LVMH remains upbeat on fashion and leather goods division in China

By Dominique Muret - 14 April 2022

China, which reported a sharp rise in Covid cases, is being closely watched by the luxury industry this first quarter. The country represents the second-most important market for LVMH after the United States. With its various confined cities, including the Shanghai metropolitan area and its 25 million inhabitants, the situation in the region has had an impact on the French group's local sales. However, the conglomerate's directors remain optimistic.

The luxury giant's flagship division reported revenues of €9.12 billion during the first quarter, up 35% (+30% on an organic basis) compared to Q1 2022, driven in particular by Louis Vuitton and Dior. Geographically, the company recorded an 8% increase in Asia excluding Japan (+30% in Japan) during the first three months of the year. As for the fashion and leather goods division, the trend was slightly above 10%, as implied by CFO Jean-Jacques Guiony during a video conference with analysts. Europe was up around 50% and the United States up 30%, demonstrating how there was "an impact on the business."

"The situation in China is changing quite rapidly. What is true today may not be true tomorrow. We are clearly under confinement in some cities, such as Shanghai and, to a lesser extent, Shenzhen. Although some cities are not confined, traffic is down since people are traveling and moving around less than usual. Of course, this has had some impact, a fairly recent impact that you don't see in our figures," he said, while pointing out that this is nothing unprecedented.

The luxury group has already been confronted with confinements in China two years ago. However, the situation is not as dramatic as it was then.

"The Chinese authorities have demonstrated their ability to take very strong and large-scale measures to contain the pandemic in a very short time. As far as Shanghai is concerned, it appears that lockdowns were relaxed fairly quickly," he continued, mentioning another crucial lesson to be learned from the 2020 experience.

"Despite the short-term impact, the confinement has not dampened demand. Once the contingencies are resolved, we are seeing consumers coming back into stores as they did before the confinement period. We may be affected in the short term, but we are not concerned about the medium to long-term consequences of this situation. We are..."
in the short term, but we are not concerned about the medium to long term consequences of this situation. We are reasonably confident," he added, banking on a rapid market rebound.

It should also be noted that the group’s largest territories in terms of sales are split between Shanghai and Beijing, followed by about 20 other cities.

China is set to become the world’s leading luxury goods market

The group is determined to continue its development in China, destined to become the world’s leading luxury goods market. It has been present in the country for 30 years and intends to remain there for a long time.

"As for tier 3 and 4 cities, including the largest ones, not all of them have luxury shopping malls that can house high-end brands. Therefore, it makes more sense to sell products online, especially since Chinese people move around a lot from one city to another. But over time, this will change," the CFO explained.

LVMH is currently present in 20 to 25 tier 1 and 2 Chinese cities with flagship stores of its leading brands, and plans on gradually expanding in the territory.

However, the goal isn’t to cover all major cities.

"That would be inconceivable because there are so many of them," stressed the executive. Especially since online distribution is extremely important in China and can compensate for the absence of physical stores.

Guiony highlighted the agreement just signed by Bulgari and Tmall, the high-end platform of Chinese giant Alibaba.

"This will be the first real shop-in-shop operated and fully controlled by Bulgari, in terms of assortment, payment, as well as data. We see this as a big achievement. It will allow us to have a significant presence in Tmall, while remaining aligned with our distribution guidelines. We don’t want to do online what we don’t do offline."

Finally, as for the so-called "common prosperity" policy, launched in 2021 by Chinese President Xi Jinping to reduce the inequality gap between the rich and the poor and encourage redistribution of wealth, it does not seem to have had any impact on the luxury sector, and especially on the LVMH brands.

As reiterated by the CFO, "most of our sales are not generated by the very wealthy, but by affluent clients."

"The only impact we have had in China is pandemic-related," he concluded.

By Dominique Muret
Translated by Roberta Herrera

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