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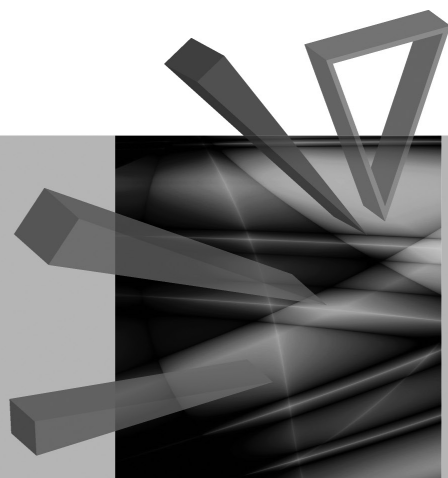
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Clusters, Networks and Markets in the Asia-Pacific Region



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**PEOPLE'S REPUBLIC OF CHINA
AS A NEW DIRECTION FOR LUXURY GOODS
BRANDS PRODUCERS BASED ON THE EXAMPLE
OF ACTIVITY OF LOUIS VUITTON MOËT HENNESSY**

Abstract: The aim of this study is to show the extraordinary evolution of Asian, and particularly Chinese, consumer market over the last five years. The emerging market niche transformed into a target for leading global luxury goods manufacturers, giving clear signals about changes in the global economy. The paper shows the course of changes in the Asian market of luxury products (with the exception of the Japanese market) on the example of the expansion of the Louis Vuitton Moët Hennessy group with a particular focus on China.

Keywords: luxury, China, luxury goods, global crisis.

1. Introduction

According to Bruno Lannes, director of Bain's Consumer Products and Retail Practice, within the last five years the Chinese consumer market has evolved from a niche one into the emerging market of destination for global manufacturers of luxury goods. B. Lannes claims that the phenomenal growth in the luxury goods market is observed, despite the fact that some signs of maturity in the market are beginning to be recognized. With the explosion of the middle class population growth in China and the importance of the image of very wealthy individuals, the consumers of this country report significant demand for luxury goods such as leather handbags, shoes, and perfume. Currently the second largest global market for luxury goods in a few years' time is to reach the level equal to the size of the market in Japan.¹ The largest increase is expected in the cities of the second and third tier.²

¹ Japanese market is very specific, since the vast majority of women consider having bags with the logo of Louis Vuitton's an absolute must.

² B. Lannes, W. Han, Selling luxury to the Chinese masses, *The Wall Street Journal Asia* 2010.

This article aims to analyse the situation prevailing in South-East Asia, particularly China. The author considers the case of the most famous group of sellers of luxury goods at this market and tries to anticipate, basing on research and analysis conducted by the consulting specialist centres, its further progress.

2. LVMH Group

LVMH is the world leader in the production and sales of luxury goods. It has a portfolio of 60 prestigious brands. LVMH Chairman Bernard Arnault and his family are in the 10th place on the list of the richest people in the world. His fortune is \$ 29 billion USD, and it comes from the thriving business of luxury goods. The Group operates in five sectors:

1. Wines and liquors (Hennessy, Moët & Chandon, Dom Pérignon, Mercier, Veuve Clicquot-Ponsardin, Krug, Ruinart, Belvedere, Glenmorangie, Ardbeg, Château d'Yquem, Domaine Chandon, Cloudy Bay, Terrazas de los Andes, Cheval des Andes, Cape Mentelle, Numanthia, Newton, 10 Cane, Wenjun). Some of these brands are products of a centuries-old tradition considered a symbol of luxury as champagne Dom Pérignon or Moët & Chandon, as well as less well-known brands, but reaching the market much higher prices, as Krug and Belvedere.

2. Fashion and leather products (Louis Vuitton, Céline, Loewe, Fendi, Donna Karan, Berluti, Givenchy, Marc Jacobs, Kenzo, Emilio Pucci, Stefano Bi, Thomas Pink, Nowness). Among many brands that are in the possession of a group only five after their acquisition proved not to be profitable investment for the investor. An example of this might be a footwear, haberdashery and clothing brand Céline or other fashion brand Kenzo, for which the company overpaid significantly, and which for years did not bring profits.³

3. Perfume and cosmetics (Christian Dior Perfums, Givenchy Perfums, Guerlain, Kenzo Perfums, Acqua di Parma, Fresh, Benefit Cosmetics, Make Up For Ever, Perfumes Loewe).

