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Retail



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The view from the shop floor

Standing on the steps looking across the parking lot towards the Zhejiang Exhibition Centre, the doorman of Hangzhou Tower Shopping City points to the idle cars and says, "Look at the registration plates. Most of them are from outside Hangzhou."

Hangzhou Tower is one of the city's largest and most high-end shopping destinations, showcasing international labels such as Louis Vuitton, Cartier and Armani, as well as domestic luxury brands like Shanghai's Yifei and Inner Mongolia's Erdos, which specialise in silk *qipaos* (traditional figure-hugging Chinese dresses) and cashmere clothing respectively. Louis Vuitton opened its boutique in the city in 2004, turning over Rmb400,000 (\$62,500) in its first four hours, and pioneering the way for other luxury brands to follow suit.

However, sales haven't maintained that initial pace. Luxury labels have been suffering weaker sales across China, spurred by the slowdown in economic growth and the crackdown on corruption. In 2015 Louis Vuitton closed three stores: in Guangzhou, Harbin and Urumqi. But the brand evidently has faith in Hangzhou: it opened a new

800,000
Size in square metres of Hangzhou's high-end Mix City mall which opened in 2010

“

Shoppers in Hangzhou used to be 'crazy', but now they've become more rational in their purchasing habits – so business has slowed a little, but it still seems good

”

store in the city shortly before the closures elsewhere.

It's clear that a large portion of luxury sales in Hangzhou are now driven by the *tuhao* (a Chinese term for nouveau riche) travelling in from nearby towns and cities – where factory owners and their kin get rich and flaunt it. But as traditional manufacturing is declining, the *tuhao* are becoming more frugal. Meanwhile Hangzhou's local shoppers are becoming more discerning. As a staffer at Hangzhou Tower told us: "Shoppers in Hangzhou used to be 'crazy', but now they've become more rational in their habits – so business has slowed a little, but it still seems good."

Hangzhou Tower actually consists of four towers connected by footbridges so that it straddles the



Two Apple Stores

Hangzhou's flagship Apple Store was opened on Pinghai Road in January 2015, as one of five Apple Stores that the San Cupertino-based firm had pledged to open in China before the Spring Festival rolled around that year. The grand opening received much-appreciated attention from Apple CEO Tim Cooke, who made a big deal of the event by tweeting, "Starting Something New in Hangzhou, China!"

Before its opening, the glass storefront was covered in paper, bearing a calligraphic rendering of the poem "Praising West Lake in the Rain" by the poet Su Shi (1037 – 1101). The calligraphy was performed by local master Wang Dongling, who says the piece reflects the city's duality: "Hangzhou is a traditional city that has preserved the essence of ancient Chinese culture, but is also a modern city open to new ideas."

Certainly Apple thinks Hangzhou is a healthy market, being one of the three launch cities in China for its premium Apple Watch – designed in partnership with Hermès. The company promptly opened a second Hangzhou store last April. The second is located in the Mix City Mall.

Praising West Lake in the Rain

*Shimmering water on sunny days,
Blurred mountains through rainy haze;
West Lake is like the beauty Xizi:
With makeup heavy or light, she is always beautiful.*

(Xizi, also known as Xi Shi, is one of the Four Beauties of ancient China, and she lived in Zhejiang province. The West Lake is said to be an incarnation of her beauty, and sometimes will be called by her name.)





The leading malls in Hangzhou

Hangzhou Tower Shopping City (杭州大厦购物城)

- Opened: 1988
- Size: 140,000 square metres
- Location: Wulin District, Wulin Square
- Demographic: High-end
- International stores: Louis Vuitton, Dior, Armani, Cartier, Gucci

Mix City/MixC Mall 万象城

- Opened: 2010
- Size: 800,000 square metres
- Location: Qianjiang New CBD
- Demographic: High-end
- International stores: Prada, Hollister, Fendi, Louis Vuitton

INtime Department Store 银泰大厦

- Opened: 1998
- Size: 51,000 square metres
- Location: Wulin District, Yan'an Road
- Demographic: Mid-high end
- International stores: H&M, Clarks

IN77/Hubin 湖滨银泰

- Opened: 2005
- Location: Hubin District, Pinghai Road
- Demographic: Mid-high end
- International : Gap, Forever 21, Gucci, Prada

Retail sales of consumer goods





North Ring Road. Walking between the shops in the towers – which are all tenanted though quiet – the constant competition between Hangzhou’s malls is apparent. Sinopolis is there just after Singles' Day – the single largest discount shopping event in the world – and whilst the stores in Hangzhou Tower weren't offering promotional sales to mark the day, many advertised a discount period from November 12 (the day after Singles' Day) to November 16. A shop assistant explained why: “This isn't because of Singles' Day, this is because the INtime Department Store is celebrating its birthday, and so we have to compete.”

