

The sweet smell of success in China

Bolstered by the rising affluence of the country's young professionals, Fruits & Passion is racking up profit faster than anyone expected

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BEIJING — Four years ago, Canadian entrepreneur Gervais Lavoie watched in horror as his once-profitable Chinese joint venture was folded by Canadian owners who had lost faith in the China market.

Mr. Lavoie, a former Maoist ethnologist from Montreal who has devoted most of his life to China, took a sabbatical from business and went camping in Tibet for four months of soul-searching to ponder his life. Then he returned to Beijing, determined to prove that his Canadian partners had been wrong about China.

Today, he has gotten his revenge. His latest venture, the China franchise of the Canadian body care company **Fruits & Passion Boutiques Inc.**, is racking up profit much faster than anyone expected. With eight boutiques and 80 employees in China, and with four more boutiques opening by December, his new business is growing at an extraordinary pace.

Mr. Lavoie believes he is tapping into the beginning of a national boom in China's retail sector, long neglected by foreign investors who preferred to focus on manufacturing and other industrial sectors.

The rising affluence of China's young professionals and white-collar urbanites is sparking demand for more sophisticated consumer brands, including the expensive body care products in Mr. Lavoie's boutiques.

"I think the retail sector will mature in China over the next five years, so now is the time to enter," he said. "It's expanding very quickly right now. If we waited another two or three years, it would be too late because the market will be filled with every brand name."

He and his two partners won the Chinese franchise for Fruits & Passion in early 2005 - two years after he quit the Rougemont fruit juice venture, which he had built into the third-biggest juice brand in China.

Mr. Lavoie first travelled to China as a student in 1976. He later became a World Bank consultant in Beijing, then an entrepreneur, and in 1995 he launched a joint venture with a Quebec company to produce fruit juice under the Rougemont brand name. Within five years, it was earning \$15-million in annual sales. But despite his founding role in the

joint venture, he owned just a 15-per-cent stake. His Quebec-based partner, Lassonde Industries Inc., decided to take direct control of the China venture in 2000 - and within three years it was losing money. Lassonde wrote off its investment in 2003 and shut down the venture.

Mr. Lavoie was heartbroken. But after his spiritual journey to Tibet, he returned to business, opening his first Fruits & Passion boutique in September, 2005, in the upscale China World shopping mall in Beijing.

Learning his lesson from the Rougemont fiasco, he vowed that he would never again cede control to any outside partners.

He projected that his first boutique would be profitable in 24 to 30 months. In fact, it turned a profit within 14. Today, at its second anniversary, it is already surpassing monthly sales targets he had set for the three-year mark.

The same pattern has followed at his other boutiques, reaching their sales targets ahead of schedule. While most of his boutiques are in Beijing and Shanghai, he has opened new shops in smaller cities such as Hangzhou and Changchun. By 2012, he expects to have 40 shops in Beijing and close to 100 across the country.

"This is a good way to show my ex-partners that they were wrong to get out of China," Mr. Lavoie says with a chuckle.

"Our sales now are very close to what a similar shop would be doing in Canada," he said. "And I expect eventually to sell more than a Canadian outlet. We have a lot more potential customers in Beijing than in Toronto. By next year, I expect we will have more outlets in Beijing than in Toronto."

Mr. Lavoie calculates that 10 per cent of the population of China's biggest cities are earning an annual family income of \$70,000 to \$100,000. As a proportion, it might be small, but it amounts to 1.7 million potential customers in a city such as Beijing. "They're white collars and professionals, lawyers and accountants at foreign firms and joint ventures, and a lot of new entrepreneurs," he said.

"China already has infrastructure, heavy industry, light industry and housing, and a lot of young entrepreneurs. What's left? It's retail. It's the logical path. The wealth has been created, and now people want to spend it. They're moving to more sophisticated consumer goods."

The rapid growth of the Fruits & Passion brand in China is part of an ambitious expansion plan by Jean Hurteau, the Quebec entrepreneur who founded the firm in 1992. The company rakes in an estimated \$100-million in annual sales at more than 150 shops in countries that include the United States, Britain, France, Switzerland, China, South Korea, Morocco, Mexico and the United Arab Emirates. Next month, it opens its first shop in Japan.

Last year, the Quebec government's investment arm purchased a 30-per-cent stake in Fruits & Passion, providing a fresh injection of capital to help finance its international growth.

"They're quite an aggressive company with a high-quality plan for worldwide expansion, and they needed working capital to do that," said Raymond Bachand, the Quebec Minister of Economic Development, who visited Mr. Lavoie's first boutique in Beijing yesterday at the beginning of a trade mission to China.

"They've created 450 jobs in the south shore of Montreal, manufacturing products that are sold in places like China. They're expanding much faster than they thought they could."