

Headline-grabbing shoe designer Christian Louboutin has pledged to set up an own-brand retail presence in China in the course of 2011. Some commentators believe the plan might bring bigger commercial success if the focus were on cities other than Beijing and Shanghai.

The famous red-soled shoes of Christian Louboutin will become available in own-brand stores in China in the course of 2011.

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TORONTO/LOUBOUTIN/SHEILA THOMSON

Louboutin looks east

Government in China can be a complicated matter. As well as the central government, there are provincial and county authorities, along with cities and their districts and, beyond these, townships and villages. Some cities, though, are so important they run themselves, with no control from a provincial body. These cities are called municipalities and, officially, China currently has only four of them: Beijing, Shanghai, Tianjin and Chongqing. Some of the largest sub-provincial cities (the next level down) often use the term municipality when referring to themselves in English; examples of this would include Chengdu, Guangzhou, Harbin, Wuhan and Shenzhen, but these are officially one or two tiers of importance below the big names, in spite of the smallest of them having a population of 8.9 million people.

What all this has to do with shoes is that referring to the municipalities as tier-one cities is as much an indication of economic importance as of size, a testament to the large numbers of wealthy people who live there. Upon entering the Chinese market for the first time, footwear brands and other selling companies from Europe or North America are attracted to these cities first, for reasons that appear obvious on the face of it. If there are larger numbers of wealthy people living there, sales of expensive, imported consumer products are likely to be higher.

Rich list

A Beijing-based consultancy, Hurun Research Institute, puts a Chinese rich-list together every year and, for 2010, included 1,363 people across the country who have personal wealth of \$150 million or more, making each of them billionaires in the local currency, the renminbi.

Separately, a Shanghai-based research firm focusing on the luxury goods market, FDKG, said last year that it had carried out the largest ever study of China's high net worth individuals and had compiled a top ten for the luxury brands that wealthy people in China like to spend their money on. With the exception of Chinese-Canadian brand Ports, all of the top-ten (Louis Vuitton, Dunhill, Gucci, Dior, Armani, Hermès, Chanel, Zegna and Prada) are European and they all sell footwear.

Now luxury footwear brand Christian Louboutin has said it wants to join the Chinese party and will open new stores in China to capitalise on demand for high-end products there. A Beijing store will open in July 2011, and a second one will launch in Shanghai by the end of the year. Mr Louboutin said at the time of this announcement that as many as five own-brand stores could open in China in the next three years.

Hurun Research will be among the people who believe this is a good move for Louboutin. It insists that now is the perfect time for luxury brands from all parts of the world to develop a presence in China.

Choice of location

Without disputing that, other observers have questioned Louboutin's initial choice of location, the big municipalities. In Beijing and Shanghai especially, the thinking goes, the wealthy love luxury goods, but they especially love buying them in Europe or Hong Kong (and Louboutin already has a store in the Special Administrative Region); they are as attracted by the fun of travel and the freedom to indulge in it as wealthy people everywhere. Choice is also a factor. There is a fabulous array of shops and an ever-growing number of modern malls in China's two most international cities, but neither can, as yet, offer anything to match the Rue du Faubourg Saint Honoré in Paris or the Via Montenapoleone in Milan. And then there is price.

Rich people rarely get rich without knowing the value of a renminbi and it's a well known fact that many European luxury brands are charging higher prices in Asia than they are on home turf. In the build-up to Christmas 2010, one of the most prominent brands of all on the FDKG list, Louis Vuitton, announced that it would be closing some of its main Paris stores early each evening. Officially, it said it was worried about running out of important products before the busy Christmas shopping period, so stores including its flagship on the Avenue des Champs-Élysées, as well as its outlets on Avenue Montaigne and on Place Saint-Germain-des-Prés, all highly popular with tourists from important markets including China, closed at 6.00 pm throughout the autumn instead of the usual time of 7.00 pm.

Stock management is a concern for the company. Louis Vuitton runs 11 ateliers or workshops in France and is



Beijing's Wangfujing Road shopping mall. An impressive array of shops is available in China's capital, although many of its wealthiest residents prefer to buy luxury goods during trips to Europe or Hong Kong and spend less per year than their counterparts in tier-two and tier-three cities.

CREDIT: SHUTTERSTOCK

building a new facility in the Drôme department of southern France to boost production. This will be operational in the second half of 2011 and will employ 200 people. In the meantime, it is reported to have increased the price of some of its classic handbags and leathergoods by as much as 9%.

Blame game

According to Reuters, the luxury brand blamed the price rises on an increase in the cost of the leather it uses, but the news agency said analysts had put forward an alternative theory. The suggestion is that the prices of its goods are often lower in its home market than in important Asian territories, including China. This is one of the reasons why high-end shoes are popular shopping items for wealthy Asian tourists visiting Paris and other European cities.

If this is the preferred way of buying luxury goods for the well-heeled residents of China's municipalities, there are indications that their counterparts in other cities may be taking a more domestic approach. A report on the luxury market in China from consultancy company Bain has said that sales of luxury goods are now experiencing strong growth in tier-two and tier-three cities.

The Bain report suggested that the wealthiest families in these cities were spending an average of \$28,000 per year on luxury goods, while their counterparts in tier-one cities such as Beijing and Shanghai spend \$25,000 per year on average on these goods. Bain said it expected luxury goods spending in China to have risen by 23% in 2010 and added that almost all of this spend would be on imported brands because no Chinese brand has yet established itself fully in the luxury sector.

If this is true, Louboutin is making a wise choice in expanding into the Chinese market. However, its decision may have proved even wiser if it had looked beyond the allure of Beijing and Shanghai when picking the locations for its first Chinese stores. 