INtime Department Store (also named Yintai Mall) has its main complex on Yan'an Road, which runs north to Hangzhou Tower and is the street purportedly with the highest retail rents. Similar to the towers, INtime Department Store is divided into several, multi-storey buildings, each with a specific target demographic – men, women and children. This mall is somewhat less high-end than its competitor to the north, featuring brands such as H&M, Clarks and Mango. Understandably, perhaps, it appears busier.

However it is not this INtime mall which is celebrating its birthday. That is the INtime Mall at West Lake, further to the south, which opened in November 2014. Compared with its predecessor on Yan'an Road, the West Lake mall

Singles' Day – the single largest shopping event in the world – was commercialised in Hangzhou

caters to a broader range of desires, with 40% of its free space given over to food, drink, and entertainment (the top floor of this mall houses a cinema, which INtime boasts is the closest cinema to the West Lake).

Similar tenant diversity characterises the Mix City Mall (MixC) – the second location this mall brand has chosen in China after success in Shenzhen. Opened in 2010, this gigantic complex only allots 40% of its occupied space to traditional shops: the rest is split between dining, entertainment, sporting facilities and other services. MixC houses an Olympic size ice-rink, which welcomed Olympians Shen Xue and Zhao Hongbo for the mall's lavish opening ceremony. However MixC's performance has been less stellar. Revenue declined 12.5% in 2013 and 20% for the Spring Festival period in 2015. During that period in 2015, for example, Hangzhou Tower found the going as



“I got my story, my dream from America. The hero I had was Forrest Gump. I've watched that movie about 10 times. Every time I get frustrated I watch that movie”

Jack Ma, the boss of Alibaba and Hangzhou's most famous resident



Treasury Wine Estates' Jack Wu says Hangzhou already has an entrenched middle class open to drinking foreign wines

A growing wine market

Treasury Wine Estates' China sales director for its wholesale division, Jack Wu, says the Australian wine giant began working with a new distributor in Hangzhou about six months ago. "That distributor has delivered exciting results," says Wu, adding that Hangzhou is the headquarters for all sales in Zhejiang province.

He describes Hangzhou as a "wealthy market" and says thanks to e-commerce and a strong private sector, there is already a very entrenched middle class. He adds that the people of Hangzhou tend to be smart and well-educated as well as discerning spenders. And because so many of its citizens have relatives that live or study abroad, he believes there is widespread interest in foreign brands.

Among the 10 local Chinese markets in which Treasury has distributors, Wu forecasts the Hangzhou/Zhejiang partner will be one of the top performing within the next two years. Part of the reason is the company's strategy of pushing more affordable wines from its portfolio to target middle class consumers and newer wine drinkers. Treasury's pricier wines include Penfold's Grange and Stag's Leap, but the product set to see the strongest sales may be Penfold's Bin 28, which is



now being heavily promoted at a price-point just below Rmb300 (or \$45.62, which Wu says is a watershed for categorising a wine as luxury or affordable). His distributors, he says, are making much of the fact that the number 28 sounds in Mandarin like 'love' and so this is also a perfect choice for celebratory dinners.

Wu's upbeat view on wine sales in Hangzhou offers a proxy of sorts for the city's overall retail market. It indicates that while the luxury end of the market may face tougher times, brands that target the growing middle class with affordable, high quality products are best placed.



Online or offline?

Hangzhou is commonly considered as China's capital of e-commerce, in part due to its status as the home of Alibaba Group. Amongst other things, Alibaba is the mastermind behind the commodification of Singles' Day – celebrated on November 11. Last year on Singles' Day, the e-commerce giant logged a record Rmb19.2 billion (\$14.3 billion) in sales revenue.

But as the Alibaba empire has grown, it has not only brought more shoppers online, it has also drawn more capital into its hometown, helping raise disposable income (Rmb39,099 per capita in 2014) and fuel the consumer market. Retail sales have seen strong growth in Hangzhou, rising 8.7% year-on-year in 2014 to a total of Rmb383.9 billion (according to Savills World Research). But although sales are increasing, the rate of increase appears to be in decline: 2014's 8.7% growth was 4.3 percentage points lower than the year before.

Nevertheless, development of commercial districts in the city is also set to continue. Qianjiang New CBD will see the opening of Raffles City, another shopping mall, and the Binjiang district – currently the heart of Hangzhou's tech industry - will soon house its first large retail complexes.

Yet even in the physical world of bricks and mortar there is room for Alibaba. Alibaba Group operates a mobile payment service called Alipay, which is used widely throughout China and most heavily in Hangzhou. The service can be used for purchases online as well as in stores, restaurants and other outlets (using a smartphone).

