China's young shoppers breathe new life into its luxury markets

They are the key demographic for luxury brands

SHANGHAI/HONG KONG: Guo Jiaxi is typical of a new generation in China that is driving a sharp revival in luxury spending: young, female and unafraid to spend. An accountant in eastern Suzhou, Guo, 24, likes Coach and Louis Vuitton, and has bought Acne Studios scarves, a Daniel Wellington watch and a Mont Blanc belt as gifts. Of an annual salary of 50,000 yuan ($7,898), she spends one-fifth on luxury items.

"Luxury is not a total necessity for me, I suppose, but whenever I've got enough money to spare, then I'll buy," she said. Guo and her peer group are behind a dramatic spike in luxury spending in China last year, according to consultancy Bain & Co. They are the key demographic for luxury brands from LVMH to Gucci owner Kering and France's Hermes in tapping the world's top luxury consumers. Their willingness to spend - often more than they can afford comes with a note of caution. These consumers are typically less loyal to traditional brands, swayed by shifting trends online and increasingly looking for deals.

"Some of these youngsters, even when they don't really have enough funds, they're still going out and buying luxury products," said Huang Yue, 27, who runs the fashion section at the website "Loving Luxury." Yue added that the shift to millenials, those aged roughly 20-34, had been dramatic. It spurred the rise of new areas such as luxury "streetwear" and sporting attire, which Bain said were behind the recent fast growth. "In terms of the impact on the market, it's really given it a shot in the arm," Yue said.

Buoying the luxury market

Driven by general optimism, attracted by the ease of online shopping and helped along the way by parents who benefited from the country's fast growth and rising home prices, Chinese millennials are buoying the luxury market at home and abroad. Millennial shoppers pushed the Chinese market up to 142 billion yuan ($22.07 billion) in sales last year, about 20 percent higher than the year before. It is by far the steepest jump in over half a decade of sluggish growth, according to Bain. Luxury goods purchased in China make up 8 percent of the global total, while Chinese shoppers - who make three-quarters of their luxury purchases overseas - drive 32 percent of sales worldwide. LVMH's chief executive, Bernard Arnault, said China was a "very dynamic" market in which the Louis Vuitton brand was doing well. "China has had a good comeback," he told reporters last week. The company has seen a slow recovery in China since a weak start to 2016.

Make up 8 percent of the global total

Gucci and cognac maker Remy Cointreau are among other well-known companies citing stronger growth in the market. Analysts and industry insiders, however, said shoppers were widening the range of brands they looked at, a challenge for some more traditional players. Tapestry Inc's Coach and British fashion house Burberry both reported weaker ends to last year. Prada - which had seen sales slump in China - has been building partnerships with influential internet personalities and launched an online shop in December.

Online retailers like Alibaba Group Holding Ltd and JD.com have launched their own luxury platforms and lured in brands such as Yves Saint Laurent, Stella McCartney and Alexander McQueen. "Chinese consumers are going through several changes," Liao Jianwen, chief strategic officer at JD.com, told the Reuters Global Markets Forum at the World Economic Forum in Davos, adding that shoppers now want high-quality products at "competitive prices."

BEIJING: People walk outside a shopping mall. — AFP

Brand new second hand

Even as consumers spend more, they are becoming thriftier. Zhang Xia, 24, an investment professional in the southern metropolis of Chongqing, has bought Dior bags, Louis Vuitton, Bulgari jewellery, and once paid 150,000 yuan ($23,695) for a Piaget watch. She's now less easily won over. "Increasingly what I'm after now is original patterns and designs," she said, adding that, like Guo, she sometimes gets help paying for her purchases. "It's more about the quality and feel of the product, so if I can find that I won't necessarily choose a luxury brand."

The shift has meant the rise of areas not previously seen as being in the same space as traditional luxury, including casual wear, "streetwear" and even premium sports clothing. Shoppers are also more willing to buy used goods. That means people making new purchases can sell their goods later, defraying the cost of a big-ticket item.

