



cutting through complexity

Business strategies for luxury brands in China

奢侈品品牌在中国的经 营战略

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Speaker

演讲者



| | |
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| Selected KPMG luxury brand clients | Bally, Bottega Veneta, Bvlgari, Burberry, Cartier, Escada, Estee Lauder, Gucci, Haagen Dazs, Hugo Boss, Sisley, Swatch |

KPMG Thought Leadership

毕马威领先思维

2006



Luxury brands are seeking growth. Recently, many have experienced growth. But is this growth managed strategically for the long-term value of the brand?

This question, long being considered, is not unique to the growth, but how to manage it with long-term value that ensures that challenge companies will need to respond to this question: What is luxury?

This is the question that KPMG International Cooperative ("KPMG International") is addressing in this report. The report is a key part of our thought leadership on luxury brands and is available on our website. It is a key part of our thought leadership on luxury brands and is available on our website. It is a key part of our thought leadership on luxury brands and is available on our website.



AUDIT • TAX • ADVISORY

2007



RETAIL
Luxury brands in China

KPMG

MONASH University
Business and Economics

AUDIT • TAX • ADVISORY

2008



China's Luxury Consumers:
Moving up the curve

CONSUMER MARKETS

KPMG

tns

AUDIT • TAX • ADVISORY

2009



Luxury business: responding
to the crisis

INTERNATIONAL

KPMG

AUDIT • TAX • ADVISORY

2010



Refined Strategies:
Luxury extends its reach across China

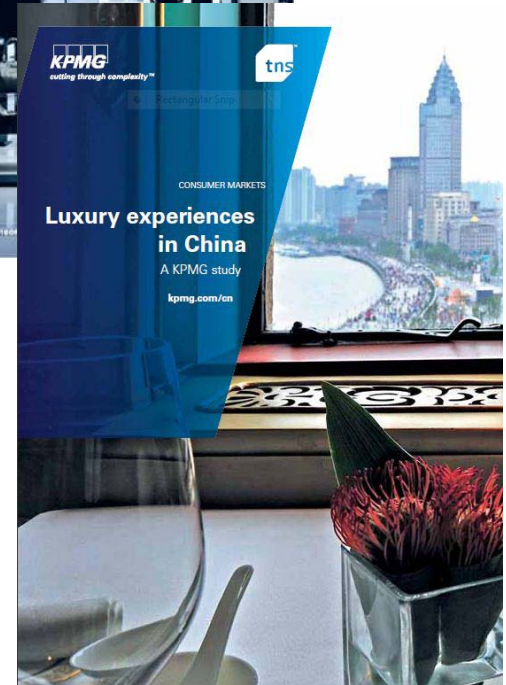
CONSUMER MARKETS

KPMG

tns

AUDIT • TAX • ADVISORY

2011



Luxury experiences
in China

A KPMG study
kpmg.com/cn

KPMG
cutting through complexity™

tns

CONSUMER MARKETS

Case studies

部分案例



DINESH TANDON
BALLY



LARS HUNDBORG
BOWERS & WILKINS ASIA



BERNARD FORNAS
CARTIER



WILLIAM LI
HIERSUN DIAMOND



THIBAUT VILLET
GLAMOUR SALES



DIRK PAULSEN
PATEK PHILIPPE



CON CONSTANDIS
PERNOD RICARD CHINA



PAUL CADMAN
SALVATORE FERRAGAMO



JIANG QIONG ER
SHANG XIA



VANESSA HERRERA
SOTHEBY'S CHINA & SOUTHEAST ASIA



JAMIE RITCHIE
SOTHEBY'S WINE

Few barriers to entry

较少的进入壁垒



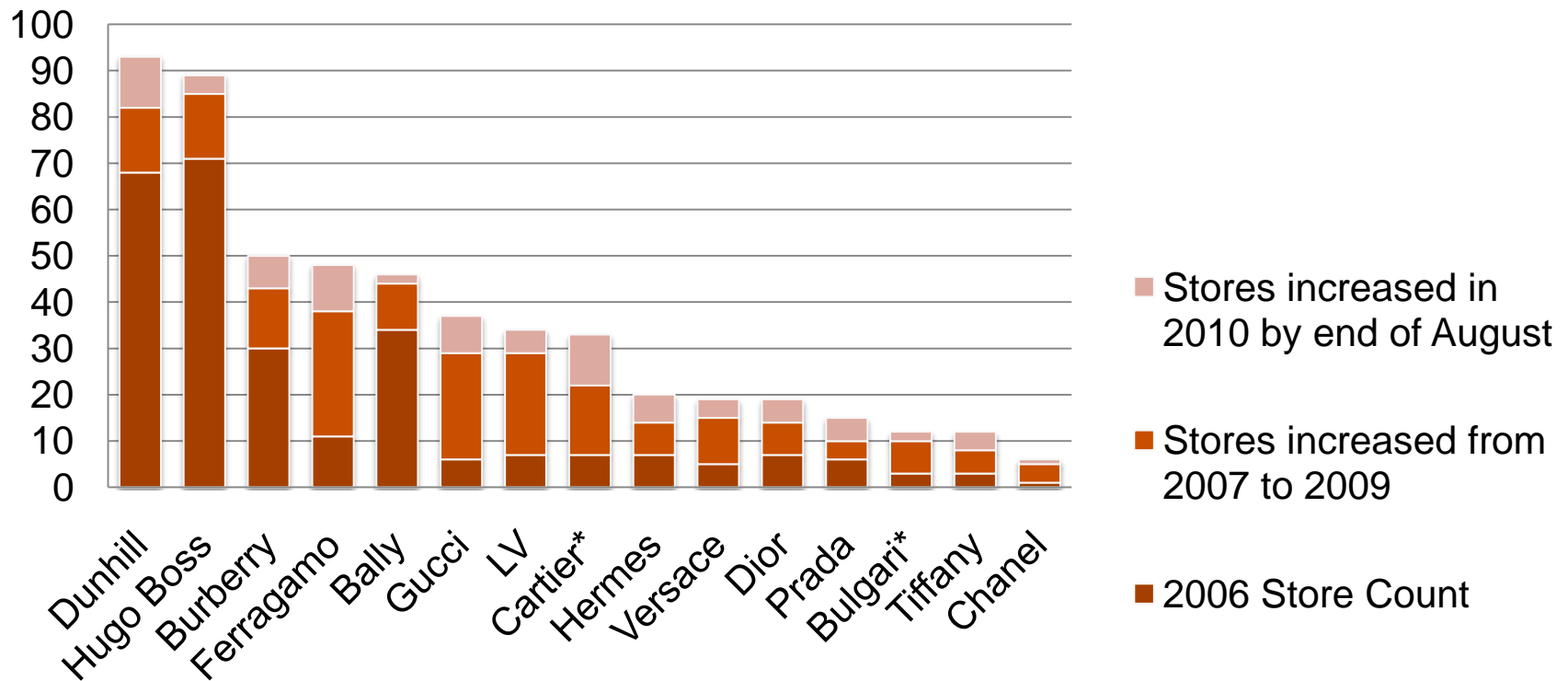
Bai Jiu
Restricted



Store Count growth of Selected Luxury Brands

部分奢侈品品牌近年来的门店增长

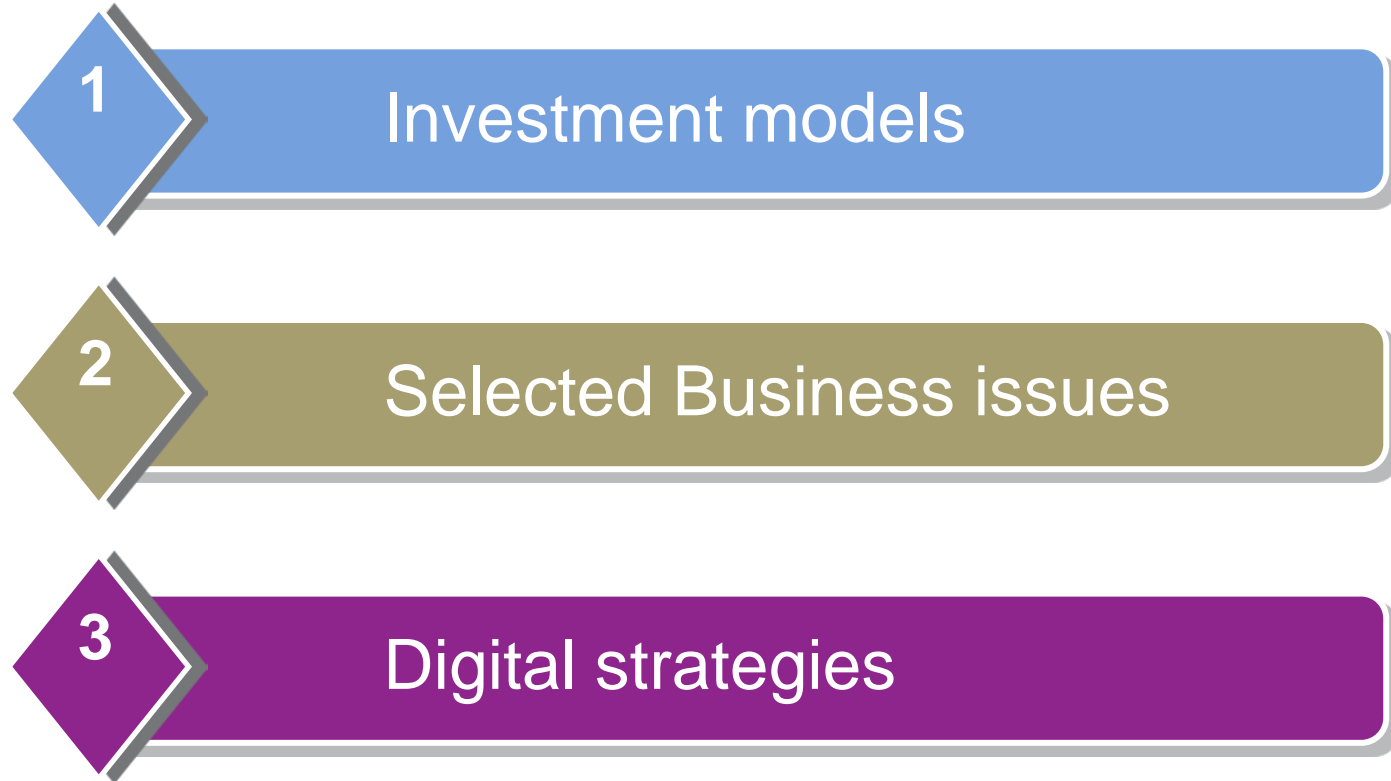
Source: Bain, China luxury market study November 2010



