Letter from Shanghai

By Kevin Chen

China is the word on everyone’s lips in the travel retail trade as the Chinese outbound and inbound travel markets boom. The Moodie Report.com has introduced a regular column which examines what’s hot on the fashionable streets of China’s biggest cities, and how Chinese consumer attitudes are evolving. We present our man in Shanghai Kevin Chen’s two most recent columns: the first looks at what is making the watches business tick in China; the second says that Chinese travel retailers have much to do if they are to attract their own nationals in future.

Whether you are driving or strolling in the brand-packed Nanjing Road these days, you will undoubtedly notice NBA player Yao Ming’s poster. Clad in a stylish suit, Yao displays the TAG Heuer watch on his wrist to intrigued onlookers. It’s a neat symbol of modern China – in this most ancient of countries, time seems to rush by.

Together with Tiger Woods, Brad Pitt and Maria Sharapova, this 7ft 6in Chinese giant makes up a dream team targeting Chinese consumers. The poster flanks China’s flagship TAG Heuer store, measuring some 100sq m of floor space. As one of the world’s biggest players in the timepiece business, TAG Heuer is banking on its star-studded publicity team to give Omega, Rado and other well-established brands a run for their money in China.

Since its entrance into China in 2002, TAG Heuer has expanded its reach to over 70 stores. At the same time, the group is beginning to take direct control of specialist shops in several cities. It should have about 100 shops in China by the end of the year.

Of course it is not just TAG Heuer. Upscale Breguet, for example, has announced that it is to spend RMB15 million (US$2 million) to bring remakes of the Breguet No 5 pocket watch to Shanghai, and has started a pre-order service for their money in China.

Luxury brand Panerai opened its first outlet in Nanjing Road’s glamorous Plaza 66. A CNY90,000 (US$11,130) watch was sold within minutes of its opening. The list goes on and on.

In the coming years, the battle for China’s luxury timepiece market will undoubtedly be bitter-sweet. There will be winners but – as always in China’s ultra-competitive and deeply complex market – losers too.

Vacheron Constantin opened a specialist counter in Zhenzhou about eight months ago, and it has already sold over 20 watches – each costing between CNY100,000 and CNY300,000 (US$12,366–37,099). The cheapest in stock retails at CNY80,000 (US$9,893).

In the northern city of Tianjing a company imports about 29 brands which make up about 60% of total sales. Watches retailing at CNY10,000 (US$1,237) contribute about 80% of the market’s sales. Rolex, the earliest...
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entrant into the market, records good sales with its CNY65,880 (US$8,147) watch.

At the largest watch store in Shanghai, Rolex and Tudor's annual sales exceed CNY10 million. “Most people head straight for Rolex when they walk in here,” the store assistant tells me. Strong performers also include Rado and Omega, but there is different demand for popular watches in different areas. People from the northeast prefer Rado and Omega, southerners prefer Tudor and Rolex. Those from the central region prefer Tissot and Longines. This may change as more international brands come onto the market; which ones will dominate is anyone’s guess – the market is still all to play for.

An industry contact believes traditional consumption patterns suggest that the northern part of China, especially the northeast, is the most significant, and will also grow faster. She also notes that northerners tend to be more conformist. They go for brands that their friends are wearing, i.e. the value of a watch is determined by a crowd. In contrast, southerners are more individualistic. The buyer will be swayed by his own feelings, and not blindly chase fashion.

Asked about the most easily acceptable watches in China, she says anything retailing at about CNY10,000 to CNY50,000. In the past people liked round watch faces, flat, and traditional electronic watches. These days the trend seems to be changing. People go for different elements in different cities. The determinant is the attitude towards individualism, and the level of acceptance of new technologies and fashion. The big cities lead other cities.

To those who are thinking of entering the Chinese luxury brand market, the timing is perfect. But there are still notes of caution. There are simply too many brands wanting a slice of the market. Media education and promotion can’t keep up. Hence brands need to have clear objectives and a good marketing strategy. Their relationship with the media is critical.

When facing competition from the domestic watch market, other than using media ads and promotion, the in-store selection and after-sales service are important. New entrants should also note: if you want to control your image, as well as develop sales, the best method is to open a specialist store, though this requires substantial investment. If you opt for a dealer, the investment may be smaller but there can be problems later.

China is a huge and diverse country. It has to be divided into several distinct regions, with different sales tactics developed for each region. The difference from Japan is that the big Japanese consumers are mostly women in their 20s and 30s. In China, 60% are males aged 28 to 45. Brands catering to females are popular with men – women pick the products, but men pay. When it comes to digesting fashion information, however, it is still women who lead.

Company purchases and personal gifts are also symbols of China’s luxury lifestyle, and watches certainly make good gifts. Chinese companies have to offer such presents to major clients, business partners and even government officials. The lists often only include about ten or so brands, such as Piaget, Cartier, Rolex and Bvlgari. Each purchase can be over US$10,000.

A strategic analysis found that Swatch and LVMH brands are China’s two biggest earners. Burberry and Gucci are big too. It noted, however, that jewellery merchants and other luxury brands are doing less well. The analyst concluded that this is partly because import taxes to China are high, and also because consumers don’t really understand branded jewellery. So brands such as Cartier and Bvlgari would not yet hold such sway in the Chinese market.