4. Handwatches and jewellery (TAG Heuer, Chaumet, Zenith, Fred, Christian Dior Watches, De Beers LV, Hublot, Bulgari).

5. Selective retail brands (DFS, Sephora, La Samaritaine, Le Bon Marché, Miami Cruiseline Services⁴).

LVMH, headed by B. Arnault, carries out further steps to take control over the next leading luxury brands, even against the will of their owners, and sometimes even without their knowledge. This is currently the case for the well-known clothing company, a LVMH rival, Hermès.

³ LVMH: The empire of desire. What the world's biggest luxury group will do next, *The Economist*, Paris, 2nd June 2012.

⁴ www.lvmh.com (retrieved 25.03.2013).

Due to an expansive strategy of the French group and its director, and brand development since the creation of the group in 1987, it opened more than three thousand shops and hired 100 thousand workers, 79% of whom work outside France.

3. The company condition after the global crisis of 2008

Presenting the financial results for the year 2011, B. Arnault said that year was perfect for the group. LVMH profit in the period he commented exceeded 3.06 billion, as shown in Table 1.

Table 1. Extract group from the profit and loss account in 2009–2012 (in million EUR)

Period ending	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Revenue	28 103	23 659	20 320	17 053
Costs of revenue	9 917	8 092	7 184	6 164
Gross profit	18 186	15 567	13 136	10 889
Percentage increase compared to the previous period	16.82	18.51	20.64	–
Operating profit	5 739	5 154	4 169	3 161
Percentage increase compared to the previous period	11.35	23.63	31.89	–
Net profit	3 424	3 065	3 032	1 755
Difference	359	33	1 277	–
Percentage increase compared to the previous period	11.71	1.09	72.76	–

Source: author's study, based on: *LVMH Income Statement*, <http://www.investing.com/equities/l.v.m.h.-income-statement> (retrieved 20.04.2013).

The spectacular growth of the company value in 2010, comparing to the prior period, seems to confirm the words of its president, who said that the luxury industry in times of crisis is better than ever, especially taking into account other branches of industry and trade.⁵ Net profit amounted to nearly 42 million which gives 73% growth and by 13 million better financial results than those at the end of 2009.

In comparison to 2010, when earnings reached almost 24%, the increase was 1.1%.⁶ This increase is not high in nominal terms, but one must take into account the considerable investment made to take over Hermès – LVMH now owns openly and indirectly almost 22% of stake in rival company. Excluding these expenses the net company profit in 2011 would be 22%. The year 2012 has ended with the company

⁵ P. Czarnowski, Bernard Arnault z LVMH: Dzięki jego bezwzględności luksus wciąż przynosi zyski, *Dziennik Gazeta Prawna*, 17th February 2012.

⁶ *Ibidem*.

profit of 11% compared to the previous year, resulting in 3.5 million and an increase of nearly 12%. This means that despite the ongoing global economic crisis, according to the President of the group, for the luxury business that was the period of real prosperity. This can be explained on the example of the United States: in the former largest luxury goods market, in spite of its poor condition, as published in 2011, the French company's sales increased by 18%, which has encouraged management to raise prices by as much as one fifth, making profit increased even more.

4. Chinese motives for buying luxury goods

Confucian Chinese society⁷ has got quite a distinctive approach to issues of ownership. Reputation and preservation of dignity is of a paramount importance. J.-N. Kapferer argues that this belief can probably be extended to the financial issues, where money seems to be the main measure of a man.⁸ The president of LVMH is of a similar opinion – he would like to see luxury goods as the product defining the present aristocracy,⁹ where the statement, more than to the birth refers to the good taste and budget.¹⁰

Individual motivation of Chinese customers to buy luxury items separates them by age and class into 4 groups:

1. 18–35 years old, middle-class, white-collar.

Spending on luxury goods in this group reach 25% of the income of its members, and their motivation is the desire to stand out in the crowd.

2. 25–35 years old, mostly women, white-collar workers or housewives.

In this group, spending on luxury goods is almost 50%, and the motivation is the fear of lagging behind fashion.

3. 35–45 years old, a group of both men and women, wealthy entrepreneurs.

This group consists of individuals who love logos, luxury shopping and also use them as corporate gifts (!).

4. 35–60 years old and youth, mostly people from wealthy families in the second generation and wealthy entrepreneurs.¹¹

⁷ www.chiny.pl (retrieved 10.04.2013).

⁸ J.N. Kapferer, *Luxury after the crisis: Pro logo or no logo?*, *European Business Review* 2010, www.europeanbusinessreview.com (retrieved 10.04.2013).

⁹ S. Stodolak, *Król luksusu*, *Wprost* 2011, no. 51–52/2011 (1506); www.wprost.pl (retrieved 15.04.2013).

