



DIGITAL IQ *INDEX:* **China**

SCOTT GALLOWAY
NYU Stern

DOUG GUTHRIE
George Washington University



JUNE 16, 2010



L2 is a think tank for prestige brands.

We bring together thought leaders from industry and academia to help brands navigate the changing digital landscape.

RESEARCH:

Digital IQ Indices: The definitive benchmark for online competence

EVENTS:

Forums: The largest gatherings of prestige executives in North America (500+ attendees)

Clinics: Executive education in a classroom setting (80-150 attendees)

Working Lunches: Members-only lunches led by thought leaders and academics (12-24 attendees)

MBA Mashups: Access to digital marketing talent from top MBA schools

ADVISORY SERVICES:

Long Term Engagements & Flash Consulting

MEMBERSHIP:

For membership info and inquiries: info@L2ThinkTank.com

2010 CALENDAR:

RESEARCH	DIGITAL IQ Automobiles		DIGITAL IQ Pharma		DIGITAL IQ China		DIGITAL IQ U.S. Senate		DIGITAL IQ Specialty Retail		DIGITAL IQ Luxury		DIGITAL IQ Travel	
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC		
EVENTS	CLINIC The Social Graph		CLINIC Organizing for Digital		FORUM Generation Next		CLINIC Mobile		CLINIC Digital China		CLINIC The New Media Plan		FORUM Innovation 2010	
WORKING LUNCHES	CHINA		SOCIAL SHOPPING		IPAD IMPLICATIONS		PRESTIGE SOCIAL MEDIA CASE STUDIES							

UPCOMING COMING SOON:

NYU Stern **06.23.10**

MOBILE CLINIC

Academics and industry leaders highlight the **trends** and **best practices** of mobile in the prestige sector in a **half-day intensive clinic**

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CHINA CLINIC

NYU Stern **09.10.10**

MORE INFO

INTRODUCTION

The Biggest Opportunity for Prestige Brands in a Generation

Prestige brands can do a mediocre job in every other market and still grow revenues and profits substantially by getting one thing right: China. Year after year of double-digit growth has resulted in tens of millions of Chinese consumers armed with disposable income and a voracious appetite for luxury goods. In 2009 China surpassed the United States and is now the world's second-largest luxury market, trailing only Japan. However, while many prestige brands have been in China for almost 20 years, most are still trying to determine how best to tap into this huge but complex opportunity.

Preparing to Fight the Last War

The China strategy for most luxury companies has followed a traditional path: enormous investments in theater retail in Tier 1 cities buttressed by lavish public relations events and print advertising. However, in a country with 384 million internet users¹ (more than the U.S. and Japan combined), and an e-commerce market that quadrupled from 2006 to 2009, luxury companies should question whether they are fighting tanks on horseback.

An estimated 80 percent of Chinese luxury consumers are below the age of 45, versus 30 percent in the U.S. and 19 percent in Japan², suggesting a prestige customer that is considerably more digitally native. Furthermore, approximately three quarters of wealth creation in China through 2015 is expected to take place outside of Tier 1 cities, creating a massive wrinkle in the

retail strategies for most luxury companies as they grapple with expansion. While many foreign luxury brands stare at their digital navel (i.e., do little), third-party sites such as wooha.com cater to a Chinese luxury consumer who values the convenience and access of online shopping.

To the Victor Go the Spoils

Although most prestige brands have largely ignored the digital phenomenon in China, some have gone online and are starting to reap rewards. The disparity is substantial. Of the 100 brands in our study, 20 do not have a Chinese language site and only ten are e-commerce enabled. This translates to a market that will likely provide an enormous accretion in shareholder value to a finite number of players in each category.

¹ "China's Digital Generations 2.0", Boston Consulting Group, May 2010

² "The Coming of Age: China's New Class of Wealthy Consumers", McKinsey & Company, 2009

INTRODUCTION

Digital IQ = Growth

Our thesis is that success in the world's fastest growing market is inextricably linked to digital competence. Our study attempts to quantify the digital aptitude in China of 100 global prestige brands. Our aim is to provide a robust tool to diagnose digital strengths and weaknesses and help prestige brands achieve greater return on incremental investment. In addition, Doug Guthrie, Dean and Management Professor at the George Washington School of Business has provided "Ten Commandments for Commerce in China" based on his 25 years of experience advising corporations and governments on the country.

Similar to the medium we are assessing, our methodology is dynamic, and we hope you will reach out to us with comments that improve our approach, investigation, and findings.

You can reach us at scott@stern.nyu.edu and dguthrie@stern.nyu.edu.

