# Louis Vuitton Risks Logo Fatigue as Chinese Tastes Mature

By Andrew Roberts - Sep 25, 2012 12:00 AM GMT+0200



Luxury-goods makers early into China have long counted on consumers there to snap up $1,000 handbags and other pricey -- and profitable -- wares. Now, Chinese tastes are changing in ways that may hurt the brands that expanded most aggressively in the country.

As more Louis Vuitton (MC) bags, Gucci wallets, and Omega watches flood cities like Beijing and Shanghai, consumers are eschewing readily available logoed products in favor of more distinctive alternatives.

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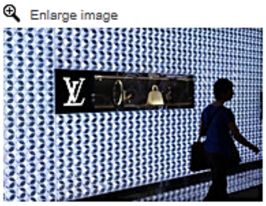

A woman walks past a LVMH Moet Hennessy Louis Vuitton retail store in the Causeway Bay area in Hong Kong, China. Photographer: Dale de la Rey/Bloomberg

"As the luxury industry matures, the Chinese are becoming much more sophisticated about the products that they buy," said Fflur Roberts, global head of luxury goods research at Euromonitor in London. "It's not just about the bling aspect."

The shift to less conspicuous and often more expensive goods, which happened in Europe and the U.S. after the 2008 collapse of Lehman Brothers Holdings Inc., may dent growth at Vuitton and Gucci, which until recently sold more than half the luxury handbags in the world's second-largest economy, HSBC estimates.

Same-store sales at niche luxury brands such as Bottega Veneta and Yves Saint Laurent, owned by Paris-based PPR SA, are set to increase almost three times this year's industry average even as weakening economic growth takes its toll on demand, according to HSBC. Cheaper bagmakers such as New York-based Coach Inc. (COH) may also benefit as increasingly demanding consumers seek value for money, the brokerage predicts.

## Still Spending

"Consumers are still spending in China but they're spending differently," said Uché Okonkwo, executive director of Paris consultant Luxe Corp. As Chinese shoppers become better informed about trends, "luxury companies have to work harder to sell to them than they did five years ago. It's a question of balance."

China's gross domestic product expanded 7.6 percent in the second quarter from a year earlier, the smallest gain in three years and the sixth quarterly slowdown. China is the world's fifth-biggest luxury market, accounting for 92 billion yuan ($14.6 billion) of sales in 2011, according to Euromonitor.

## Moving Upscale

Vuitton, PPR-owned Gucci (PP) and Burberry Group Plc (BRBY) have responded partly by shifting prices higher and introducing more exotic products such as Gucci's $4,100 python shoulder bag and Burberry's 6,000 pound ($9,700) alligator clutch to nudge their image upscale.

Recent sales reports suggest the strategy isn't working. Burberry said same-store sales have fallen since the end of August, adding that Chinese tourists may be spending less on its trenchcoats and other products on visits to Europe.

"We were the first to report a slowdown but we won't be the last," Chief Executive Officer Angela Ahrendts said Sept. 17 after the British luxury goods maker's 2013 spring/summer fashion show in London.

At Gucci's Sept. 19 fashion show in Milan, CEO Patrizio Di Marco declined to comment on the company's performance. PPR reports third-quarter sales on Oct. 25. A spokesman for LVMH, which also reports quarterly sales next month, declined to comment on Vuitton sales. Chinese shoppers may account for more than 25 percent of global luxury sales, HSBC estimates.

## Logo Fatigue

Luxury sales have slowed in China as more consumers there travel abroad and see that designer clothes and accessories can cost half as much in European and American stores as they do at home. And Ahrendts noted that the once-a-decade leadership change in China has slowed sales for luxury brands as many people hold back on gifts to public officials until it's clear who will retain power.

Prada (1913), which uses more leather in its bag collections than Vuitton and relies less on logos to differentiate its products, may benefit as consumers seek alternatives to Vuitton and others, according to HSBC. The Milan-based company said yesterday that same-store sales haven't slowed in the last two months even as market conditions worsen.

Vuitton, Omega, and other "megabrands may start to show signs of suffering brand weariness owing to their early entry into several markets," wrote Erwan Rambourg, an analyst at HSBC. "We term this the 'first-mover disadvantage'."

## 'Banalization'

Vuitton has 39 boutiques in China, while Gucci has 54 and Burberry has 66. Hermes International SCA (RMS), which last month raised its 2012 sales-growth target after first-half earnings beat estimates on Asian demand, has 21 outlets in the country. Prada has about 20.

The so-called absolute luxury segment -- the priciest goods -- where Hermes competes, is the fastest-growing part of the market and will keep outperforming the rest until at least 2014, Bain & Co. predicts.

Being too accessible can lead to "banalization," Hermes CEO Patrick Thomas warned Aug. 31 as the maker of silk scarves and Birkin bags reported a 25 percent increase in first-half sales in Asia. The Paris company, which doesn't anticipate a slowdown in second-half sales in China, plans to protect its image by limiting store expansion, opening at most 20 shops worldwide in the next five years, he said.

## More Cautious

Burberry's surprise warning made some analysts more cautious about LVMH. Eva Quiroga of UBS downgraded the company to neutral and cut her estimate for second-half sales growth at its fashion and leather-goods unit. Revenue at the division, LVMH's largest and most profitable business, will climb 5 percent to 6 percent in the period, slowing from 10 percent in the first six months of 2012, Quiroga estimates. LVMH's total revenue should rise 8.5 percent in 2012, Quiroga says, trailing the European luxury goods sector's average 9.2 percent growth.

Hermes, Cie. Financiere Richemont SA (CFR), and PPR's luxury division will fare better, rising between 12 percent and 13 percent, even as the latter's Gucci brand continues to soften, Quiroga predicts. Prada expects sales to rise 15 percent.

"The beauty of luxury goods is they're scarce and therefore they're reassuringly expensive," said Rahul Sharma, founder and managing director of Neev Capital. "You don't just want something that's expensive that's not scarce."

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