A race between giants

Chinese conglomerates vie for a spot in luxury's inner circle

HONG KONG

BY ALEXANDRA STEVENSON

Attention, European independent fashion brands: Shandong Ruyi, the Chinese conglomerate, is open for acquisitions.

That's according to Qui Yafu, the textile giant's chairman. Speaking at The New York Times International Luxury Conference last week in Hong Kong, Mr. Qiu encouraged the audience of luxury insiders to get in touch if they had any good opportunities.

It was the latest indication of a new stage in the consolidation of the industry, as two of China's biggest conglomerates have been on a shopping spree for fashion brands that has drawn the kind of attention normally reserved for the three global luxury giants: LVMH Moët Hennessy Louis Vuitton, Kering and Richemont.

Spurred by demand from shoppers at home, Shandong Ruyi, China's largest textile producer by revenue, and Fosun International, a steel-to-real-estate conglomerate, have picked up a dizzying array of brands that include Lanvin, the oldest surviving couture house in France, and St. John, the American classic knitwear label.

China's consumption power has helped global luxury sales, but challenges are on the horizon.

The companies say they have expertise, and knowledge of the industry's fastest-growing segment: Chinese buyers, who now account for a third of all consumption of luxury goods globally.

But as Chinese companies vie for a coveted place at the top of the luxury sector, they face headwinds — both at home and overseas.

Years of stagnating growth across the fashion industry has left many of the newly acquired brands in need of new ideas, money and time to pull off business turnarounds. And while Shandong Ruyi and Fosun have signaled ambitions to become the LVMH or Richemont of China, they have yet, with the exception of Lanvin, to acquire a truly high-profile house, a name like Gucci or Chanel.

At home in China, a government campaign to rein in companies that have been spending big overseas has led to arrests and takeovers and left businesses on edge. A slowing Chinese economy is also starting to weigh and a weakening currency is beginning to dampen consumption of overseas brands.

But, so far, Fosun and Shandong Ruyi have been untouched and appear undeterred.

In February, when Shandong Ruyi bought a controlling stake in the Swiss fashion brand Bally, Mr. Qiu, hailed the acquisition as a "milestone" toward becoming a "global leader in the fashion apparel sector."

Also in February, after winning a fierce bidding war for Lanvin, a senior Fosun executive said the company was "confident" that its global resources and expertise could help the 129-year-old label. Joann Cheng, chairwoman of Fosun Fashion Group and, since the acquisition, chairwoman of Lanvin, said during The Times's conference that it would be important for the group to maintain the DNA of the house.

"These Chinese companies think that they can help these luxury groups to understand the Chinese consumer," said Bruno Lannes, a China consumer expert and partner at Bain & Co. "Whether this is true or possible, the jury is out."

What is clear is that European luxury brands have faced an uphill battle in recent years and could use some help.

Lanvin, for example, has struggled since the sudden ouster of its high-profile creative director, Alber Elbaz, three years ago. The creative director who replaced him, Bouchra Jarrar, left after 16 months. Even the appointment of Olivier Lapidus, who took over from Ms. Jarrar with a plan to make Lanvin the "French Michael Kors," was met with criticism.

After acquiring the house this spring, Fosun did not waste much time. In March, Mr. Lapidus announced that he was stepping down.

Bally, meanwhile, has been in turnaround mode after several years of stagnant sales.

"Both Bally and Lanvin are not in the best shape and are more in a turnaround situation," Mr. Lannes said. "Typically what you need is a creative team and a designer that can turn the brand around in line with what consumers want."

This will require time, patience and investment from both parent companies, even as they juggle dozens of recently acquired brands and continue to scoop up others.

Just a few months before Shandong Ruyi made its approach for Bally, it snapped up the Lycra brand from Invista, an American producer of polymers and fibers, for $2 billion. Two years before that, it spent nearly $1 billion for SMCP, a company that owns the fashion brands Sandro, Maje and Claudie Pierlot.