Sincerely,

SCOTT GALLOWAY

Clinical Associate Professor
of Marketing, NYU Stern

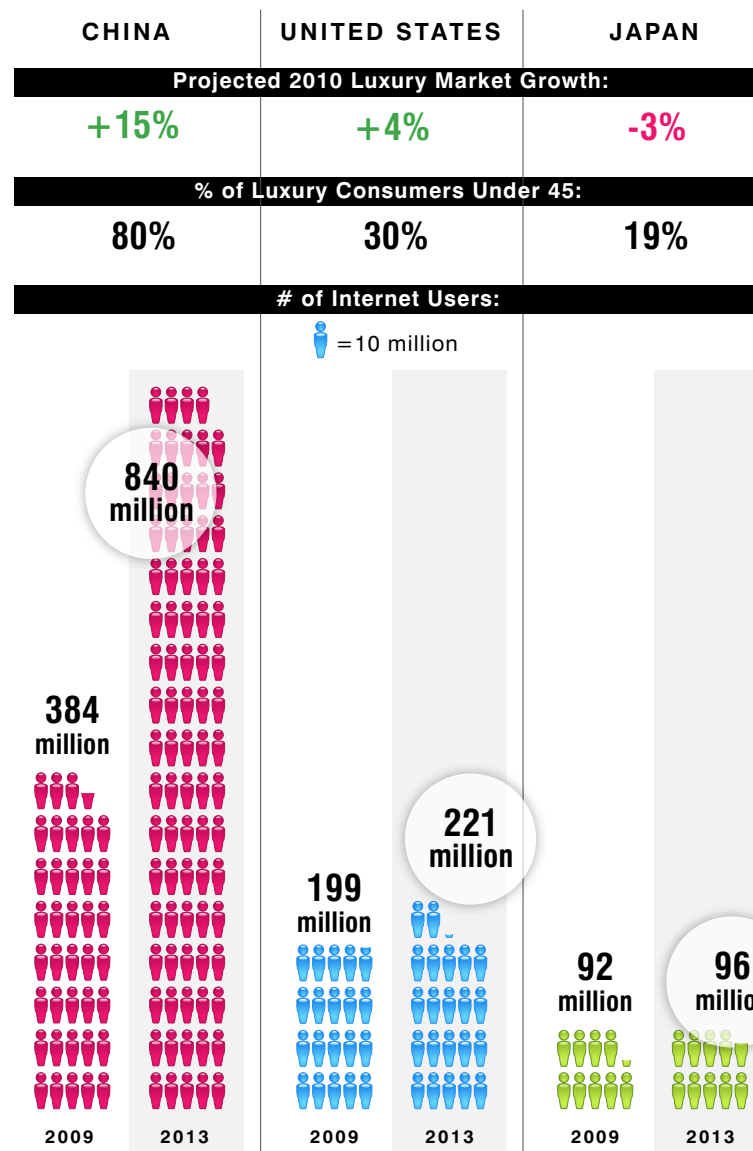
Founder, L2

DOUG GUTHRIE

Professor of Management,
NYU Stern

Incoming Dean,
GW Business School

ADDRESSABLE MARKET FOR PRESTIGE BRANDS ONLINE Comparing the World's Three Largest Markets



Sources: "Luxury Goods Worldwide Market Study: Spring 2010 Update", Bain & Company, April 2010;
"The Coming of Age: China's New Class of Wealthy Consumers", McKinsey & Company, 2009;
eMarketer, December 2009

METHODOLOGY

Site - 40%: Effectiveness of a brand's site. Half of the score is based on brand translation elements and the other half reflects content functionality and customer service on the site.

- **Brand Translation**
 - Aesthetics
 - Messaging & Interactivity
 - Chinese Relevance
- **Functionality & Content**
 - Host Location
 - Localized Content, Products, & Promotions
 - Customer Service Availability
 - E-commerce

Search Engine Optimization - 25%: Site traffic and visibility of brand on popular search engines.

- **Traffic to Chinese Site**
- **Traffic from China to Global Site**
- **Organic Visibility on Baidu & Google**

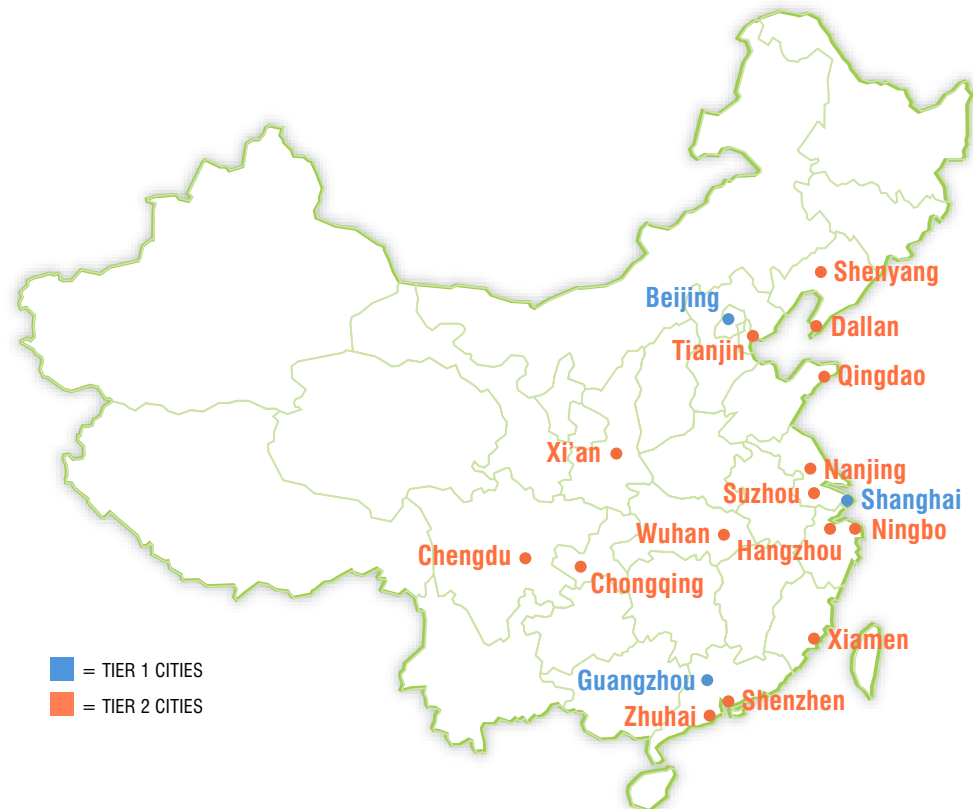
Social Media - 20%: Brand presence, following, content and influence on major SNS (Social Network Service) platforms.