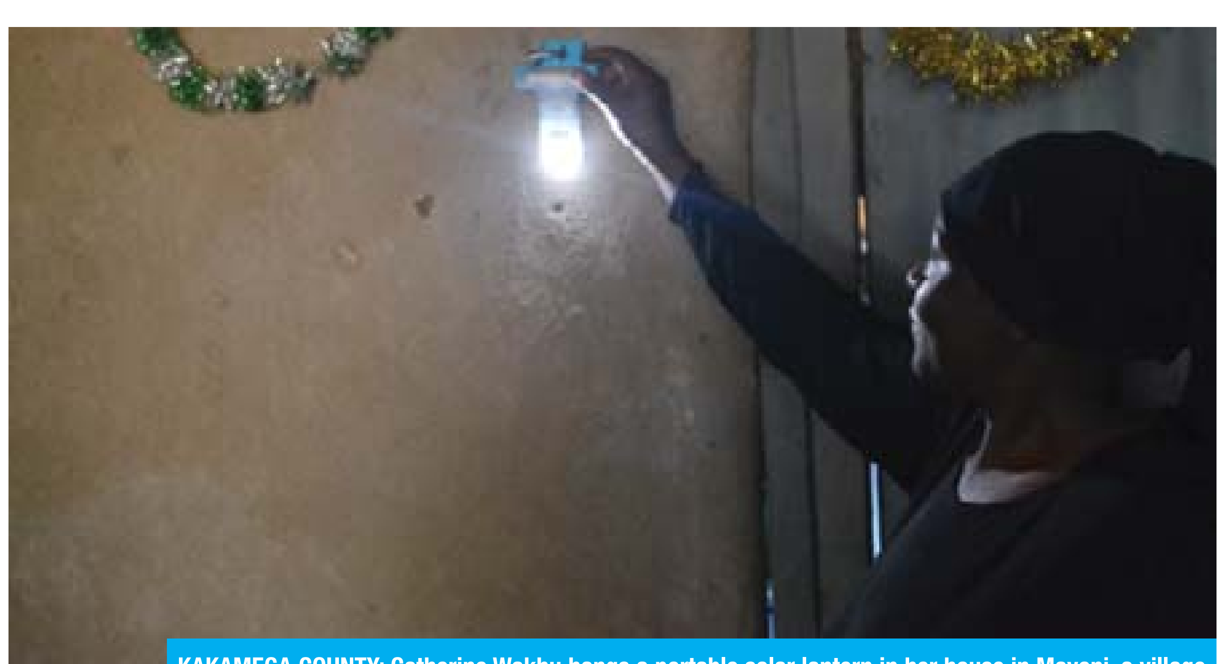
"Because people know that they can sell things on second hand, they're not so strict with their luxury budgets," said Deng Yun, 33, the chief operating officer of used luxury goods trading platform www.luxusj.com. He said the most popular brands on the site were handbags from Louis Vuitton, Chanel, Gucci and Fendi. Chloe, owned by luxury house Richemont, is popular with younger shoppers, while Hermes still has good cachet, he added.

The premium sportswear firm Lululemon, seeing strong demand from China's youth, is now "focused on exploring and developing new approaches to capture this audience," said Amanda Casgar, Lululemon's Asia Pacific director of brand & community. Winning over the parents of young shoppers like Guo could be helpful too - they are often a source of funds for a generation increasingly inclined to borrow or use credit. "Of course my salary is pretty low, so mum and dad do help me out a little," Guo said. — Reuters

Off-grid power push aims to light up incomes

KAKAMEGA, Kenya: Catherine Wakhu knows the value of a lighted room to a child's education - and also the expense. The resident of Mayoni, a village in Western Kenya's Kakamega County, has seven school-age children. Without money to pay for a connection to the electric grid, she used to spend 1,200 shillings ($12) a month instead on kerosene, half of it to fuel a lantern so that her children could do their homework in the evenings. But for the past year Wakhu has been the owner of two solar-powered lanterns, which enable her children to study and save her fuel money.

New Light Africa, the company that makes the lanterns, accepts payments on installment over a period of six months, making the cost of 3,000 Kenyan shillings ($29) per lantern more affordable to people like Wakhu, who might otherwise struggle to acquire the technology. The business is one of a number of enterprises across sub-Saharan Africa that are developing ideas for low-cost, high-quality and affordable clean energy products and services, from lighting to irrigation.



KAKAMEGA COUNTY: Catherine Wakhu hangs a portable solar lantern in her house in Mayoni, a village in Western Kenya's Kakamega County. — Reuters

Improving lives

Some have received funding from the Renewable Energy and Adaptation to Climate Technologies (REACT) program, part of the Africa Enterprise Challenge Fund, backed by European and other donor governments. The clean energy REACT program provides up to half the needed funding to private companies trying to develop business models, services and products in renewable energy and energy efficiency that will improve the lives of the rural poor.

Under the program, up to 900,000 rural households across the region can now light their homes with solar lanterns, press their clothes with solar-powered irons or watch solar-powered televisions, said Victor Ndiege, who manages the REACT-supported portfolio of businesses. Village barbers also can earn a living shaving people using solar-powered shavers, and farmers can irrigate their crops with solar pumps, he said. In Miguye, a village north of the Kenyan city of Kisumu, Oliver Bill, a 24-year-old university graduate, irrigates tomatoes on his 1.3-acre piece of land using a portable solar-powered water pump acquired with a loan from Future Pump, another company that is part of the REACT scheme. "I decided to take the risk because the repayment scheme sounded fair enough," said Bill. He said he expects to have repaid the debt for the pump by March. Malayo Abuti, the assistant administrative chief for Ebuhala sub-location in Kakamega County, said business-oriented funding for clean energy projects is an improvement on handouts and is helping more young people in off-grid villages start their own enterprises to earn an income. "This is a good culture because paying back the loan gives one a sense of ownership, self esteem and it makes them more responsible than receiving free tokens from organizations," he said.