Shandong Ruyi has built up a portfolio of British heritage brands, too. It owns Aquascutum, a British outerwear brand, and paid $285 million for a controlling stake in the men's wear group Trinity, which owns the 200-year-old British suit maker Gieves & Hawkes. As part of that deal it also controls Kent & Curwen, the nearly 100-year-old men's wear brand co-owned by David Beckham, the British soccer celebrity.

Fosun, meanwhile, owns Folli Follie, a fashion watch and jewelry company; St. John; Wolford and the Italian men's wear brand Caruso. Its rapacious buying spree hit the brakes — albeit briefly — when it lost out in February to a Dutch rival in a bid for the Italian lingerie brand La Perla.

Fueled by cheap loans at home, these two companies together have spent billions in the past three years on fashion brands. In 2017 alone, Fosun, spent more than $2.1 billion on 32 overseas deals, many of those fashion related, according to the data firm Dealogic.

For these brands and others, China's consumption power in the past year has helped to buoy the luxury fashion industry.

China's contribution to global luxury sales was largely the result of a booming economy, a rising stock market and hot property market, according to analysts. But that could change as China's own growth sputters, debt soars and a trade war with the United States starts to pinch.

Traditional sources of wealth for many Chinese have included the stock market, which is one of the world's worst performing this year. Adding to their woes in recent months, a weakening currency has left the renminbi at a 10-year low against the United States dollar. Just a few weeks ago, officials said China's economic growth had hit its slowest pace since 2009.

Chinese shoppers in recent months have talked online about a "consumption downgrade," trading tips on how to spend less, staying at home instead of going out and buying cheaper clothes online. This could spell trouble for the luxury industry.

"The whole sector is exposed to the consumption power of Chinese buyers and as the demand is struggling, globally the sector will be affected," said Mariana Kou, a consumer analyst at the brokerage firm CLSA in Hong Kong.

A worsening economic picture could also put Chinese giants like Fosun and Shandong Ruyi in peril, Ms. Kou added. These companies have loaded up on debt to purchase trophy companies overseas, a model that has come under scrutiny by the Chinese government.

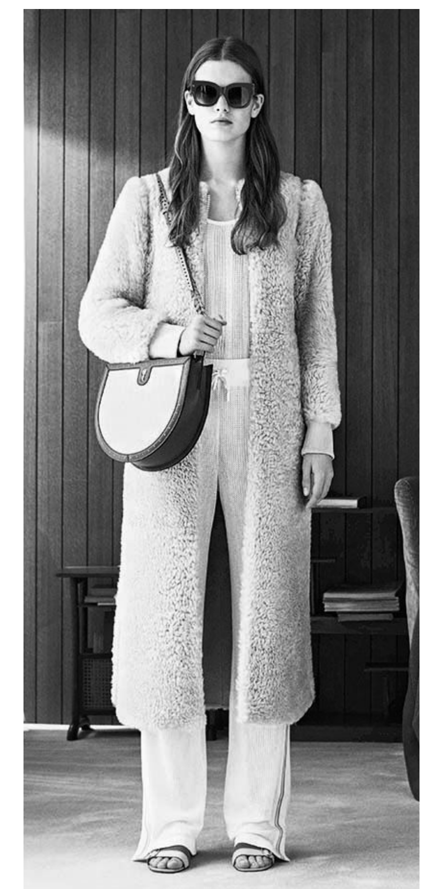
If Fosun and Shandong Ruyi are pressured to pay back some debt, they may have less money to invest in the brands.

For now, though, these companies keep spending, buoyed by the opportunity that Chinese consumers present. The consulting firm McKinsey & Company estimates that by 2025, around 7.5 million households in China will spend 1 trillion renminbi, or $144 billion, on luxury goods and account for nearly half of the market.

"Even as growth slows," analysts at McKinsey recently wrote, "there's a sizable, and sophisticated, pool of luxury shoppers in China."

The firm calls it the "Trillion Renminbi Opportunity."

Cao Li contributed reporting.



VALERIO MEZZANOTTI FOR THE NEW YORK TIMES

Acquisitions Styles from the spring men's collection at Lanvin, left, which was bought by Fosun in February. That same month, Shandong Ruyi purchased the Swiss brand Bally; above, a spring 2019 style.