¹⁰ “Since richness is growing everywhere in the world, thanks to fast economic growth, luxury must not never be made too accessible if it wants to remain the dream of those with growing revenues and wealth”, E. Granot, T. Brashear, *From Luxury to Populence: Inconspicuous Consumption*, ACR Proceedings, *The Marketing of Luxury Goods: An Exploratory Study – Three Conceptual Dimensions*, vol. 35, Memphis 2007, pp. 991, 992.

¹¹ J.S. Vickers, F. Renand, *The marketing of luxury goods: An exploratory study – three conceptual dimensions*, *The Marketing Review* 2003, vol. 3, no. 4.

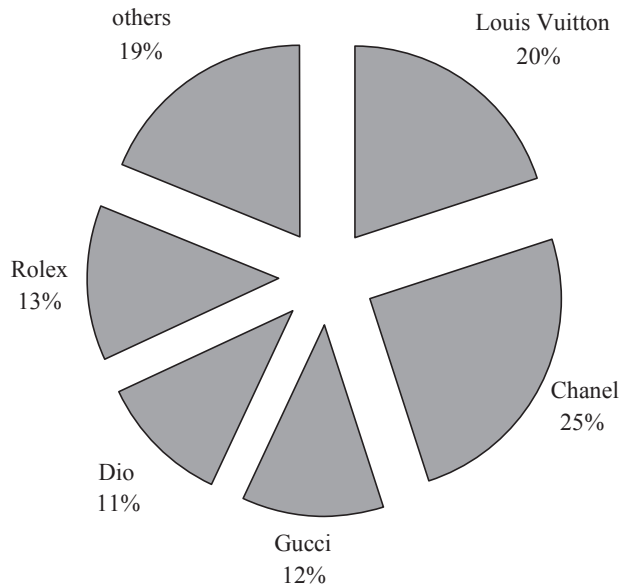


Figure 1. Most popular luxury brands in China chosen by women in 2012

Source: author's study based on: *2012 China Luxury Study*, Bain Point of View, www.bain.com (retrieved 15.04.2013).

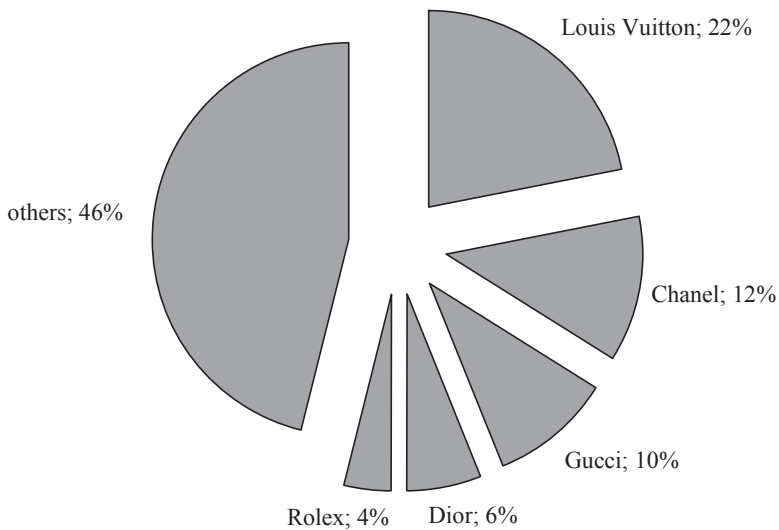


Figure 2. Most popular luxury brands in China chosen by men in 2012

Source: author's study based on *2012 China Luxury...*

They supply themselves only in the products of luxury brands, spending nearly 100% of their income, and their motto is “enjoy the tasteful luxury lifestyle.” In addition to their own use, corporate gifts are also shopping destination.¹²

Figure 1 illustrates how the choices made by women concerning the purchase of luxury goods developed. Among the 10 favourite brands clients included two of the LVMH group Louis Vuitton took second place in terms of popularity and Dior – the fourth.¹³

Figure 2 illustrates how the choices made by men on purchases of luxury goods developed. Among the 10 consumers’ favourite brands were two of a LVMH group – Louis Vuitton comes first in terms of popularity, and Dior – seventh.¹⁴

5. The luxury goods market development in China

Currently China is home to more than 900 thousand millionaires (taking into account the people whose property is assessed at least 10 million US dollars), including:

- Beijing – 151 thousand,
- Hong Kong – 145 thousand,
- Shanghai – 122 thousand.

The year 2012 saw another 110 rich coming from Southeast Asia.

