

Fine Wine 2010

III Congreso Internacional de la Ribera del Duero

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Overview

- 1. China's luxury market
- 2. The challenges
- 3. The cultural dimension
- 4. Success of LVMH
- 5. Decline of Audi
- 6. Takeaways
- 7. The Lafite phenomena





1. China's luxury market

- China's total consumption of luxury goods reached US\$8.6 billion by January 2009 and is expected to reach US\$12billion by end of 2010 and US\$17billion by 2015
- China accounts for 25% of the total luxury market in the world, recently surpassing US and just behind Japan; By 2015, China is expected to be the top country for luxury goods
- Luxury market is growing in the largest adult segment of the population – between 25-40 yrs of age & in China's coastal cities as well as in secondary cities
- Growth has been 20-25% per annum for the past 3 years & expected to continue at same rate
- Louis Vuitton, Gucci and Chanel are China's top luxury brands





2. The challenges

- Fragmented market
- Legal issues with establishing a jointventure or wholly owned foreign enterprise
- Logistics challenges in shipment, delivery, customs
- Lack of nation-wide distribution network within China
- Quality issues with service and point of sales
- Issues with authenticity, imitations and label integrity





3. The cultural dimension

Hierarchical society



- •Confucius values still form the core of Northeast Asian cultures.
- ■Confucius emphasized a set of hierarchical rules to guide society – e.g. loyalty to superiors, social obligations towards others, respect for elders, attendance to ceremonies





3. The cultural dimension

Social values

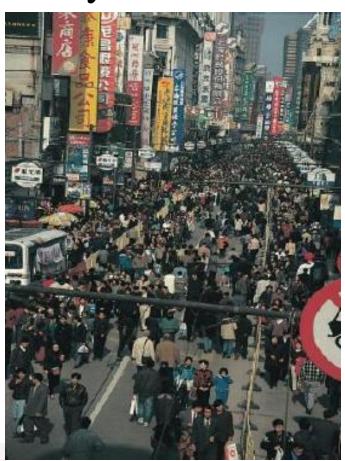


- Individual's identities intertwined with others
- •Obligation towards giving 'face', respect, honouring special guests, VIPs
- Luxury items are as often for others as for self
 - Meals in a business context function to 'give face' and 'honour' guests



3. The cultural dimension

Lifestyle



- •City living means tiny living spaces across all the major cities in Asia
- Eating out is just as common as eating at home
- Luxury items play an even more important role with a 'going out' vs staying home lifestyle





4. Success of LVMH

- LVMH, the largest luxury goods group in the world, reported more than 30% growth of profits in China's mainland. It has opened 27 Louis
 Vuitton outlets in 22 Chinese cities, for sales of only LV
- The Shangjia Center in Shanghai, known as the "LV mansion" will turn into an international luxury base with **joint investment** from LVMH Group and gaming magnate Stanley Ho in Macau.
- LVMH has done an excellent job of brand positioning and has succeeded in gaining a following among the top percentage of wealthy Chinese
- LVMH's brand imaging relies heavily on pushing its **European heritage**, especially in its advertising
- Despite moving production to China, LVMH has managed to keep retail prices high due to its strong brand image and following among wealthy Chinese

*Source: BrandChannel, By Design: Luxury Brands in China, 18 May 2009



eg, 29, 30 de abril de al

5. Decline of Audi

- Audi's share of the Chinese luxury car market dwindled to 42 percent from 66% over a period of six years
- After a 20 year dominance in China as the Chairman's car of choice, Daimler AG (Mercedes) and BMW are gaining market share as they **target governments for bulk purchases**
- The shift to new market entrants indicates a **lack of brand loyalty** among Chinese consumers who are only now being exposed to a wide variety of luxury brands for the first time
- The drop in Audi's market share came after Daimler and BMW established joint ventures over the last seven years to build cars locally
- Mercedes debuted a longer E-Class in Beijing in April 2010, while BMW showed an extended 5-Series, both cars **developed specifically for the Chinese market**. The longer vehicles are meant to appeal to wealthy Chinese buyers, who are **typically chauffeured**.

*Source: Bloomberg BusinessWeek, *Audi's Two-Decade China Dominance Threatened by BMW, Mercedes,* 21 April 2010





6. Takeaways

- LVMH understood the influence and power of opinion leaders, image makers and the elite while selling products that were accessible for upper middle class.
- **LVMH formed important social bonds** with the local market by **forming joint ventures** and creating local products such as LV Chinese Lantern Charm accessories
- LVMH catered to the 'going out' lifestyle by creating mega-lifestyle stores that goes beyond just handbags
- Audi became complacent and **did not understand nor integrate with the local market** e.g. did not create larger cars for chauffeur driven lifestyle; did not form joint ventures to form close social bonds; did not target their marketing efforts to the opinion leaders such as government officials.
- Establishing local presence may entail **shifting part of the manufacturing** to China (e.g. Coach, Paul Smith, Armani) or finding locals to help navigate the market -- Hong Kong's Dickson Concepts with Polo Ralph Lauren, Brooks Brothers and ST DuPont





7. The Lafite phenomena

- One market effectively pushed up the price of one brand
- Combination of factors behind Lafite's success:
 - 1. Bordeaux' 1855 classification is easily understandable to a society based on a pyramid/hierarchical social structure. Lafite is clearly at the top of this pyramid.
 - 2. Opinion leader endorsements by senior government officials and top business leaders who served Lafite at prestigious formal dining occasions, this then led to a cascading effect
 - **3.** Lafite caters to the dining-out culture of urban Chinese who has increased spending on food by 17% per year on average between 2004-2009 (USDA FAS report 2010).
 - **4. Lafite has luxury brand** appeal with an easy to pronounce Chinese name and enjoys a perceived scarcity factor and high price. Lafite's classic label has marketing appeal & represents both heritage & prestige.
 - 5. Lafite's joint venture with CITIC (China's largest state-owned investment company) to establish a winery in Penglai lays the foundation for creating strong social bonds within the industry.