- RenRen
- Qzone
- Youku
- Kaixin001

Digital Marketing - 15%: Off-site brand presence and marketing efforts.

- **Activity on BBS (Bulletin Board System) Sites**
- **Mobile (Compatibility and Applications)**
- **Email Marketing**
- **Brand Blogs & Microsites**

KEY TIER 1 & TIER 2 CITIES IN CHINA



DIGITAL IQ RANKING

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class	Description
1	LANCÔME	Beauty & Skincare	1	167	Genius	Search-optimized site delivers on sales and local relevance; manages brand community four million subscribers strong
2	BMW	Automobiles	1	157	Genius	Strong presence across SNS and BBS sites; online owners' club connects brand evangelists
2	ESTÉE LAUDER	Beauty & Skincare	2	157	Genius	Site features Chinese celebrities and local products
4	AUDI	Automobiles	2	150	Genius	Brand presence is strong in social media; one of three auto brands that maintains active social forums
5	CLINIQUE	Beauty & Skincare	3	146	Genius	Impressive site platform; could do better tapping potential of the social web
6	MERCEDES-BENZ	Automobiles	3	138	Gifted	Ranks highest in social media; cleverly designed an online ad for its new model, which was launched on the day of eclipse in China
7	CLARINS	Beauty & Skincare	4	137	Gifted	Content is tailored to local consumers; maintains brand blog
8	ACURA	Automobiles	4	130	Gifted	Strongest site ranking in category, but falls short of peers in social media and digital marketing
9	CADILLAC	Automobiles	5	124	Gifted	Site platform delivers, but brand lags in social media
10	WULIANGYE	Spirits & Champagne	1	121	Gifted	Only Chinese brand to break into the top 10; strong site traffic and consumer relevance
11	LEXUS	Automobiles	6	119	Gifted	Functional site that is tailored for Chinese consumers
12	LAND ROVER	Automobiles	7	118	Gifted	Strong digital presence, but can't compete with site traffic of others in category
12	INFINITI	Automobiles	8	118	Gifted	One of the few auto brands that does not offer email opt-in
14	MOUTAI	Spirits & Champagne	2	115	Gifted	Chinese liquor brand is only in category to sell online
15	CARTIER	Watches & Jewelry	1	114	Gifted	Although brand dominates jewelry buzz, site is poorly translated and boutique locations are in English
16	PORSCHE	Automobiles	9	113	Gifted	Automaker maintains a BBS forum for fans, but IQ is hindered by limited traffic
17	HERBORIST	Beauty & Skincare	5	112	Gifted	Local beauty leader keeps pace with global competitors by virtue of strong e-commerce site

DIGITAL IQ RANKING

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class	Description
18	CHRISTIAN DIOR	Beauty & Skincare	6	109	Average	Brand supports limited local content beyond recent long-form video set in Shanghai but in English
19	LOUIS VUITTON	Fashion	1	108	Average	Best in class in lagging Fashion category
19	TIFFANY	Watches & Jewelry	2	108	Average	Tops category in search, but limited social media presence prevents brand from entering Gifted ranks
19	LUK FOOK	Watches & Jewelry	3	108	Average	Hong Kong jeweler is the only brand in category to transact online
22	SHANGHAI TANG	Fashion	2	107	Average	Recently launched iPhone application highlights facets of contemporary Shanghai lifestyle
23	CHRISTIAN DIOR	Fashion	3	105	Average	Generates a lot of mentions in social media, but lacks commerce orientation of more gifted peers
24	OMEGA	Watches & Jewelry	4	103	Average	Watchmaker boasts top site scores in category; uses a mix of Chinese and global celebrities to build brand online
25	SWAROVSKI	Watches & Jewelry	5	102	Average	Strong product-oriented site, but does not transact
25	SHISEIDO	Beauty & Skincare	7	102	Average	Asian roots and skin care technology resonate; brand tops category in social media
27	GUCCI	Fashion	4	101	Average	Site visibility and high traffic give brand an SEO boost
28	ROLEX	Watches & Jewelry	6	99	Average	Renowned watch brand's site underperforms but rest of category can't compete with its social buzz
28	CHANEL	Fashion	5	99	Average	One of the most talked about brands in fashion in China gets big SNS boost
30	CHIVAS REGAL	Spirits & Champagne	3	98	Average	Established a virtual band to publicize the spirit of the brand
31	YUE-SAI	Beauty & Skincare	8	96	Average	Brand features a popular Chinese model on its site in an effort to appeal to a younger demographic
31	LONGINES	Watches & Jewelry	7	96	Average	Mobile compatibility, iPhone app, and email opt-in allow brand to lead digital marketing efforts in challenged category
33	LA MER	Beauty & Skincare	9	95	Average	Brand is all over SEO and SEM; site comes up first across the board
33	TAG HEUER	Watches & Jewelry	8	95	Average	Site features local celebrities, but loses points for poor product search

