
DKNY
D&G
Dior
COCO
CHANEL
CHANEL
CK
Calvin

Silk Road STATUS SYMBOLS

As the market for luxury goods widens, the industry is turning to Asia as its next big hunting ground. But the business of luxury in the east is a whole different ball game.

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Luxury, it seems, has become a democratic right. Most middle-class citizens own at least one luxury product, be it a prestige car, jeans, sunglasses or a watch. Once reserved for the world's elite, luxury is now available to the masses, with Armani creating homewares, Mercedes-Benz its A-Class cars and Versace a hotel brand.

Increasing the sales of a luxury brand is seen by some as diluting its elitism, and therefore its appeal, but luxury has the survival needs of any other business. September 11, SARS and the Iraq war have spelt disaster not just for the travel industry, but for the luxury industry as well. The majority of high-end consumers are global citizens who travel the world and shop abroad, and when there is little travel there are less purchases.

New-found wealth in India and China is providing an opportunity for luxury goods to revive their market, but the sector has had to adjust to the cultural differences between eastern and western consumers.

The motivators for purchasing luxury goods differ from culture to culture. In Europe, consumers have traditionally looked for high-quality products with history. But after the economic boom of the 1980s, the west began embracing prestige manufacturers' logos. T-shirts with the Chanel emblem emblazoned on the front were all the rage; Mercedes symbols were worn around the neck and everyone wanted the LV initials on their bags. As new money became old and tastes became more sophisticated, quality again began to take precedence.

As the middle class grew, so did its aspirations. Prestige car companies produced entry-level cars, such as the BMW 318 series; Ralph Lauren created Polo Sport and Calvin Klein produced underwear. Luxury went 'masstige' to keep itself alive. As a result, a new class of uber-rich emerged, demanding $1 million Maybachs and seven-star hotels.

In 2005, Asia has become the luxury goods market to watch, especially China. Asia makes up 60 percent of the world's population, with China accounting for 1.3 billion people. Investment bank Morgan Stanley predicts that annual GDP growth in China from 2004 to 2006 will be 8.2 percent, and in India 6.6 percent. This is almost double that of the US (3.9 percent) and the UK (2.5 percent).

Japan has the biggest slice of the worlwide luxury goods market – about 40 percent. Luxury sales there have shrunk 16 percent since 1994, but still make up US$11.6 billion. Analysts predict that, in the next 20 years, China will outspend Japan.

Claudia D'Arpizio, partner and analyst at management consultancy Bain & Co's Milan office, says, "The buzz around China is more about the fact that luxury companies have a problem growing in Europe. They cannot enjoy the big flow [of cash] from Japan and the US due to the US dollar's current instability. Their current strategy is to recover the loyal customer base in Europe, but they want to have a place to grow while recovering, and China provides that."

With the Chinese government's removal of travel restrictions, 28 million Chinese travelled abroad in 2004 alone, with one million visiting Europe. In 2004, an estimated 236,000 Chinese became millionaires. Those millionaires may purchase the same brands as their western counterparts, but not necessarily the same products.

"Luxury goods companies have learnt that there are cultural differences in customer needs from country to country," says D'Arpizio. China's new breed of millionaire favours large cars and Rolls-Royce has responded by creating a special Phantom for the Asian market, boasting an extra 250mm of space in the back. China is now considered Bentley's premier sales territory in the Asia-Pacific region and Ferrari predicts it will increase sales there by 50 percent in the coming year.

"In the past the luxury companies gave little attention to these cultural differences and tried to make their brands global," explains D'Arpizio. "There are now customisations in Japan and the US, where products are produced only for these markets. China will be different again. We still don't know how, so it is better to go in step by step. There's no point in opening 30 stores and conquering territories without understanding the cultural differences. There is a risk of losing the top of your customer pyramid when many people wear your products."

Gillian de Bono, editor of London's *Financial Times' How to Spend It* magazine, attended the *FT's* inaugural Business of Luxury Summit in Shanghai in May. "I told a journalist at the summit that a lot of

Europeans prefer discreet luxury without obvious branding. She found this difficult to understand. Her attitude was, 'What's the point of wearing something expensive unless everyone knows?'" de Bono says.

"In the younger high-growth economies of China and India, it is more important to the customer whether the brand is hot than whether it has had manufacturing competence in a particular field for generations," said Francis Gouten, Piaget managing director, at the summit.

Gouten believes the way to counteract brand dilution in the mass market is "to provide the customer with a unique experience". Only diversified brands with the power and size can provide such temples of entertainment where you can shop, sit, have coffee and drink. Chanel is a case in point. The label's US$240 million Tokyo store boasts ten floors of shopping and entertainment, including an Alain Ducasse restaurant.

However, it will be years before luxury brands make a profit from their retail presence in China. Getting their brand into the country means having to first educate those travellers likely to purchase abroad in Europe and Hong Kong, where luxury goods are traditionally 30 percent cheaper than in China.

Gregory Furman is the founder and chairman of the US Luxury Marketing Council. With members including 1,200 CEOs and marketing executives of 500 luxury firms in the US, Europe and the Middle East, Furman understands both the luxury goods customer and the manufacturer. Furman cites a need for new marketing methods in Asia. "My bet is the web and email will be the powerful vehicles. Aspirational buying isn't a concept for the masses yet, as the true middle class has yet to hit. That's all to come," he says.

The learning curve over the next decade will be steep and counterfeiting will become even more of an issue. Worth €400 billion globally, production of counterfeit goods has jumped 1,700 percent in Europe since 1993.

Rupert Hambro, chairman of British research firm Walpole, says, "If you are determined to put your luxury product in every single market in the world, under any conditions, you risk that product's reputation and everything it stands for."

Furman believes that products such as skincare label Crème de la Mer, fashion accessories brand Kate Spade and fragrance brand Jo Malone are brands that have stayed exclusive by evolving through word of mouth, with little or no advertising. "These luxury brands are always premium price and you have to be in the know to know about them. One day everyone knows about them and it is through people saying 'wow'. The same may happen in China in the coming years," he predicts.

Only time will tell. ■