategies there. But now that Omicron has arrived, even in the West, retailers may encounter new challenges in 2022.

Meanwhile, U.S. President Biden announced new restrictions and public health protocols for safe international travel, further unsettling retail and tourism. Since, in the past, these industries relied heavily on Chinese tourists for their survival, it is crystal clear that these restrictive measures are going to put additional pressure on retailers.

European and Asian retail and travel have gotten crushed without Chinese travelers.

In fact, *The New York Times* highlights that Asian tourists, "especially from China," represented around 40 percent of international visitors to Rome's Colosseum in 2019. During that year, 2 million Chinese travelers visited Italy. International arrivals to Italy did improve this year compared to 2020, but the figures remained below pre-pandemic levels.

Even in France, the situation has not gotten better.

French tourism promoters were forced to get acquainted with Chinese social media platforms, so they could livestream interactive activities such as French cooking classes and virtual trips to the Chteau de Chantilly, according to *The New York Times*.

Meanwhile, 95 percent of tourism businesses in Vietnam closed down or suspended operations during the pandemic.

But the temporary moratorium on global travel is not hurting only Western retailers. Chinese shoppers are also suffering.

The daigou industry has been brought to a standstill, and without personal shoppers buying luxury goods for them

overseas, Chinese consumers had to shop locally. And luxury brands tried to take advantage of this "repatriation trend" by hiking their prices in China.

The Fashion Law hints at Bernstein's findings, which suggest the average median price of luxury goods in mainland China is 60 to 75 percent higher than in Europe.

As for the biggest price increases during the pandemic, *WWD* mentions Louis Vuitton's Pochette accessories with a price jump of 46.2 percent as of April 2021 and Chanel's Classic Flap with price increases of 20 to 32 percent during 2020. Therefore, going into 2022, many want to know: What lies ahead for luxury brands operating in China?

Luxury will still rely heavily on China but will learn to harness the "repatriation" trend

Various luxury brands will look to keep expanding their physical footprints on Hainan island and invest in duty-free stores in this tourist hotspot. "Hainan Island is on fire," John D. Idol, chairman of Capri Holdings, told analysts in February.

The sales potential of Hainan was on full display during the week-long National Day when Chinese shoppers spent $252.3 million (1.64 billion yuan) at nine duty-free shops in the southern island province, according to state media. *CNBC* points out that this represented an increase of 75 percent compared to the same period in 2020.

New luxury hotspots will replace Hong Kong's dominance

Hainan has already become the top contender to steal the luxury crown from Hong Kong.

The South China Morning Post reports that LVMH, Herms and Richemont are looking for new opportunities in the tropical resort as they want to connect with mainland luxury buyers who used to shop in Hong Kong. "Any pivot to Hainan will coincide with store closures in Hong Kong and could have a long-term impact on luxury retail in the city," said *The South China Morning Post*.

But the city of Macau is also registering strong momentum. And, according to Macau Business, its luxury retail sector has bounced back due to mainland travelers gradually returning.

Macau's retail sales totaled $2.34 billion (MOP 18.75 billion) in the first quarter of 2021, increasing by 68 percent, year-on-year, and 3.1 percent, quarter-to-quarter, after a sharp 41.5-percent decline in 2020.

Another luxury mecca with the potential to replace Hong Kong is Shenzhen.

With its tax cuts, benefits and new incentives to boost consumer spending, Shenzhen is attracting and growing talented individuals who command high incomes. And luxury brands are chasing these consumers as they are the country's future HENRYs and millionaires.

When it comes to Hong Kong, luxury brands must think locally

Long gone are the days when mainland luxury shoppers would take the upscale boutiques in Hong Kong by storm. Most luxury brands have already recalibrated their strategies by growing their bonds with local consumers.

In 2022, luxury brands will continue to focus on domestic Hong Kong shoppers by creating brand experiences that enable deeper connections.

Before the pandemic, mainland Chinese shoppers were responsible for 60 percent of sales at Luk Fook Holdings International Ltd., according to Bloomberg. But the jewelry chain had to adapt to a new reality by rolling out new loyalty programs for local buyers.

Meanwhile, Luk Fook benefited from the pandemic-induced boom in gold sales.

"There has been a big rebalancing toward local spending," said Jonathan Zeman, CEO of Lan Kwai Fong Group, during a Bloomberg TV interview. "People who normally would fly around to Tokyo, Bangkok, Paris, they can't do that now, so they're happy to find ways to spend locally."

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