DIGITAL IQ RANKING

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class	Description
35	COACH	Fashion	6	94	Average	Brand is taking strides and advertising Shanghai store opening; comparison of 5th Avenue and Huai Hai Road resonates
36	RÉMY MARTIN	Spirits & Champagne	4	91	Average	One of the few Western brands to compete for buzz with local liquor leaders
37	GUERLAIN	Beauty & Skincare	10	90	Average	Despite lack of e-commerce, the brand highlights products that are locally relevant
38	L'OCCITANE	Beauty & Skincare	11	89	Challenged	Loses points for limited video content on Youku
39	SK-II	Beauty & Skincare	12	87	Challenged	Beauty brand is hampered by poor visibility on search
40	FERRARI	Automobiles	10	86	Challenged	The household name in auto has significant social media presence and a strong site
41	BALENCIAGA	Fashion	7	85	Challenged	Digitally on par with much larger competitors due to strong SEO
41	BURBERRY	Fashion	7	85	Challenged	British digital darling doesn't resonate on Chinese social media sites
43	HERMÈS	Fashion	9	84	Challenged	Site lacks information tailored to local consumer, but brand generates great buzz
44	PORTS 1961	Fashion	10	82	Challenged	Early mover in China with strong e-commerce presence, but can't compete on social media buzz
45	ALFRED DUNHILL	Fashion	11	78	Challenged	Digital efforts are not on par with aggressive retail strategy
46	HENNESSY	Spirits & Champagne	5	76	Challenged	Brand has generated online buzz through China launch of Hennessy Classivm
47	VAN CLEEF & ARPELS	Watches & Jewelry	9	75	Challenged	Popularity online hampered by recent entry into Chinese market, but brand gets boost from local brand spokesperson Zhang Ziyi
48	SWELLFUN	Spirits & Champagne	6	73	Challenged	Local brand has a basic site and weak digital marketing efforts
49	FERRAGAMO	Fashion	12	72	Challenged	A small brand struggling to be more visible in the social media sphere
49	LACOSTE	Fashion	13	72	Challenged	More popular among older customers, which explains the low mentions in social media
49	PIAGET	Watches & Jewelry	10	72	Challenged	Site mixes Chinese and English text with little integration

DIGITAL IQ RANKING

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class	Description
52	VACHERON CONSTANTIN	Watches & Jewelry	11	69	Feeble	More than 35 percent of site traffic originates in China, but still doesn't offer an email opt-in
53	NE.TIGER	Fashion	14	68	Feeble	A luxury brand in the making, but struggles to compete with global fashion houses online
53	MONTBLANC	Watches & Jewelry	12	68	Feeble	Site does a poor job of relating to local culture; some parts in English and not integrated
53	MOVADO	Watches & Jewelry	13	68	Feeble	Limited social media mentions indicates low popularity
53	BENTLEY	Automobiles	11	68	Feeble	One of three automakers that fails to host a Chinese site, but does make Chinese dealer information available
57	ROLLS-ROYCE	Automobiles	12	67	Feeble	Site is not available in Chinese but gets slight boost from mobile compatibility
57	RALPH LAUREN	Fashion	15	67	Feeble	U.S. digital Genius struggles in China
59	ERMEGILDO ZEGNA	Fashion	16	66	Feeble	Site loses points for haphazard translation
59	JAEGER-LECOULTRE	Watches & Jewelry	14	66	Feeble	Digital IQ is stifled by poor search visibility
59	HUBLOT	Watches & Jewelry	15	66	Feeble	Brand is trying, featuring brand ambassador Fan Bing Bing at recent event and on its site
62	PRADA	Fashion	17	65	Feeble	Although Italian fashion house lacks Chinese site, its SNS popularity is second only to Chanel and Louis Vuitton in category
63	BALLANTINE'S	Spirits & Champagne	7	64	Feeble	Site load time is a hindrance
63	HUGO BOSS	Fashion	18	64	Feeble	Brand gets boost from iPhone app and mobile site, although both are in English
65	BACCARAT	Watches & Jewelry	16	63	Feeble	Poor language translation; most products fail to incorporate proper Chinese names
65	LAMBORGHINI	Automobiles	13	63	Feeble	The Italian carmaker extends little effort online, but brand still resonates with SNS users
65	VERSACE	Fashion	19	63	Feeble	Good brand presence on SNS despite the lack of a Chinese language site
68	PATEK PHILIPPE	Watches & Jewelry	17	62	Feeble	Few customer service options on site

DIGITAL IQ RANKING

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class	Description
68	RAYMOND WEIL	Watches & Jewelry	17	62	Feeble	Despite its recent brick-and-mortar retail expansion, digital lags
70	QEELIN	Watches & Jewelry	19	61	Feeble	A Hong Kong brand launched in Paris; good site, but limited social media presence
70	DOLCE & GABBANA	Fashion	20	61	Feeble	Although the site presents a Chinese language option, everything still reads in English
70	BENEFIT	Beauty & Skincare	13	61	Feeble	Lack of a Chinese language option prevents this LVMH brand from keeping pace with peers in Beauty
73	JOHNNIE WALKER	Spirits & Champagne	8	60	Feeble	Almost 10 percent of site traffic originates in China, but the brand lacks search engine visibility
73	HARRY WINSTON	Watches & Jewelry	20	60	Feeble	Despite this jeweler's significant history in China, few mentions in social media
73	FENDI	Fashion	21	60	Feeble	More than 20 percent of site traffic originates in China, but brand does not have Chinese language version
73	BULGARI	Watches & Jewelry	22	60	Feeble	Significant buzz for category—particularly on RenRen—but site disappoints
77	BULOVA	Watches & Jewelry	22	59	Feeble	Chinese site fails to reflect luxury positioning
77	IWC	Watches & Jewelry	23	59	Feeble	Chinese site appears to be a direct translation of the English version
79	GIORGIO ARMANI	Fashion	22	58	Feeble	Weak site that uses only Western models
79	LOUIS XIII	Spirits & Champagne	9	58	Feeble	Lacks basic elements including email opt-in
81	DEBEERS	Watches & Jewelry	24	57	Feeble	Very little social media buzz and a poor site lowers the score
81	DAVID YURMAN	Watches & Jewelry	24	57	Feeble	Limited buzz hampers IQ, but easily navigable site stands out despite limited translated elements
83	BALLY	Fashion	23	51	Feeble	Mediocre site with a haphazard blend of Chinese and English
84	GIVENCHY	Fashion	24	48	Feeble	Buzz is on par with much larger brands, but site efforts are the most limited in the category
85	VALENTINO	Fashion	25	47	Feeble	No Chinese adaptation of site; limited presence on SNS sites

