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Made-in-Asia Luxury Sheds Fake Image Challenging Vuitton

By Andrew Roberts - Apr 15, 2013 12:00 AM GMT+0200

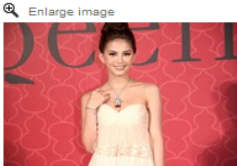
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QUEUE

For decades, made-in-Asia luxury has been shorthand for "fake." Now, companies from South Korean bag maker [Couronne](#) to Malaysian dressmaker Farah Khan are making a case for homegrown chic.

Couronne, Khan and brands such as Woo, a Shanghai-based producer of silk scarves, are winning clients with products that can rival goods made in [Europe](#). Their growing popularity, amid slowing sales at [Louis Vuitton \(MC\)](#) and other European brands, shows how demand is changing in Asia, with consumers favoring fresh designs over ubiquitous logos. The trend may lead to more acquisitions in the region as companies such as [LVMH Moet Hennessy Louis Vuitton S \(MC\)A](#) and [PPR SA \(PP\)](#) seek to boost growth.



Shanghai Tang designer clothes shop is seen in Shanghai. Photographer: Tim Graham/Getty Images



Hannah Quinlivan poses as she models for Qeelin's jewelry in Taipei on Sept. 7, 2011. After buying Hong Kong jeweler Qeelin in December, PPR said it's seeking more brands from the region to bolster sales. Source: ChinaFotoPress/Getty Images

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"Luxury brands of the 21st Century can come out of anywhere," said Uche Okonkwo, executive director of consultancy [Luxe Corp](#). For consumers who increasingly value craftsmanship over provenance, "what's important is that a product is made by the best hands using the best materials."

While products such as [Apple Inc.'s \(AAPL\)](#) iPhone and [Toyota Motor Corp.'s Prius](#) have boosted Asia's renown for high-quality manufacturing, the region's association with mass production and knockoffs has damaged its luxury credentials. [China](#) alone accounts for more than half of international trade in counterfeit goods, the Organization for Economic Cooperation and Development estimates.

Italian and French companies, meanwhile, have helped reinforce the notion that production of luxury apparel and accessories is the preserve of Europe even as they buy materials and make some items abroad. [Hermes International SCA \(RMS\)](#), the Paris- based producer of the \$7,000 Birkin handbag, hosts product- making demonstrations to highlight its French savoir faire, yet it gets cashmere from Mongolia and weaves it into scarves in Nepal.

Logo-Light

The upshot is that while Asians accounted for half of worldwide

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luxury purchases in 2012, according to consultant Bain & Co., "just a fraction" of last year's \$272 billion in sales came from Asian brands, Luxe Corp. estimates.

Korea's Couronne is helping change perceptions of made-in-Asia luxury with its colorful, logo-light designs. The company was founded in 2009 and bought the next year by [Kolon](#)

[Industries Inc. \(120110\)](#), a textile maker based near [Seoul](#). In 2012, Couronne posted sales of \$40 million, about the same as some smaller European luxury brands, such as Italian shoemaker [Berluti](#), owned by LVMH.

Couronne gets as much as half its leather from the Italian and French companies that supply Hermes, Gucci, Prada and Vuitton. This year, it expects revenue to grow 38 percent to \$55 million as it adds seven outlets to the 54 that sell its wares in Korea, the U.S., and [Italy](#). Vuitton sales may gain 6 percent this year, excluding currency swings, HSBC predicts.

Paris Hilton

"People want product quality," said Jeong-Hey Seok, a designer who founded Couronne and serves as its creative director. "Origin matters less."

The emergence of brands such as Couronne, Woo and Farah Khan, whose dresses have been worn by socialite Paris Hilton, comes as luxury growth slows. Sales of luxury goods will rise between 6 percent and 7 percent annually through 2017 after expanding at least 10 percent in each of the past three years, estimates Sanford Bernstein.

Prada this month reported an uneven start to the year, saying unusually cold weather and the economic crisis in Europe and threats of nuclear strikes by North [Korea](#) hurt demand.

"Market conditions are a bit more complicated," Prada Finance Director Donatello Galli said after the Milan-based company posted decelerating same-store sales growth in the three months ended Jan. 31.

Shanghai Tang

Despite such troubles, Asian luxury brands aren't going to unseat the Europeans anytime soon. Almost half of Chinese shoppers think well-known labels offer better quality, versus 16 percent of Americans, according to consultant McKinsey & Co. And Couronne's name, meaning crown in French, suggests European roots, or at least implying them, helps sell leather goods.

"For the kind of mass luxury that starts to really trouble European brands, in my view you're still fighting 200 years of history," said Rahul Sharma, managing director of Neev Capital.

With fewer decent targets available in Europe and [emerging markets](#) driving growth, though, established luxury goods companies are increasingly looking at Asia for acquisitions, according to Bryan Garnier & Co.

After buying Hong Kong jeweler Qeelin in December, [PPR \(PP\)](#) said it's seeking more brands from the region to bolster sales. Cie. Financiere Richemont SA, owner of jeweler Cartier, has Chinese fashion label Shanghai Tang, and Hermes owns Shang Xia, a Chinese brand that's opening a store in Paris in September. [L Capital](#), a private equity fund backed by LVMH, says it has invested in a half dozen Asian luxury businesses since 2010.

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Local Traditions

European luxury-goods makers have "been using the know-how of these countries for some time," said Francois Arpels, managing director of Bryan Garnier's branded luxury goods practice. Buying Asian brands "is the next step."

Made-in-Asia luxury's allure highlights changing tastes. Shoppers from China's biggest cities are eschewing widely distributed branded products in favor of newer, more exclusive alternatives, according to HSBC, which estimates that three out of five products Vuitton sells are covered with the company's LV logo. Chinese adults under 35 consider the style of a product more important than who makes it, according to Bain.

In China and India, a new generation of savvy clients are "looking for products that mean something," Arpels said. Domestic brands drawing on local traditions and cultures "are starting to emerge."

Merely Affluent

Cheaper labor means Asian luxury-goods makers have more flexibility on price. Among Couronne's top sellers is a \$500 leather handbag that's about the same size as Vuitton's Alma, which runs \$1,340 to \$2,930 for a canvas-and-leather version.

While European brands such as Vuitton are charging more in a bid to create more exclusivity while boosting earnings, the bulk of sales growth in China over the next decade will come from the merely affluent -- consumers earning 15,000 euros to 75,000 euros a year -- not super rich, estimates Exane BNP Paribas. That leaves space for rivals offering cheaper products that differ little in their quality.

"There is a tectonic shift happening in handbags," said Luca Solca, an analyst at Exane BNP Paribas. "The upmarket shift of mega-brands like Gucci and Louis Vuitton is opening a price umbrella for aspirational brands expanding or entering the market."

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