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COMMERCE

Has China peaked for luxury spending?

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By RACHEL LAMB

Luxury marketers have been reporting a slowdown in Chinese consumer spending, calling experts to question as to whether or not the 'C' in BRIC is over.

Even though there have been some reports of consumer spending slowing down in China - one of the emerging BRIC countries with Brazil, Russia and India - there is likely still potential for luxury marketers in the market. Indeed, China's spending cycle may have been slowing down recently, but it will most likely come back around with a vengeance, just as it has in the past.

"The effects of luxury and uncertainty in the United States has created a slowdown in China," said Milton Pedraza, CEO of the Luxury Institute, New York. "It is part of the rest of the world in the economy today and there is no question as to if the world is slowing down, rather whether it will be a hard or soft landing.

"There is no question that China is cyclical, and for people to think that China has only one trajectory – up – is naïve," he said. "We have to build relationships and gear up for the battle, because you need resources to weather the storm after the peak."

Down and out

Many luxury brands have reported either declining sales, slowed growth or a desire to slightly pull out of China.

For example, British fashion giant Burberry reported a decline in first-quarter sales growth, which many reports said proved China's economic slowdown.

Burberry autumn/winter 2012

Also, German fashion house Hugo Boss reportedly saw its growth from China slow down to only 1 percent in the second quarter, according to various reports.

Other marketers such as German automakers Mercedes-Benz, Audi and BMW are expected to report smaller profit margins from the Chinese market.

Since these three automakers account for 80 percent of the premium market in China, this is a sign that the market may be out of steam for the time being.

"Chinese consumers' taste is evolving fast, and their craving for highly-recognizable luxury products are over as a phenomenon, at least in the larger, more sophisticated cities," said Echo Zhou, Geneva-based China digital project manager at Digital Luxury Group. "They have suddenly stopped buying logos and started to be more interested in niche and more under-the-radar products that will distinguish themselves from the masses.

"This evolution is interesting because usually people consider the Chinese luxury market as a 21st century version of the Japanese market in the 1970s and 80s" he said. "However, now we see the two are different in the sense that Chinese consumers want much more individualism, while Japanese are perfectly comfortable with their collectivism - they do not mind having the same Vuitton bag as everyone else.

"This poses a big challenge to luxury brands in China."

What's in a name?
Big-name brands with recognizable logos are the ones that are suffering the most.

For example, Louis Vuitton reported losses in the second quarter, while lesser-known watchmaker Roger Vivier is booming, according to Mr. Zhou.

Louis Vuitton Chinese language site

Success this quarter does, however, depend on the brand. Some marketers have been doing well in the market, and almost all luxury brands have reported global gains this quarter.

"The China market is slowing down, but it does not appear to be affecting all companies," said Chris Ramey, president of Affluent Insights, Miami. "Furthermore, the underlying demand for luxury products appears to be solid, particularly for international brands."

Indeed, a reason for the slowdown could be that Chinese customers are shopping internationally rather than domestically.

"For luxury brands it remains very hard to assess a slowdown by looking at local consumption alone," said Pablo Mauron, general manager of the Digital Luxury Group China, Shanghai.

"More and more Chinese consumers are doing their luxury shopping abroad thanks to preferable exchange rates and an increase in travel," he said.

On the other hand, some marketers may have already been focusing on other markets, especially other BRICs that still offer a big part of the pie.

"The concept [of BRIC markets] is behind us," said Jerome Lambert, CEO of Jaeger-LeCoultre, Geneva, Switzerland. "When you see the level of development of a country like China, it is more and more comparable in terms of cost and spending to countries like the United States than to countries like Russia or India.

"So, at least, it is more 'BRI' than 'BRIC,' because the Chinese part of the story is probably over," he said.

Looking up

Although growth may be slowing down, this does not mean that luxury marketers should halt their efforts in the market.

Instead, they should start emphasizing second- and third-tier cities, according to DLG.

According to a study from Morgan Stanley, most brands are planning on continuing marketing efforts in China.

For example, Bruno Cucinelli, founder of the namesake brand, reports that the brand is "more than satisfied with how things are going for our business ... We are especially

pleased with the figures which, being sustained by the sales quality, point to a very interesting six months ahead in terms of profits," according to the report.

Likewise, Nick Hayek, CEO of Swatch, told Reuters last month that he is "far more worried about the increasing influence of finance than I am about possible problems in China."

Therefore, even though the China fad may diminsh, marketers should not totally abandon the market. However, brands should continue to put their efforts into other emerging markets as well.

"There are pockets of opportunity in Asia and in other emerging markets right now," Luxury Institute's Mr. Pedraza said. "Korea, Taiwan, Colombia and Chile are all good markets, and they will not make up volume that big markets create but there are ways to evolve.

"The battle is no longer how many stores can you open, but how much productivity can you get out of salespeople in existing locations," he said. "That is the strategy that marketers in China need to look at right now."

Final Take

Rachel Lamb, associate reporter on Luxury Daily, New York