DIGITAL IQ RANKING

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class	Description
85	DEWAR'S	Spirits & Champagne	10	47	Feeble	One of the least-known brands in category; online efforts suffer
87	MARC JACOBS	Fashion	26	46	Feeble	Brand SNS popularity lags behind; no Chinese site
88	GRAFF	Watches & Jewelry	26	44	Feeble	Recently opened first store in China; online customer service is limited to U.S. and U.K.
88	YVES SAINT LAURENT	Fashion	27	44	Feeble	Poor site without any Chinese adaptation
90	AUDEMARS PIGUET	Watches & Jewelry	27	43	Feeble	Recently started a China tour for its 135th anniversary; however, social buzz is still low for the brand
91	ROYAL SALUTE	Spirits & Champagne	11	42	Feeble	Although brand maintains Chinese language version, site suffers from limited traffic
92	PERRIER-JOUËT	Spirits & Champagne	12	41	Feeble	Like others in category, no Chinese language site
93	BOTTEGA VENETA	Fashion	28	39	Luddite	Despite providing users with a China option, no Chinese language version of site is available
94	MOËT & CHANDON	Spirits & Champagne	13	34	Luddite	Gets slight edge over competitors from significant traffic
94	CHOPARD	Watches & Jewelry	28	34	Luddite	Jeweler is virtually invisible on Baidu; no Chinese language site
96	SHANGHAI WHITE	Spirits & Champagne	14	32	Luddite	Local Diageo launch has generated few mentions in social media
97	PIPER-HEIDSIECK	Spirits & Champagne	15	30	Luddite	Though site lacks Chinese language, aesthetics still resonate with local audience
98	VEUVE CLICQUOT	Spirits & Champagne	16	28	Luddite	Lack of Chinese site and low popularity hampers IQ
99	DOM PÉRIGNON	Spirits & Champagne	17	23	Luddite	Brand has virtually ignored digital media in China
100	FRANCK MULLER	Watches & Jewelry	29	21	Luddite	No Chinese site and lowest social media mentions of any brand in the study

KEY FINDINGS

Selling Is Knowing

Although the size of the e-commerce market in China quadrupled from 2006 to 2009¹, only ten of the 100 prestige brands in our study offer online transactions.

On average, brands that sell boast Digital IQs 50 points higher than brands that do not embrace e-commerce, suggesting that e-commerce boosts innovation and investment across Site Platform, Search, Digital Marketing, and Social Media.

The Beauty & Skincare category is a leader in e-commerce, with six of 13 brands selling online. The only foreign brand to sell online outside of Beauty is Fashion brand and China first-mover Ports 1961.

Big Winners

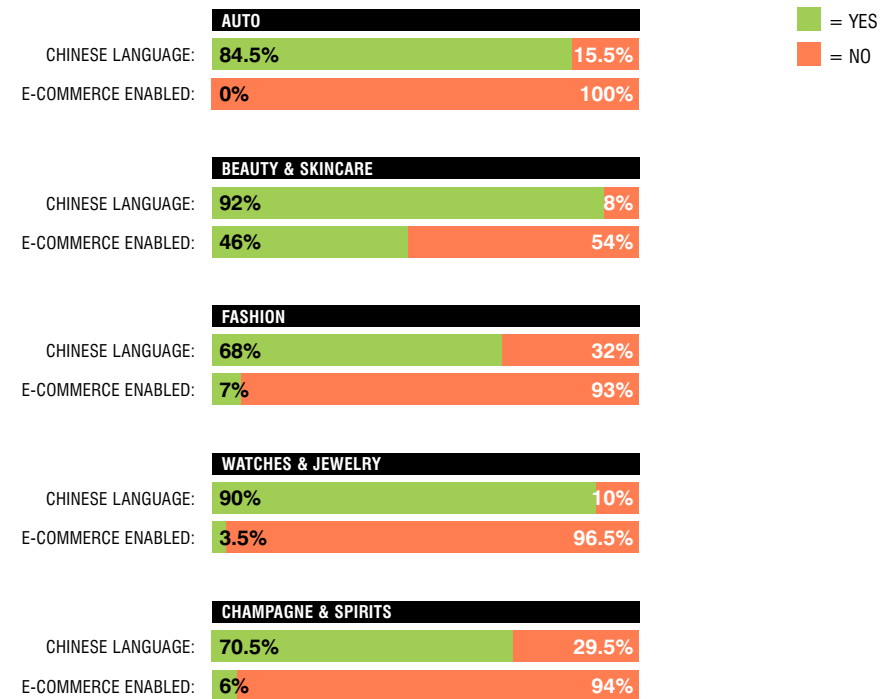
Unlike more mature markets where prestige brands are clustered together in a digital arms race, digital Geniuses in China are pulling away from the pack. Brands in the Genius category boast Digital IQs nearly double the average of the rest of the pack and are growing online communities, transactions, and goodwill.