In the fourth quarter of 2011, there was a slowdown in demand for luxury goods and the situation continued to worsen until October 2012. Expected growth in 2011 fell from expected 30% to 7%. This situation is a result of high stiff prices applied by the Chinese authorities. Wealthy Chinese prefer to make luxury purchases abroad. For example, the same goods in France often cost three times less than in Hong Kong. Specifically, an increase was observed in the case of purchases of watches, jewellery and leather goods, while luxury cosmetics market has remained relatively immune. In 2008, the sale of goods in the country amounted to only about 40% of total global sale, in 2012 this figure was 60%.¹⁵

At the beginning of the studied period China was third in the luxury goods market in terms of volume. In 2011, the Chinese have overtaken the Japanese people, before them there were only the United States. In 2012, China became the leader in terms of expenditure on the purchase of luxury goods. According to last year’s report of the American consulting firm McKinsey & Company, Chinese spending on luxury goods are growing annually at a rate of 18%. In 2015 it is predicted to reach 27 billion USD.¹⁶

¹² B. Lannes, W. Han, *2012 China Luxury Study, Bain Point of View*, December 2012, www.fcci-hk.com (retrieved 12.04.2013), p. 12.

¹³ *Ibidem*, p. 15.

¹⁴ *Ibidem*, p. 18.

¹⁵ Lannes B., Han W., *Selling luxury...*

¹⁶ C. D’Arpizio, Chinese shoppers world’s top luxury goods spenders, while China luxury market cools to seven percent growth in 2012, [in:] *Luxury Goods Worldwide Market Study*, China Edition, Shanghai, December 12, 2012, www.bain.com (retrieved 18.05.2013).

6. Group activity in the Chinese market

Especially for the Chinese market brand Louis Vuitton, whose profits are more than half of the group income, drew up a new multi-stage policy of further expansion. President of the group would like to keep a luxurious nature of the product, while LV brand owns 460 boutiques in over 50 countries around the world. All indications are that the next openings will not happen, at least not in such quantity and pace. The increase reflects the number of the openings of new boutiques in Table 2.

Table 2. Number of newly opened stores of each LVMH brand in the years 2007–2012

	Luis Vuitton	Dior	Bulgari
Opened before 2010	25	24	13
Opened in 2010	7	6	3
Opened in 2011	6	4	4
Opened in 2012	4	6	3
Total	42	40	23

Source: author's study based on *2012 China Luxury...*

The table shows the number of retail outlets opened by three LVMH portfolio brands. The data comes from a comparison of the 15 most common luxury brand boutiques in China.

The table shows that the most rapid increase in the number of boutiques openings occurred in the period before 2010, namely in 2007–2009. In subsequent years this growth has weakened as the result of changing consumer behaviour, as well as by a desire to preserve the uniqueness and luxurious look.

Figure 3 shows the increase in newly opened retail outlets during the period mentioned earlier.¹⁷

Now the company wants to focus on offering the most luxurious Louis Vuitton goods, especially the leather additives it is famous for, and ensure exclusive brand image. Particular attention will be devoted to handbags made of exotic skins to individual orders and exclusive personal shopping service in specifically dedicated to this fact, confined space of a boutique.

As part of its new strategy, LVMH decided to prepare a special collection. These products are designed specifically for the Chinese market, and their uniqueness is revealed in style. China is now the only market where all the articles are devoid of distinctive logo. Such a decision was taken in respond to the needs of Chinese customers who, after the first stage of European luxury “aspiration,” began to act more consciously, ripe for luxury without ostentation.¹⁸

¹⁷ B. Lannes, W. Han, *Selling luxury...*

¹⁸ *Tylko w Chinach – Louis Vuitton bez logo*, 31 May 2013, www.luxlux.pl (retrieved 2.06.2013).