*Cartier and Bulgari store data excludes its watch & leather wholesaling channels

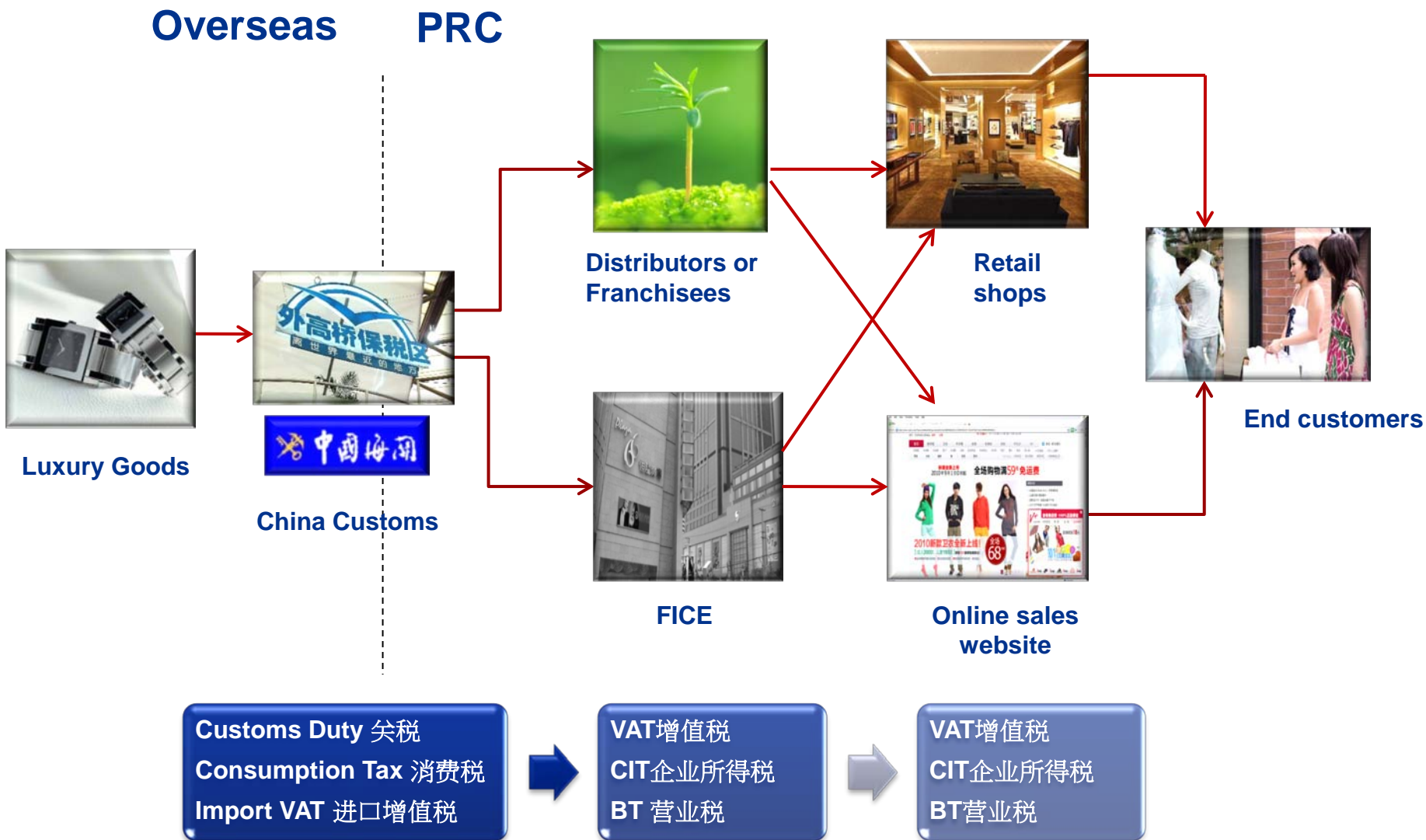
Business strategies for luxury brands

奢侈品品牌经营战略



Business models overview - Flow from overseas to China

商业模式演变- 货物进入中国市场流程



Common models – Franchise, distributors, dealers

商业模式-特许加盟、经销商、代理商

Pros

- Initial low risk/high speed Market entry
- Low investment capital for branches/stores/ WFOEs
- Low administrative costs for daily operations