Data from Alipay shows that in 2014 Hangzhou's per capita expenditure on Alipay reached Rmb44,197 (\$6,721) – the highest level in



China. Approximately 40% of that figure was spent on retail. (The remainder is composed of expenses such as bill payments, loan repayments and investments.) Further research from Savills found that 2014 online consumption in Hangzhou was up 38.5% on the year before, peaking at Rmb90 billion: much higher growth but still a lower total than in-store bricks and mortar sales.

Meanwhile Savills found that vacancy rates across Hangzhou's shopping malls in 2014 grew by 4 percentage points to 8.7% (a slump which it primarily attributes to the vacancy created by the closure of the Central Department Store in Mix City Mall).



Thanks to a decade long boom in car sales Hangzhou has the unenviable title of China's second most congested city

tough as MixC, and only Intime Department Store saw an increase in sales. Like so much success in Hangzhou, Intime's is undoubtedly linked to its affiliation with Alibaba – the e-commerce giant owns a 32.8% holding in Intime Retail Group, and the mall utilises Alibaba's Tmall to provide O2O services (such as picking up products bought online).

Intime's own luxury retail complex is Hubin Intime Mall. The first stage of this plaza (Hubin International Boutique Compound) was opened in 2005 and welcomed the likes of Gucci, Dolce & Gabbana, and Cartier – all of which still operate boutiques there, and have been joined by the likes of Louis Vuitton (its third store in the city), Prada, and Yves St Laurent. The staying power of the boutiques that initially opened in the mall 10 years ago is intriguing, as the atrium of this upmarket venue appeared perpetually empty during visits by Sinopolis in November 2015.

Hangzhou Hubin Intime has recently gone through two more stages of development and a rebranding to expand its coverage and its appeal. It now goes by the name IN77, and additions to the original mall now include high-street brands Forever 21 and Gap, as well as Hangzhou's flagship Apple Store. The greater popularity of this section of the mall – versus the original areas catering to luxury buyers – speaks of the retail sector's changing emphasis.

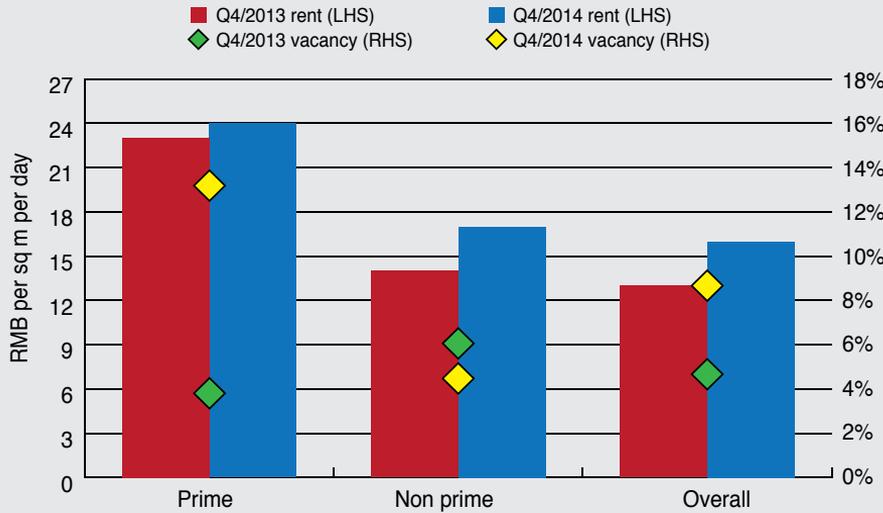
Car sales stall

Hangzhou lays claim to the unenviable title of China's second most congested city. In addition to congestion, the number of cars contributes significantly towards the city's air pollution (exhaust emissions account for 40% of it). In a bid to tackle both of these problems, Hangzhou was the sixth city in China to implement "registration restrictions". These restrictions include a range of policies but most notably consist of the following: firstly, a curfew or a complete moratorium of usage on cars according to their registration numbers (cars with an even number will be restricted from the roads one day, then cars of odd numbers the next); secondly, the reduction in the number of new registration plates sold annually, which limits the number of new vehicles on the road.

When Hangzhou announced the latter policy in 2014, it did so a few hours before it was due to take effect. The result was a last-minute surge in buying activity, as citizens rushed to purchase new cars and the all-important licence plate. A report from Xinhua claims that over 70,000 vehicles were ordered that single day. Under the revised system, only 80,000 licence plates are issued each year in Hangzhou: 80% through a lottery system (like in Beijing) and 20% through an auctioning process (like Shanghai). The auction prices start at roughly Rmb10,000 (\$1,628).



