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Chinese Seeking Cheaper Chanel Bao Bao Lift Europe Luxury Sales  
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By Andrew Roberts and Wendy Leung

Dec. 3 (Bloomberg) -- Ice Fu plans to pack light when she travels to Paris this month. The 28-year-old restaurant owner from Shenzhen in southeastern China needs to leave room for the Chanel, Hermes, and Louis Vuitton handbags she plans to buy.

"We have Chanel shops in China, but they're always out of stock," says Fu. "The Hermes bags I want to get still aren't available in China."

Even as makers of luxury goods are racing to open new stores in China, they're finding their European flagships mobbed by tourists like Fu. Around 2.5 million mainlanders visited western Europe this year, 500,000 more than in 2009. And that number is expected to climb to 3 million by 2012 as incomes continue to grow, according to U.K. forecaster Oxford Economics.

The Chinese now account for at least a quarter of European luxury goods sales, estimates Luca Solca, an analyst at Sanford C. Bernstein. Their buying power has been bolstered by the yuan's 12 percent rise against the euro this year, Bloomberg Businessweek reports.

"The classic shoppers on Place Vendôme in Paris used to be stars, celebrities, members of royal families from the Middle East in big limousines," says Uché Okonkwo, executive director of Paris-based consultancy Luxe Corp. "Today, it's Chinese tourists that are brought in by big buses in groups."

Mainland Chinese spent \$23.4 billion in 2009 on luxury handbags and suitcases, shoes, watches, jewelry, clothes, cosmetics, and perfumes, according to a Nov. 9 report from Bain & Co. More than half of that was purchased overseas. The trend is buoying the luxury goods industry, with sales in Europe on course to grow 6 percent this year, after falling 9 percent in 2009, according to Bain's forecasts.

#### 'Cherry on the Cake'

"The cherry on the cake is the Chinese tourists who bought not only in Asia but also in Europe," said Hermes International SCA Chief Executive Officer Patrick Thomas at the opening of a new Paris store in November.

Visitors from China helped lift European sales 19 percent at Hermes and 13 percent at LVMH Moët Hennessy Louis Vuitton SA this year through September, excluding currency moves, say the companies. At Gucci, where nine-month European sales rose 9.9 percent on the same basis, spending by Chinese tourists doubled to 22 percent of the region's total, according to parent PPR SA.

#### Chanel Jumbo

For mainland visitors, lower prices and bigger selections are the main draw of buying Chanel in Paris versus Shanghai, a city where the French fashion house now boasts three boutiques.

The Chanel Jumbo handbag, or bao bao in Chinese, that Fu covets costs more than \$4,700 in China, while the Hermes Kelly she's eyeing has a ticket of about \$8,800. In Paris, the same bags are priced at \$3,900 and \$6,500, respectively. Why the differential?

China levies import duties of between 10 percent and 20 percent on European handbags, plus a value-added tax of 17 percent.

Europe may be about to lose some luster in the eyes of Fu and her fellow travelers. Gucci plans to raise some prices by more than 5 percent to reduce the spread between Europe and other countries, according to PPR, while Louis Vuitton will lift prices in a "significant way," says LVMH Chief Financial Officer Jean-Jacques Guiony.

"An excessive price gap between different markets is confusing," says Michele Norsa, CEO of Salvatore Ferragamo SpA.

The Italian shoemaker may "rebalance" prices worldwide next year, raising some and lowering others, reports Norsa.

#### Shop at Home

At the same time, European luxury goods makers are giving Chinese consumers more reasons to shop at home. Major luxury brands opened some 80 new stores in China this year through August, estimates Bain. Its report notes that companies are also improving product availability and enhancing customer service to meet growing demand: Luxury sales in mainland China rose 14 percent last year, outpacing an 8 percent rise by Chinese travelers' luxury spending overseas.

Don't expect the crowds of Chinese at Louis Vuitton's flagship on the Champs Elysées to thin out anytime soon, though. Being able to say you bought your bag in Paris adds prestige to the purchase, says Okonkwo: "It's a complete experience, and this is what counts for them."

Fu seems to agree. "The mood and atmosphere shopping in Paris are nicer," she says.

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