Luxury goods



Franchisees



End customer

Cons

- Restrictions on franchising
- Risk to the brand reputation:
- Quality of store experience
- slow inventory turnover
- Lower/shared profit margins



Common models – Dept store Counters, Shop-in-shop

商业模式-百货商场专柜、店中店

Pros

- Lower capital cost
- Halo effect from other store brands
- Lower administrative cost for daily operations



Luxury goods



Shopping mall



End customer



Cons

- Poor Cashflow from some landlords and bad debt risk
- Less control over the brand if location not maintained by landlord
- Shared margins with landlords
- Short leases and risk of disputes

Common models – Retail (Sales via self-own stores)

商业模式-自营零售

Pros

- Control over branding
- Control over service quality
- Easier to implement consistent global brand
- Government support



Luxury goods



Self-own stores



End customer

Cons

- Large capital outlay and
- Longer time to set up retail branches
- Higher cost - maintain own stores and employees
- Transfer of goods among branches are subject to Value Added Tax ("VAT")
- Higher compliance risk



Business issue 1- Transfer prices & Customs

转移定价及关税



Hong Kong Market

HK\$ 100,000



China Market

RMB 100,000
= HK\$ 120,000



Business issue 2– Tax credits for fit out costs

固定资产的增值税抵扣



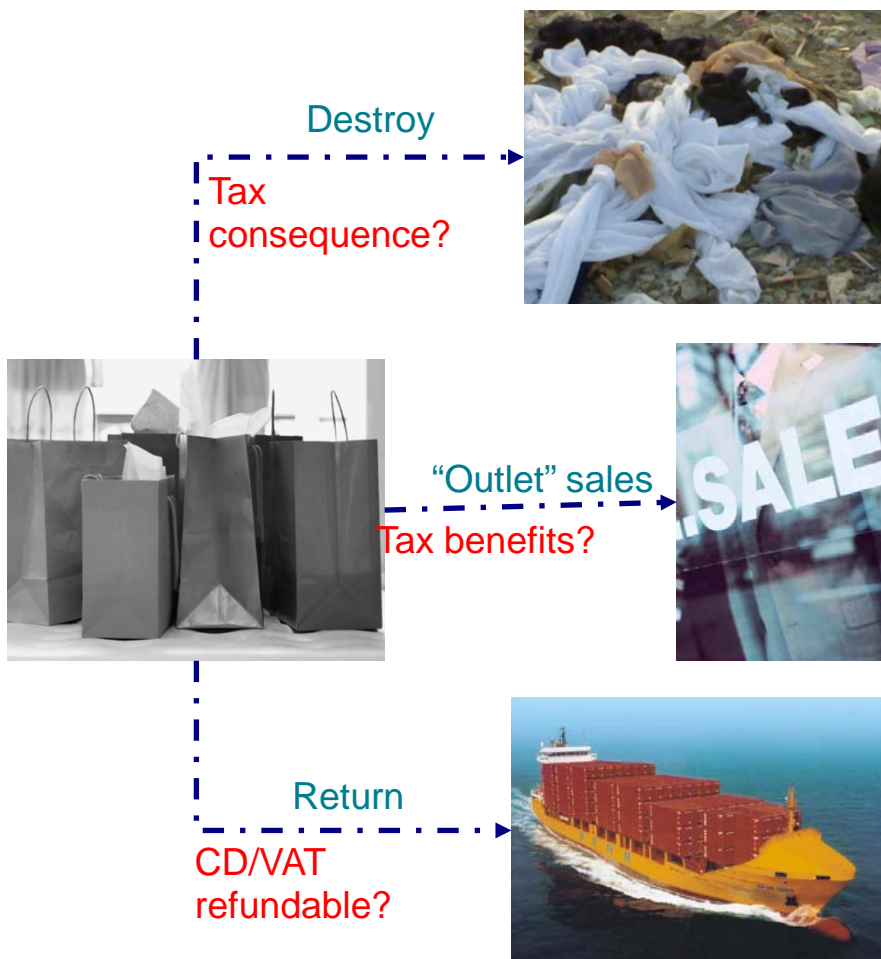
Input VAT deductible ?

