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A new travel retail distribution channel for China emerges

By **Kevin Rozario** | Friday, 23 January 2015 17:50



Jihua Parks – a series of new leisure destination centres in China – are attracting international brands to what is being described as a new domestic travel retail model for the market.

The first two of the parks costing \$200m each – being developed by China's \$4.3bn-turnover Jihua Group – are set to open at the end of the year in Chongqing, a municipality of 33m inhabitants in the south-west of China; and Changchun the capital of Jilin province in the north-east.

Parks in Yangzhong, Wuhan and Dongguan will follow with some 35 leisure destination centres planned over the next decade with the full support of the Chinese government.

Italy's ArcoRetail, the specialist consultancy for the real estate sector, has taken the lead in contacting brands in duty free and travel retail on behalf of the vast project.



Bastagli: focus on domestic tourism

ArcoRetail CEO Luca Bastagli (*left*), describes the model as domestic travel retail offering brands the enticing prospect of a new distribution channel in China where, aside of designated malls or the erection of expensive flagship stores, no other retail vehicles exist that allow for swift expansion.

DOMESTIC TOURISM = THE NEW TRAVEL RETAIL?



Li Xue Cheng: targeting a middle class of 400m

Speaking exclusively to *TRBusiness*, Bastagli says: “This project is about domestic tourism in China. The biggest business in the next five to 10 years in China will be domestic tourism. In the last Golden Week, more than 400m Chinese left the big cities to go to another place for two days. They spent between CNY1,000-2,000 (\$162-323) each doing this.”

Li Xue Cheng, General Manager of Jihua Group, points out that the burgeoning upper middle class will reach 400m by 2020.

Jihua’s destination centres – which are based on activity sports but with full shopping, entertainment and hospitality facilities – are designed to attract Chinese holidaymakers for periods from one day to several, giving them access to international brands they would not easily find in the country.

Retail prices are expected to be around -15% below typical tickets found in cities, either achieved through a discount card for visitors, or by reductions from the brands themselves. ArcoRetail says that, as well as the distribution drawcard, low rents give brands flexibility on pricing.

TRANSPLANTING THE AIRPORT OFFER

Retail leasing costs in China have soared and in global property advisor CBRE’s latest quarterly ranking, Beijing is now ninth in the world behind Moscow. Bastagli says: “Retail is not the focus of our parks, but just like an airport, we have shops so that people can fill their dwell time, after doing sport or after dining. Our rents are also four or five times less than what brands pay downtown so they don’t need to reach the turnover of a boutique.

“Our philosophy is to have small shops and the same furniture used at the airport selling the same portfolio of products... so not the complete lines, but more items such as accessories.”



Jihua Parks are planned for 35 locations in China over a decade.

Initial shopping areas will be 30,000 -35,000sq m in the first phase to include fashion, cosmetics, leather goods and souvenir shops as well as restaurants [*the latter accounting for about 20% of the space*] with expansion to 50,000sq m depending on the success of the project. Jihua Group believes it will host 3-4m annual visitors at each park, with each person spending around €200 (\$237) daily.

ArcoRetail says there has been strong interest from brands – especially as the idea of domestic travel retail in the context of leisure destinations is a new one for China, but one that is expected to grow quickly.