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Value Retail's China Move

By KRISTIANO ANG

SHANGHAI — Value Retail plc has set itself an ambitious target: It wants its upcoming Suzhou outpost to be the number-one designer outlet mall in China.

"In Europe, we've always been number one in terms of productivity per square foot. We're hoping that Suzhou will be the same, too," said Desiree Bollier, chief executive officer of British-based Value Retail. She had come to China to sign up tenants for Suzhou Village, the latest property under Value Retail's Chic Outlet Shopping umbrella of outlet malls.

The 600,000-square-foot Suzhou Village, which started construction in late April and is slated for completion in 2013, is the first Chic Outlet Shopping village outside Europe. Located in Suzhou, a city about 50 miles outside Shanghai, Value Retail touts it as being within an hour's drive of 40 million people.

Value Retail may be new to China, but it has a lot of experience doing business with the Chinese. Its nine villages in Europe are packed with Chinese tourists, many of whom skimp on food and accommodation in order to splurge on the cut-price designer labels it sells. Value Retail's sales increased by 20 percent in 2011, a feat Bollier expects to replicate this year. Sales are driven largely by Chinese tourists: The average spend for them in 2011 was 312 euros, up 316 percent from 2009.

To run Suzhou Village, Value Retail this year incorporated a Shanghai-based subsidiary, which will be overseen by between 15 and 20 managers. It is also moving some senior management over. Chris Cabot, Value Retail's former chief operating officer, is now president of Value Retail China, while Leslie Chao, a Hong Kong native who formerly ran Chelsea Property Group, will serve as ceo of the subsidiary.

Bollier said that the Suzhou business plan was developed based on Value Retail's success in Europe, but there are certain challenges that will be China-specific. For one, though the minimum 35 percent markdown from regular retail prices that shoppers in Value Retail's European villages expect will be respected, absolute prices will remain higher. That's partly due to the very high luxury tax — rates can be as high as 60



Desiree Bollier
Photo By Courtesy Photo

percent — that drive many Chinese to shop in Europe or Hong Kong in the first place. (Indications in the past year by Chinese policy makers that a tariff cut is being considered may help.)

There's also the potential loss of the exotic factor. A drive down the 1,400-mile Nanjing-Shanghai Expressway may be

less alluring than bouts of shopping amid trips to the Eiffel Tower or the Big Ben.

Bollier admits that prices may be higher here but said that savings will work themselves out. "You don't have to pay for a plane ticket or hotel," she noted.

She insists that Suzhou Village, which will be built by the same architects that worked on the European villages, will be a destination mall. "It may be only half an hour out of Shanghai but it will still remain exotic. It is still a destination for people further out in China," she said. "Democratizing luxury does not mean diminishing it."

The most notable foreign outlet mall to have tried democratizing luxury here is Florentia Village-Jingjin Design Outlets, a partnership between Fingen Group of Italy and the U.S.' Waitex Group that is located about 20 minutes from Beijing. "Planning and execution is certainly much more complex [in China] than declaring mission statements," said Ivano Poma, a director at Fingen, which is launching new outlets in Chongqing and Shanghai, where it will be in close competition with Suzhou Village. He declined to disclose figures relating to Florentia Village but said that sales per square foot were closing in on that of Serravalle, its flagship Italian property.

Bollier said that Value Retail will adapt to China via strategies such as an increased focus on men's wear in a country where males defy stereotypes by splurging more on themselves than women. According to a recent Bain & Co. report,

Chinese men spent 8.7 billion yuan, or \$1.38 billion at current exchange, on clothing in 2010, more than double the 3.5 billion yuan, or \$554.7 million, spent by their female counterparts. The likes of Burberry and Coach sell significantly larger amounts of men's wear here than in other markets.

"Chinese men are more independent and used to shopping for themselves," said Bollier. "They behave differently from Europeans and Americans, where [menswear] is usually purchased by women for men."

Value Retail's marketing budget will reflect this. "Spending on [advertising in] women's magazines has been by ratio higher," said Bollier. "We're now hoping to target men as much as women."

While Value Retail has not disclosed any of the designer labels that will be present at its Suzhou outpost — it has previously said it expects a similar range to its Europe malls, which feature the likes of Armani, Dolce & Gabbana and Versace — Bollier said that there may be greater variety than one might expect from a factory outlet in China.

"Chinese love Prada, Gucci and Burberry, but there's a broader curiosity now," she said. For instance, in Value Retail's flagship Bicester Village mall in England, Alexander McQueen is popular among Chinese. In La Vallee Village, located on the outskirts of Paris, Givenchy and, to a lesser extent, Celine are selling well.

"These are not brands you would think of immediately" as being popular with Chinese, she said.

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