Meanwhile, the 63 percent of brands ranked Challenged and below are barely out of digital diapers. Of these brands, 64 percent lack no-brainer functionality including a store locator. Over half do not offer users the opportunity to sign up for email.

¹ iResearch, February 2009

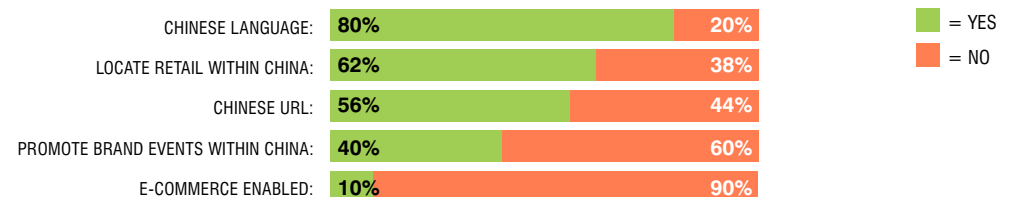
DIGITAL ADOPTION BY CATEGORY

% of brand sites per category with the following attributes:



SITE SOPHISTICATION

% of brand sites with the following attributes:



KEY FINDINGS

Social Mania

Although many prestige brands are eliciting thousands of user-generated comments, video uploads, blog posts, and photos on popular SNS sites RenRen, Qzone, Kaixin001, and YouKu, very few are interacting directly with consumers on these sites. Even user-generated content suggests a dearth of localized Chinese digital assets, and more than 50 percent of the estimated 125,000 videos uploaded to YouKu are in English.

Some digitally savvy brands are beginning to engage directly with users on SNS platforms. Mercedes-Benz, Audi, and BMW host contests on RenRen, while Dior has a page on Qzone. Digital Genius Lancôme boasts an official group on Kaixin001 with more than 250,000 members. Johnnie Walker also hosts a group on the platform.



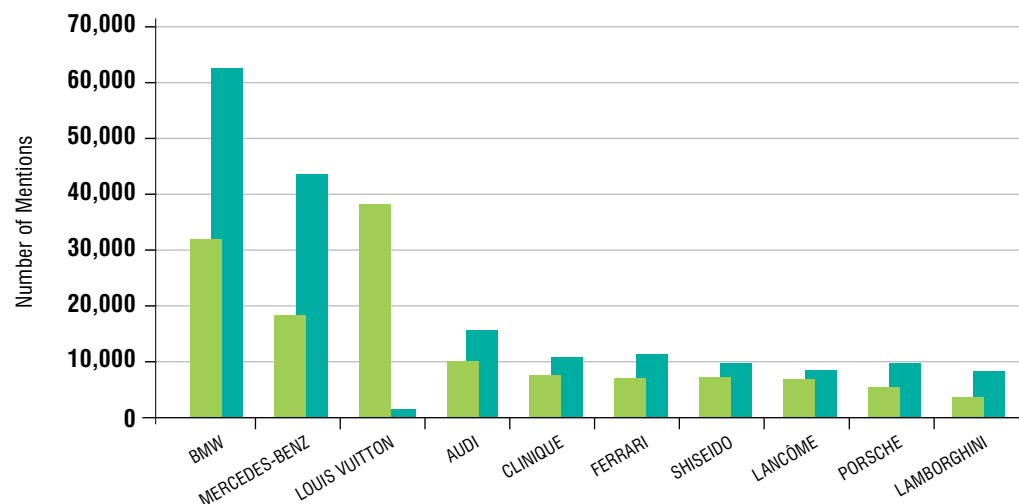
Dior beauty page on SNS site Qzone.

SOCIAL MEDIA BRAND BUZZ: RENREN

Prestige Brands with the Most Mentions

(May 2010)