Since 2009:

- Is input VAT on fixed assets creditable?
- Invoicing arrangement

Business issue 3 – Old products/ Outlets

过季商品/奥特莱斯



Return to overseas:

- Goods return with refund of import customs duty ("CD") and VAT
- Goods compensated at nil costs
- Resale of goods for return

Destroy within China:

- CIT: Asset loss verification report required for deduction
- VAT: Input VAT to be transferred out

Sales within China: (to outlets)

- CIT: Loss deductible
- VAT: Input VAT creditable

Business issue 4 – promotional costs

促销成本



What is the PRC tax consequence of different types of promotion activities ?

Discount:

- CIT: taxed on net amount
- VAT: taxed on net amount

Rebate/returns:

- CIT: net amount
- VAT: red-inked invoice required or credit from net sales

Buy one & get one free:

- CIT: no deemed sales and treated as packaged sales
- VAT: deemed sales (at fair value)

Grant of free products:

- CIT: deemed sales (at purchase cost for trading company)
- VAT: deemed sales (at fair value)
- Individual Income Tax (“IIT”): 20%

Business issue 5 – taxes on cosmetics

对化妆品的税务处理



Free sample products:

- CIT:
 - No deemed sales (if purchased)
 - Treat as packaged sales
 - No deduction limit
- VAT:
 - Deemed sales (at fair value)

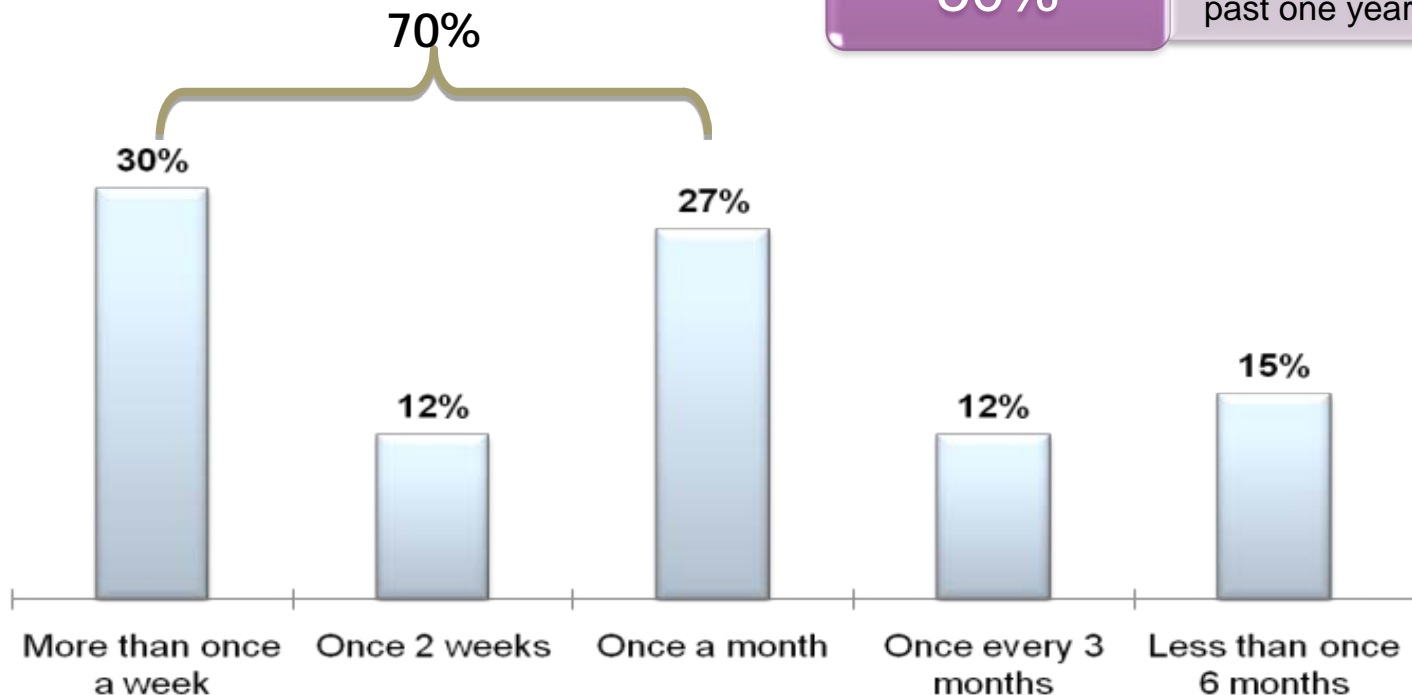
Tester products:

- CIT:
 - Deemed sales (at purchase cost for trading company)
 - Deduction limit: 15% of revenue
- VAT:
 - Deemed sales (at fair value)

Digital strategies

电子化战略

Near 70% potential luxury consumers search for luxury brands on internet at least once a month.



457 million

• China's internet users

161 million

• China's online shoppers

50%

• Online shopping growth rate over past one year

Profile of Luxury Brands on the internet

信息化时代下奢侈品品牌市场表现



Your products (and imitators) are already there on Taobao!