Prime rents and vacancy rates, Q4/2013 vs Q4/2014



SOURCE: SAVILLS RESEARCH



IKEA's patience pays off

IKEA is the salvation of many a home decorator on a budget, and the Swedish icon fares well in China where it is not only a popular shopping destination, but even a dating spot for silver-haired singletons (or as a choice for a midday nap).

In the year ending August 2015, sales growth in China was 19% – IKEA's fastest growing market – and three new stores were opened nationwide. Last June, Hangzhou welcomed one of those three: China's 17th IKEA store.

Sales growth in China was 19% – IKEA's fastest growing market

The shop is located in the Yuhang district, 30 minutes away from the city centre by Metro Line 1 (stop at Qiaosi). It is larger than IKEA's Shanghai outlet, housing 60 showrooms exhibiting over 8,000 items, as well as a restaurant that can seat over 600 diners, and of course a play area for the children.

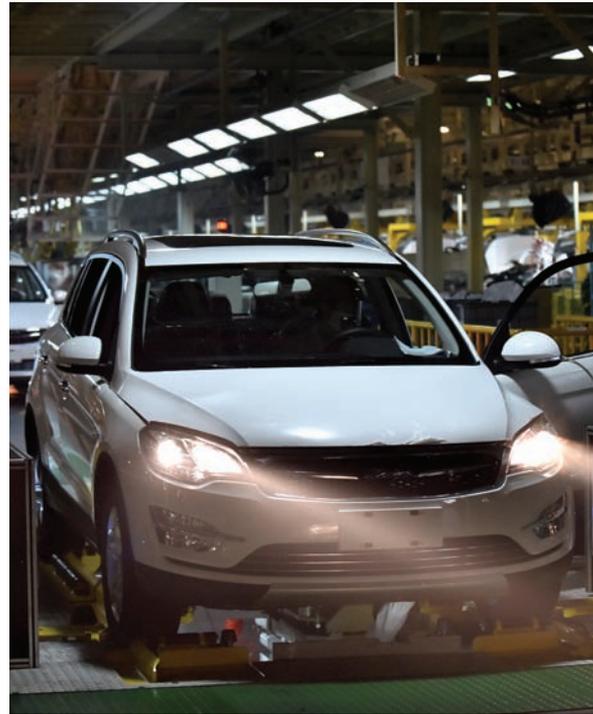
The Hangzhou outlet had been long anticipated. Planning for the store began in 2008, with construction finally commencing in 2013. Perhaps the long wait has encouraged the high volume of shoppers: in the first six months of its opening, IKEA's Hangzhou store had already signed up 400,000 new members.





In 2013, the year before the ban, 276,000 new cars were sold in Hangzhou. In 2014, the official figure for the total number of registered vehicles on the city's roads was 2.7 million. According to Qianjiang Evening News (a local paper) the Hangzhou government is scrapping thousands of old and environmentally unfriendly cars each year, and had plans to dispose of at least 60,000 in 2015.

In 2015, new car sales amounted to roughly 200,000, indicating that people are still willing to purchase, even if obtaining a licence plate is more difficult. However this figure demonstrated the third year of declining new car sales in the city. Paradoxically, second-hand car sales rose to a similar level to new cars sold (at around 200,000), the first time this has happened (the second-hand car market has only recently started to develop, with most Chinese traditionally preferring to buy a new vehicle). One explanation for the rise in second-hand sales is that these cars come with a (now coveted) licence plate. 🇨🇳



Hangzhou's new car sales dropped to 200,000 in 2015

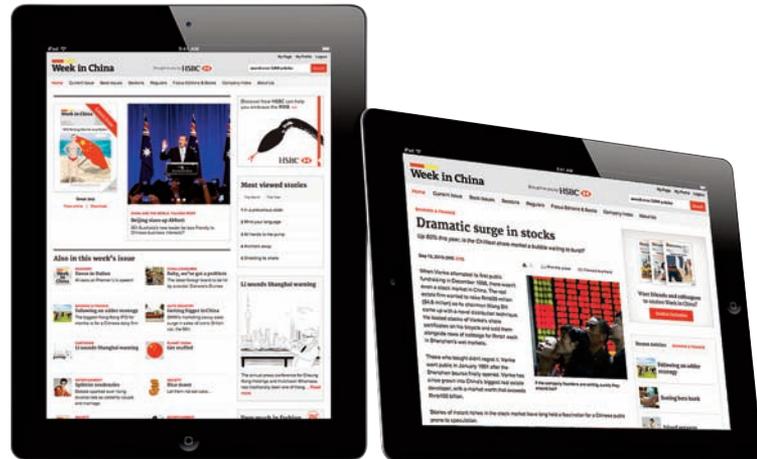
The Hangzhou government scrapped 60,000 old and environmentally unfriendly cars in 2015

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