■ = IN ENGLISH
■ = IN CHINESE

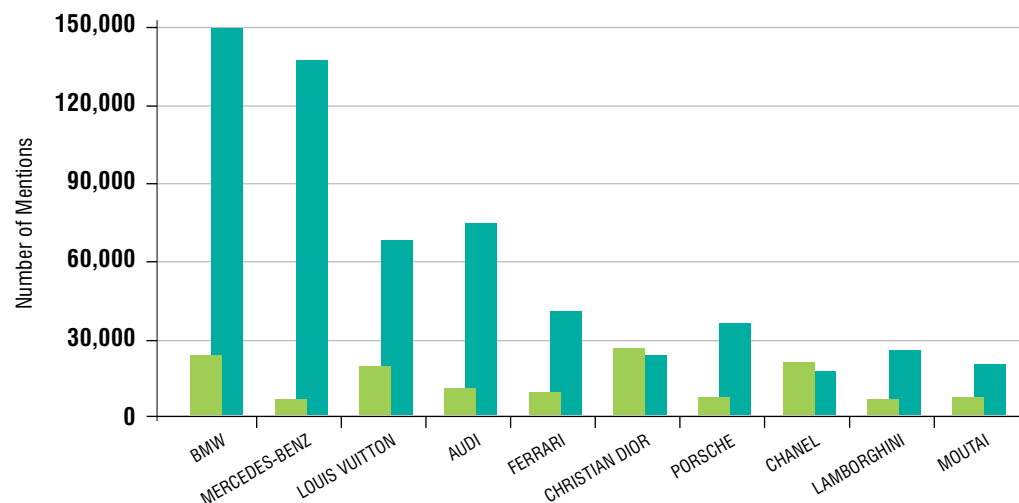


SOCIAL MEDIA BRAND BUZZ: QZONE

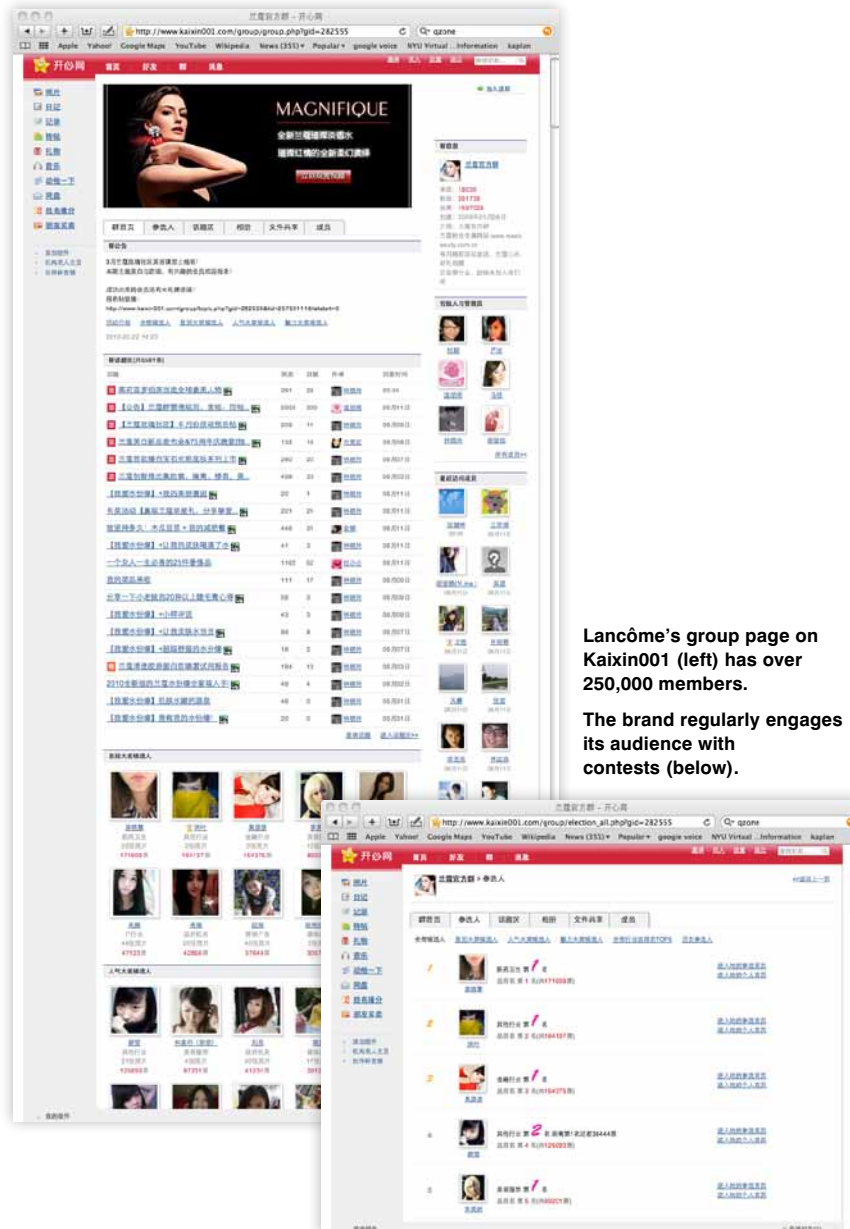
Prestige Brands with the Most Mentions

(May 2010)

■ = IN ENGLISH
■ = IN CHINESE



KEY FINDINGS



Lancôme's group page on Kaixin001 (left) has over 250,000 members.

The brand regularly engages its audience with contests (below).



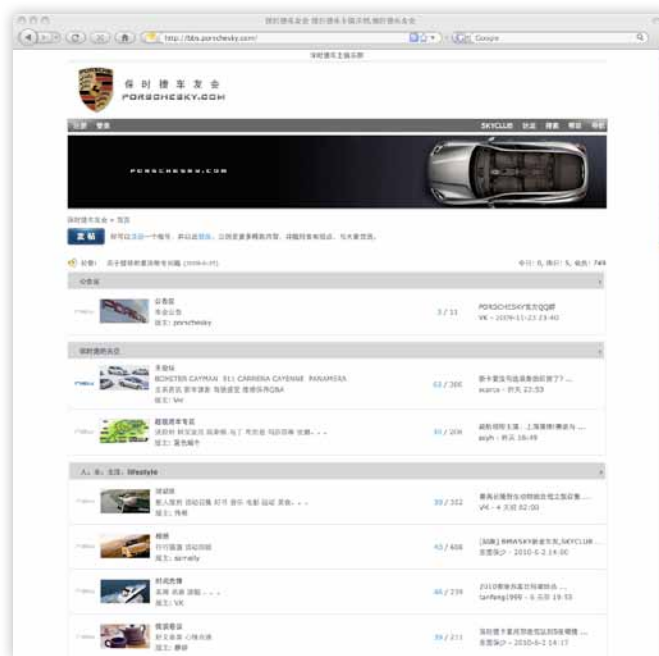
Mercedes-Benz fan page on RenRen.

KEY FINDINGS

Mighty Microsites

Four of the brands in the study have invested in branded 2.0 communities. Digital Genius Lancôme launched an online community, Rose Beauty, in 2006 and claims four million subscribers. Estée Lauder and Clarins also host branded beauty communities.

In Automobiles, BMW has created a community for the estimated 150,000 BMW drivers in China through its MyBMWClub.cn site. Meanwhile, Audi, Mercedes-Benz, and Porsche have created simple-interface BBS sites to help facilitate discussions with brand evangelists.