Visibility of official brand websites?

Emergence of specialist Online luxury retailers

E.g.:
Glamour-Sales,
YOOX, Zooq

Seeking out opinion leaders

Buried on Chinese specific platforms

Source: Reach of George Washington University

Shopping online for luxury products

网上购买奢侈品

To what extent are you interested in purchasing luxury goods on internet?

- Not interested at all
- Somewhat interested
- Neutral
- Somewhat not interested
- Very much interested



Motivation

| | |
|--------------------|-----|
| Better price | 79% |
| Ease of comparison | 67% |
| Effort saving | 56% |

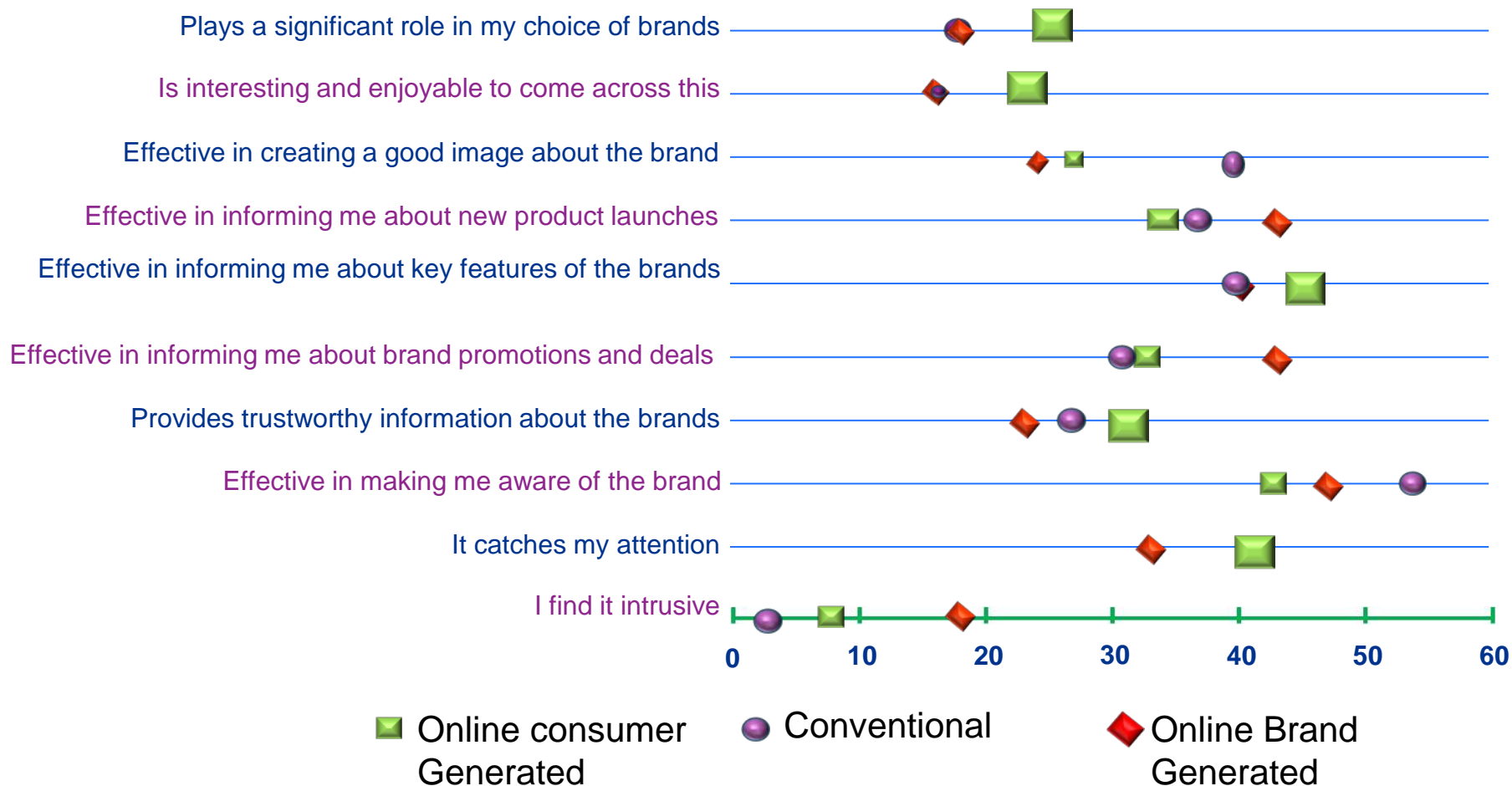
Barriers

| | |
|----------------|-----|
| Authenticity | 74% |
| After-sales | 56% |
| Payment safety | 38% |