I disagree with that analysis. Louis Vuitton is certainly the market leader; but Cartier does not want or need to generate as many sales as Louis Vuitton’s bags. The analyst is only looking at the current year’s situation, and
If you ask me to recall what the duty free shops in major Chinese airports look like, I have to admit that they are just a blur. The difficulties I face in bringing these shops to mind suggest that they have collectively failed to leave a strong impression on shoppers as a shopping environment. There is little excitement or stimulation of brand recall.

Going by modern definitions of brand management, China’s duty free shops are generally disappointing. I thought it might just be a problem of mine, since I travel overseas only two or three times a year. So I asked some friends who travel more frequently for their impressions. The startling conclusion was that none of us have any firm recollection of Chinese duty free stores – it is almost as if we have passed them by completely.

But this doesn’t mean that we’re always rushing for our flights with no time left for shopping in travel retail. In fact, we have strong impressions of duty free stores in the airports of Hong Kong (right),

neglected to consider the fashion inclinations for the next five years.

Cartier and Bvlgari both make money in China. Major cities such as Shanghai, Beijing and Hangzhou are not short of people who understand fashion. Of course, there are also increasing numbers of rich people who don’t necessarily understand brands or have good taste. I believe that just as Paris, Milan and London have true luxury consumers, so too will there be such a group in China in five years.

Moreover, the watch market in China is limited only to utilitarian and luxury markets. In the coming five years, the numbers of collectors could grow. Collectors play a significant role in most other product categories and they can determine whether a brand gains cult status or not. Companies with good strategies – and quality products – can hardly fail.
Singapore, London and Tokyo. And most of us can cite products from these shops that we had thought about buying or had actually bought.

That said, most of my friends do not have good impressions of duty free shopping in several European airports either. They find the shops too small, and the selections too limited. So it’s not just a matter of Chinese people preferring foreign shops to local mainland ones. It’s the offer that counts.

Our coolness towards Chinese airports shops is based on these criteria:

- the location of the stores
- their design and image
- their size
- the selection of products
- the volume and types of products, displays, promotions and pricing.

In every criterion, Chinese duty free shops fell short. The main target customer of Chinese duty free stores is foreigners departing from China. But with arrivals shopping prohibited, the only chance to reach the Chinese traveller is on departure. Based on these two broad customer groups, careful thought has to be made concerning product selection.

A brand manager contact of mine notes that Chinese duty free shops tend to lack an overall concept. And they often fail to distinguish brands from one another. As a result, the environment fails to stimulate shoppers to consume. It lacks the enticement of top shopping centres.

Mainland airports tend to be sterile and cold, and they don’t encourage people to linger or to buy on impulse. If airports want to soften the atmosphere, the first thing to go should be the typically harsh and sterile white lights, to be replaced by warm and welcoming lighting.

Chinese duty free stores frequently fall short in stocking a wide variety of foreign brands. The pricing is standard by international terms, but the selection hardly stands up to that of overseas airports – and is often inadequate in comparison.

There are few seasonal discounts or promotions. As for Chinese destination products, there hasn’t been much thought shown in developing them. Too many products have remained unchanged down the years, and some lack design and innate quality.

Take silk products for example. In the duty free stores of both Beijing and Shanghai airports there isn’t much difference in selection. Compared to destination products sold in Singapore, those on the mainland are lagging far behind.

And the prices of Chinese handicrafts have standard price-tags. Compared to Beijing and Shanghai downtown stores, airport prices are simply not attractive. Arguably, though, Beijing has a better selection of products than other airports.

Critically too, new products, including perfume and cosmetics, are not launched quickly enough. Prices are also high and there are few promotions.

Consumers can opt to buy many things – from a Zippo lighter to perfume to cosmetics to travel souvenirs reminding one of their holidays in the East. Apparel is a little more complicated as it involves individual fitting. For the Chinese this takes up valuable time, so many people do not bother purchasing clothes in duty free stores.

Of those that do buy in duty free, men usually go for ties, accessories, tobacco, alcohol, cosmetics for their partners, new electronic gadgets, bags, shoes, medicine and gifts.
Women are attracted by a wide range of product categories. But they also like to buy gifts for men. Chocolate is a typical example and an important category. It is a price-specific product and it is easy for a person to decide to buy or not to buy. Tobacco, alcohol, cosmetics and perfume are also products that evoke quick decisions.

Other than Chinese products, people like to buy things that are price competitive compared to places such as Hong Kong, Singapore and London.

While Chinese people in my experience generally do not buy much in their own country’s duty free stores, the reverse is the case when they travel. Most Chinese I know would spend in excess of US$100. Others spend thousands. An average could be US$200 to US$400.

So what’s my advice to Chinese duty free retailers?

First and foremost, I would argue the case for more – and better-designed – Chinese products. But not just products for sale to foreigners: also for sale to Chinese nationals travelling overseas to purchase as gifts. These products must be well designed, and famous designers and houses need to come together to promote them.

Second, give shops a modern feel through better design and merchandising that stimulates purchasing desires. Third, and critically, hire better-trained sales people. Get major brands to increase the volume of new products and categories. Widen the selection.

Fourth, make prices more competitive. Fifth, increase live promotions. And finally – invest more in downtown stores, expand the selections and make prices more competitive.

The government should allow arrivals duty free shopping. Returning Chinese travellers would then be likely to purchase at mainland airports instead of spending their money abroad.

Beijing, Shanghai and Guangzhou airports could all be counted as major modern international airports. But I certainly hope that within these airports in the future there will be more shops that live up to the scale and image of each location. The longer those shops take to appear, the less money will roll in.