FINANCIAL TIMES
SATURDAY DECEMBER 17 / SUNDAY DECEMBER 18 2011

Lure of labels has hold on China

GENERAL RETAILERS

News analysis

Chinese shoppers are now the main 'travelling luxury consumers', writes **Claer Barrett**

The Bicester Village designer outlet centre in Oxfordshire is a favourite venue

On a chilly Friday in December, one might expect that designer outlet centre Bicester Village in Oxfordshire would be full of Christmas shoppers. However, the dominant group of customers snapping up discounted Burberry, Gucci and Prada products are Chinese university students – often accompanied by their parents – splurging on gifts to take home for the lunar new year.

"The price is what we like," says Zhing Xingzi, 33, from Beijing who is studying international relations at Nottingham University. Here with three female Chinese friends, who are trying on shoes in the Gucci outlet, he stands watch over their day's haul – 20 bags bearing the brands of Burberry, Prada, Uggs and Juicy Couture.

"In China, just a few people can do this, not everyone," he says, referring to the country's high sales taxes on luxury goods. "But the desire for brands is there, and we would buy more in China if it was at this price."

The changing appetites of Asian shoppers have driven share prices of luxury groups up and down during the course of 2011. Concern that the devastating earthquake that hit Japan – one of the most important markets for luxury goods – in March would stall demand for top brands was cushioned by demand from newly affluent Chinese consumers. However, over the summer, fears of a slowdown in China's economy wiped as much as 25 per cent off the share prices of luxury groups, including Burberry, which is expanding on the mainland.

Angela Ahrendts, Burberry's chief executive, has coined the term "Travelling Luxury Consumer" or TLC to describe its key customer group, arguing this is a more powerful force than the Chinese market alone, which now accounts for more than 10 per cent of Burberry's sales.

"When Chinese consumers travel, they spend six times more than when they stay at home," she explains. "Saying 'I bought this in London'

adds further cachet." For this reason, Burberry has sunk £20m into upgrading its London flagship stores, with Regent Street on target to complete "just in time for the Olympics" next year.

Other London purveyors of luxury are also feeling flush. High spending foreign tourists have powered a 32 per cent boost in post-tax annual profits at upmarket London department store Harvey Nichols, which rose to £7.25m in the year to April according to documents filed yesterday in Companies House.

Harrods, its larger Knightsbridge neighbour, broke through the £1bn sales barrier in 2011, posting a 39 per cent rise in pre-tax profits to £108m and reporting that the Chinese were its top-spending international visitors, blowing an average of £3,500 a visit.

The Chinese connoisseur who spends £25,000 on vintage wine might grab the headlines, but the majority of shoppers are of much smaller means. This helps explains the draw of Bicester, which boasts the only train station in the UK to have signs translated into Mandarin and Arabic, and is now the UK's third biggest tourist shopping destination after Harrods and Selfridges.

Its owner, the outlet specialist Value Retail Group, says visitor numbers will top 5.5m this year, with two-thirds of shoppers coming from outside the UK, and 40 per cent from outside the EU.

Crystal Zhang, a 23-year-old from Shanxi Province, is studying at Newcastle University and has brought her mother and aunt on a shopping trip.

"It's their first time in the UK," she says, as they excitedly search through rails of discounted Burberry trenchcoats. "We haven't bought anything yet, we will have a good look first. We don't have unlimited money."

Stating that levels of tourist shoppers are "consistent" across Value Retail's nine European outlets, Scott Malkin, chairman, recalls that Japanese shoppers were "pouring into" outlet villages in the US in the 1980s and 1990s, and argues a "similar logic" applies to China, where Value Retail plans to open in Suzhou in 2013.

"We see 4m Chinese visitors a year in our European centres, but estimate there are up to 200m aspirational shoppers in China, and many of those could never visit us otherwise," he says.

The village will be entirely stocked by surplus product from the region's growing numbers of stores, raising questions about the Chinese expansion plans of luxury groups.

"Our experience is that it drives more footfall into our international stores," says Godfrey Davis, chairman of Mulberry, the luxury British handbag designer, which is doubling its Asian store portfolio.

"The travelling luxury consumer has always existed, and is a very important part of the market. But familiarity and desire for the brand is what breeds consumption."

VALUE RETAIL®

© THE FINANCIAL TIMES LIMITED 2011