Brand building

品牌建设

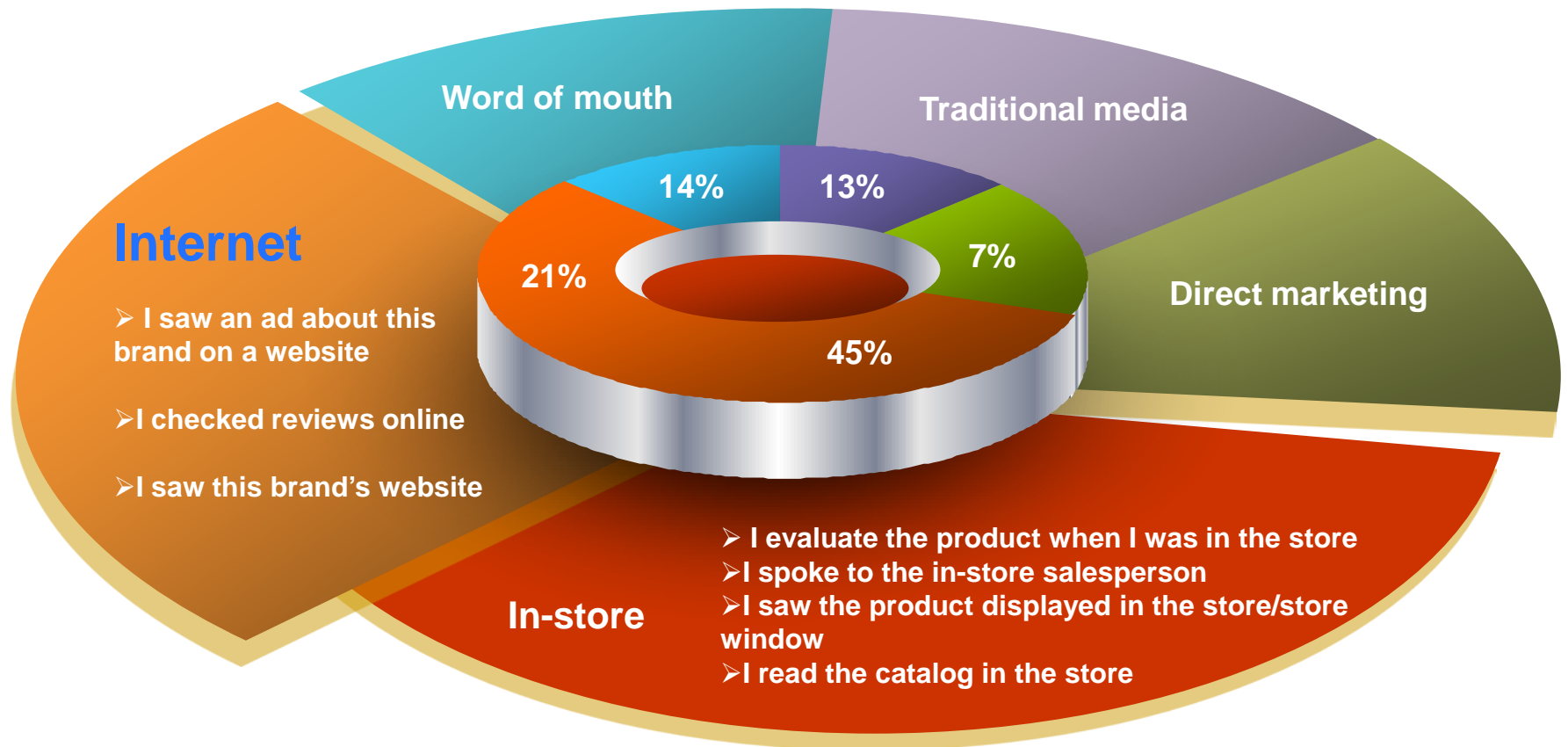
The power of online consumer-generated content



Touch points in driving luxury purchase

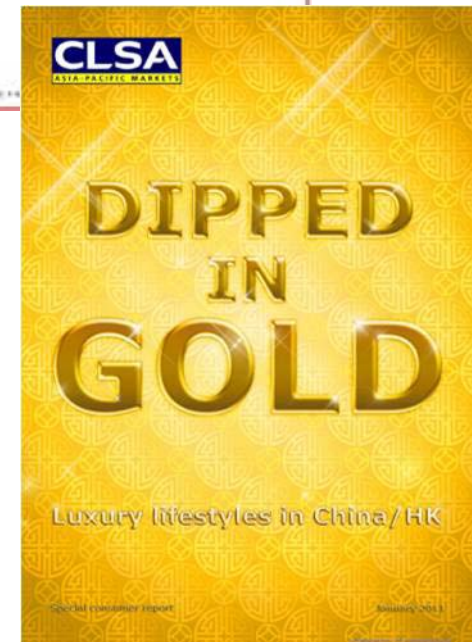
购买奢侈品的驱动因素

Relative importance of touch points



Source: Mckinsey Insights China – Wealthy Consumer Study (2010)

What do other people say?