Competing for cash

The REACT scheme selects companies to support through competitions. So far, 78 companies across 23 sub-Saharan African countries have been awarded grants and interest-free loans to implement their proposals, Ndiege said. The companies are required to make services and products available to rural communities without requiring full payment upfront, he said.

New Light Africa won the competition in 2016 to make and distribute solar lanterns to rural communities through a community-based organisation. "Between 2016 and 2017, we sold over 59,000 lanterns in Western Kenya and parts of the Rift Valley," said Jakob Werner, the company's head of sales. Each lantern comes with a small solar panel and is powerful enough to light one room. It is portable, meaning it can also work as a torch, and it has a port for charging at least three mobile phones.—AFP

Siemens says profits up on global upturn

FRANKFURT AM MAIN: German engineering giant Siemens said yesterday that profits jumped in the first quarter of its financial year, driven by rising demand for its products in areas ranging from renewable energy and trains to industrial robots. Siemens, which runs its business year from October to September, said in a statement net profit jumped by 12 percent to 2.2 billion euros ($2.7 billion) in the three months to December.

Underlying or operating profit was also up 12 percent at 2.2 billion euros while first-quarter sales grew by three percent to 19.8 billion euros. But chief executive Joe Kaeser warned there was much to do to future-proof the industrial behemoth. "Traditional conglomerates don't have a future. We have to lay the foundations now for the next-generation Siemens," he said. Kaeser's ambitious plans to restructure the sprawling group include planned factory closures in the struggling gas turbine business and a stock market flotation for the valuable medical devices division.

The medical devices unit saw orders, revenue and profits fall back slightly in the first quarter, due to "significant currency headwinds", but Siemens said the unit remained on track for its initial public offering. In the power and gas division, profits fell by almost half and orders and revenue declined as demand for its power plant turbines fell away. Siemens announced a massive restructuring in November, cutting nearly 7,000 job cuts worldwide in the traditional power plant building business.

"We are convinced there will be a global market for gas turbines, and that is why we are still investing," Kaeser said. "But the market will be smaller and won't be in Europe, rather in China, the US and in the Middle East." Other units of the Munich-based giant were in much healthier shape and "taking advantage of the global economic upturn," he added. Orders at Siemens' wind energy unit surged after a merger with Spanish firm Gamesa was finalised, even if profits shrank slightly over the quarter.

In the factory automation division, orders and revenue jumped, especially in China, although the effects of a recent acquisition sapped profits. The train construction division, which recently announced a tie-up with French rival Alstom, reported a surge in orders, revenue and profits after it secured new contracts in Europe, Israel and the United States and its latest high-speed trains entered service in Germany.

Looking ahead to the full year, Siemens was more cautious, saying that continuing headwinds in the energy market and "geopolitical uncertainties" painted a more "mixed picture". It said it was penciling in "modest growth in revenue" and earnings per share around the same level as in the 2016/2017 business year. Siemens shares added 0.8 percent to trade at 122.18 euros just after midday in Frankfurt yesterday, slightly outperforming the DAX index of German blue-chip shares which added 0.28 percent. -—AFP

French supermarket boss hauled in over Nutella frenzy

PARIS: The French government has implored supermarkets to refrain from the kind of promotion deals that have led to in-store scuffles over cut-price jars of Nutella, a minister said yesterday. Videos of French shoppers jostling as they tried to grab heavily discounted tubs of the chocolate spread in Intermarche stores have gone viral over the past week.

"I met with the director of Intermarche yesterday," Economy Minister Bruno Le Maire said, as his government prepared to unveil a bill later Wednesday that will tighten rules on supermarket promotions. "I told him that this must be stopped-we can't have scenes like this every few days in France," Le Maire told RTL radio. Intermarche sparked the shopping frenzy last Thursday when it slashed the price of a 950-gram pot of Nutella-a favored breakfast spread in France-from 4.50 euros ($5.60) to 1.41 euros.

The three-day promotion prompted shoving and even full-blown fights in several stores, with one worker likening the scenes to "an orgy". Intermarche apologized to customers, but it has since continued with aggressive discounts on coffee and nappies. The DGCCRF consumer agency on Monday announced it was launching an investigation into the discounts. Le Maire urged Intermarche to "stop this kind of promotion", saying that the pushing and shoving seen as customers clamored to get their hands on the Nutella tubs must not become "normalizxed".

He reminded Intermarche's management that like other supermarket chains, it had already "signed a deal to no longer carry out these kind of promotions. They must keep their word." Videos of the shopping frenzy have been shared thousands of times on social media, with comedian Anthony Joubert racking up 700,000 plays on a song featuring the lyrics, "A euro for Nutella, I'd kill a mother or father for that." Ferrero, the Italian company that makes Nutella, said the discount decision was taken "unilaterally" by Intermarche and risked creating "confusion and disappointment" for consumers. — AFP

SAINT-GREGOIRE: This photo taken yesterday in Saint-Gregoire, near Rennes, northwest France, shows containers of Nutella. — AFP