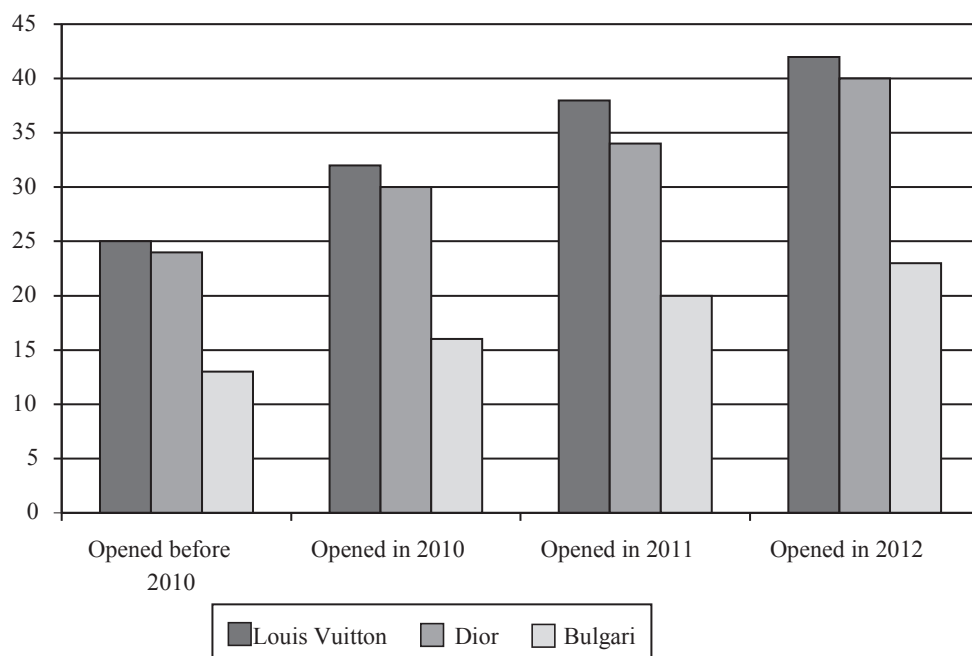


Figure 3. Number of newly opened stores of each LVMH brand in the years 2007–2012

Source: author's study based on *2012 China Luxury...*

It is expected that the situation will improve in 2013 as compared to a marked slowdown in China economic growth in 2012 because LVMH take a number of decisions to adapt their policies to new promising markets.

Chinese customers, because of the market specificity are now considered more exquisitely than ever by the luxury brand. They state to be served around the world with diligence, including enhanced efforts for the shop assistants to be put on training around the world. They now need to adapt to the requirements of the Chinese people.

7. L Capital Asia

The group also invests actively in regional brands aspiring to luxury image or having well established position in these markets. Private equity company invests in shares of companies listed on the non-public capital markets. Using LVMH funds, the group assists companies in the development, extension of the range of products or expansion into global markets. L Capital Asia operates dynamically in Asia, including the Chinese market, investing in brands such as Emperor Watch and Jewellery Limited (since 2010), Ming Fung Jewellery Group Limited (2011), Xin Hee Co., Trendiano Limited (2011) Investments (BVI) Limited (2011). The aim of the investor is to

develop companies in the following industries: products on special order, luxurious shopping malls, spa, interior retail space, media and entertainment, luxurious furnishings and décor, and also traditional industries for LVMH brands.¹⁹

8. Conclusions

China is now becoming one of the most important economies in the world. Its dynamic, fast growth despite global economic fluctuations is impressive and worth of emulation. Citizens, in spite of the large social disparities, get richer, and more and more people at a younger and younger age reach for luxury items. This situation can also be determined by specific geographical conditions and the long history of China's isolation in the international trade arena. The Chinese proved to be very absorbent nation, especially when it comes to products originating from Europe. European luxury has become for them the synonymous of wealth.

LVMH Group, headed by its President, in the popular literature simply called "the king of luxury," well read the signs given by the market. At the moment the income derived in the Asian markets helped them to survive the global crisis in good shape, and those markets despite significant slowdown still recognize the value of brands and seem to be unsaturated much longer. What is more, the company is looking for new ways to expand the Chinese market by investing in national brands and reap the benefits from shares in companies to strengthen their positions. These companies then continue to operate not only locally, but also export their products outside the boundaries of China.

It is expected that the matching strategy and business development activities to adjust to the requirements of consumers, together with recognizing their needs and motivations concern, is a good way to ensure benefits coming from these newly discovered markets for a long time.

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CHINY JAKO NOWY KIERUNEK EKSPANSJI PRODUCENTÓW DÓBR LUKSUSOWYCH NA PRZYKŁADZIE DZIAŁAŃ LOUIS VUITTON MOËT HENNESSY

Streszczenie: Celem pracy jest ukazanie niezwyklej ewolucji azjatyckiego, a w szczególności chińskiego, rynku konsumpcyjnego na przestrzeni ostatnich pięciu lat. Z niszowego wschodzącego rynku przeobraził się on w czołowy cel globalnych producentów dóbr luksusowych, dając producentom wyraźne sygnały na temat zmian zachodzących w globalnej ekonomii. Ukazano przebieg zmian w azjatyckim rynku produktów luksusowych (z wyłączeniem rynku japońskiego) na przykładzie ekspansji koncernu Louis Vuitton Moët Hennessy ze szczególnym uwzględnieniem Chińskiej Republiki Ludowej.

Słowa kluczowe: luksus, Chiny, dobra luksusowe, globalny kryzys.