McKinsey: Key findings in 2011

1

- Rising awareness of brands and prices

2

- The quest for authenticity

3

- Emergence of several new geographic markets

4

- Plotting your retail footprint and footprint

5

- Deliver exceptional service in the store

6

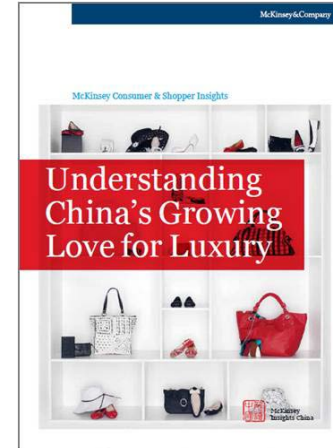
- Embracing digital marketing

7

- Tapping into Chinese cultural heritage

8

- Less flash, more understatement



Bain: Key findings in 2010

1

- Continued trend of increased domestic shopping (vs. overseas)

2

- Consumers expect comprehensive and differentiated service experience

3

- Continued importance of online platforms

4

- Brand building efforts more localized & increasing

5

- Watches and jewellery top the luxury wish list

6

- Gifting increasing & more diversified



BAIN & COMPANY

China Luxury Market study 2010

Bain POV

November 2010

CLSA: Key findings in 2011

1

- Younger and richer customers

2

- Display of success and VIP status

3

- Luxury “more” for him

4

- Luxury brands have opened more stores in Beijing

5

- Watches and jewellery top the luxury wish list

6

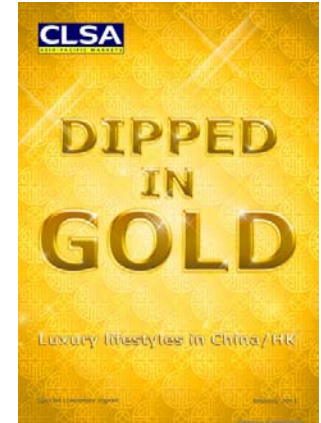
- Overseas purchases = 56% of Chinese luxury sales

7

- Willingness to pay premium for the best & famous brands

8

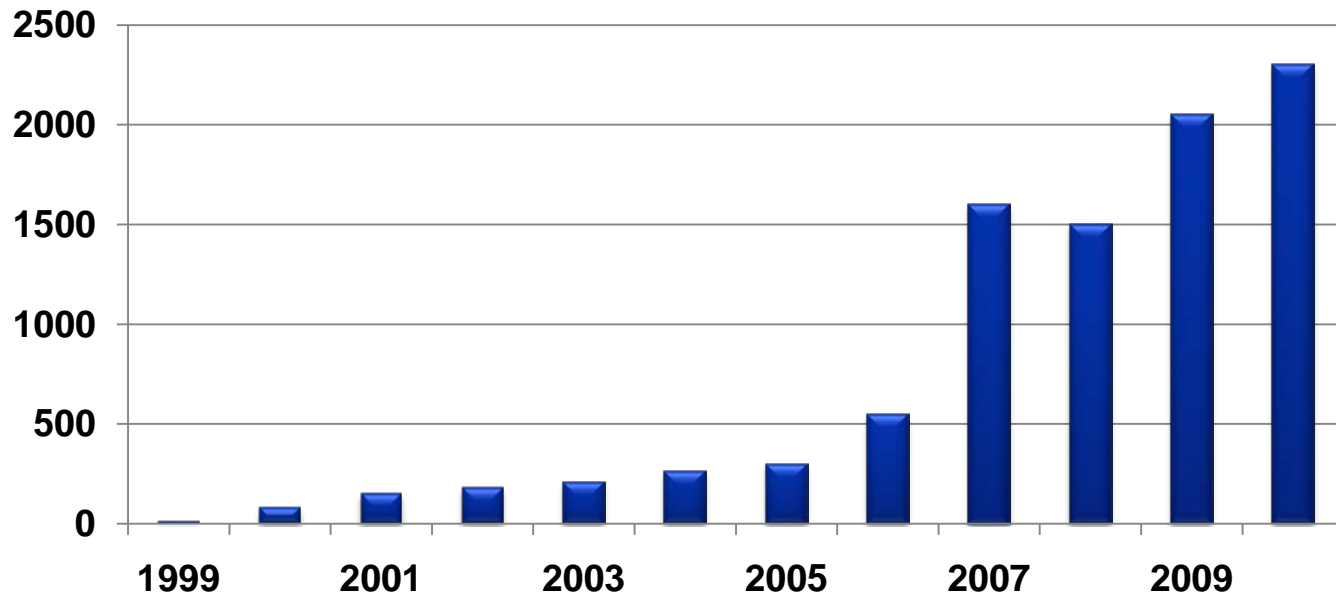
- Chinese consumers love craftsmanship



Hurun: China's wealthy came of age in 2007



Hurun Rich List Top Fifty Cut-off US\$m



Source: Hurun report 2011



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