Porsche's BBS site:
bbs.porschesky.com



Estée Lauder's branded community site:
www.el-lady.com.cn



Lancôme's Rose Beauty online community site, which has over four million subscribers:
www.rosebeauty.com.cn

KEY FINDINGS

Google: A Distant Second

While homegrown search engine Baidu boasts 62 percent market share in China¹, only 39 percent of prestige brands come up first in its organic search results when searching for the English brand name. Meanwhile, 94 percent of brand sites come up first on Google.cn, which recently exited China, suggesting that brands approach search visibility with a Google-centric mentality that fails to recognize the Baidu algorithm and local nuances. Chinese brand name visibility is very poor, and approximately 30 percent of brand sites are not returned among the top three results on either search engine for Chinese brand name searches, indicating the difficulties of brand name translation for many multinational brands.

Mobile: Can You Hear Me Now?

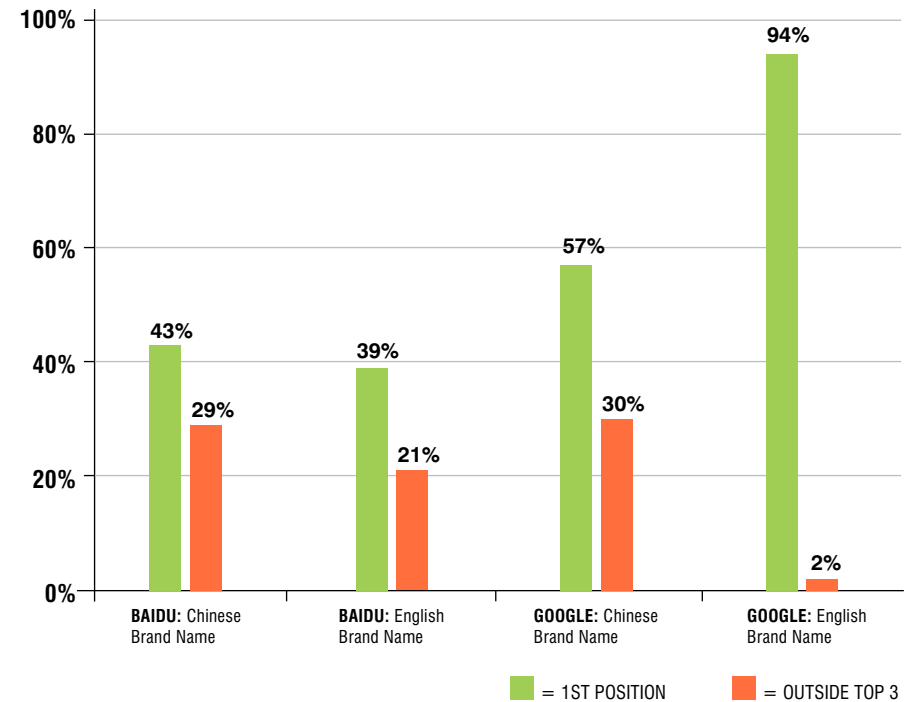
There are an estimated 745 million mobile phone subscribers in China², and more than one quarter of mobile users access the internet through their phones³, but only 42 percent of brands have mobile-enabled sites. Because China has considerably lower in-home internet penetration than most developed nations, and many Chinese consumers move directly from no internet to mobile internet, it is imperative for luxury brands to develop a mobile strategy. Hong Kong brand Shanghai Tang is one of the first luxury brands to incorporate a Chinese language iPhone application. Launched in April 2010, the app gives users a taste of Shanghai.

¹ "China Online", eMarketer, December 2010

² Ministry of the Information Industry, People's Republic of China, August 2009

³ "Global Device Insight Report", Nielsen, October 2009

SEARCH RESULTS FOR BRAND NAMES
Position of Brand Sites in Search Results



Shanghai Tang's
"City Chic" iPhone app,
available in Chinese
and English



KEY FINDINGS

Local Learning?

Brands of Chinese or Hong Kong origin outperform their global luxury peers by an average of 11 IQ points. Several local brands are also early movers: Chinese liquor brand Moutai and Hong Kong jeweler Luk Fook are the only brands in their categories to transact online. Chinese Beauty & Skincare upstart Herborist and Hong Kong fashion house Shanghai Tang also boast e-commerce capability. In general, local brands struggle to match the buzz of foreign competitors in Social Media and are not as visible to search engines. However, local brands still achieve Site scores 50 percent higher than their foreign peers.



Brand site for
Chinese liquor
brand Moutai:
moutaichina.com



Hong Kong
jeweler Luk Fook:
lukfook.com.hk



Hong Kong fashion retailer Shanghai Tang's
e-commerce-enabled site:
shanghaitang.com



E-commerce site for Chinese
Beauty & Skincare brand
Herborist:
www.herborist.com.cn

KEY FINDINGS

IQ Correlation

Fifty-nine percent of the luxury brands in the China Digital IQ study were also measured in our September 2009 *L2 Luxury Digital IQ Index* focused on the U.S. market. Brands measured in both indexes demonstrated a correlation of 0.58 between their Chinese Digital IQ and their U.S. Digital IQ, suggesting that digital capability is being leveraged across geographies.

Beauty brands Lancôme, Clarins, and Estée Lauder showed the greatest positive disparity between Chinese and U.S. Digital IQ, suggesting they recognize the scale of the opportunity in China. Meanwhile, champagne brands Veuve Clicquot, Moët & Chandon, and Dom Pérignon demonstrate the largest negative disparity. None support a Chinese language version of their brand site.

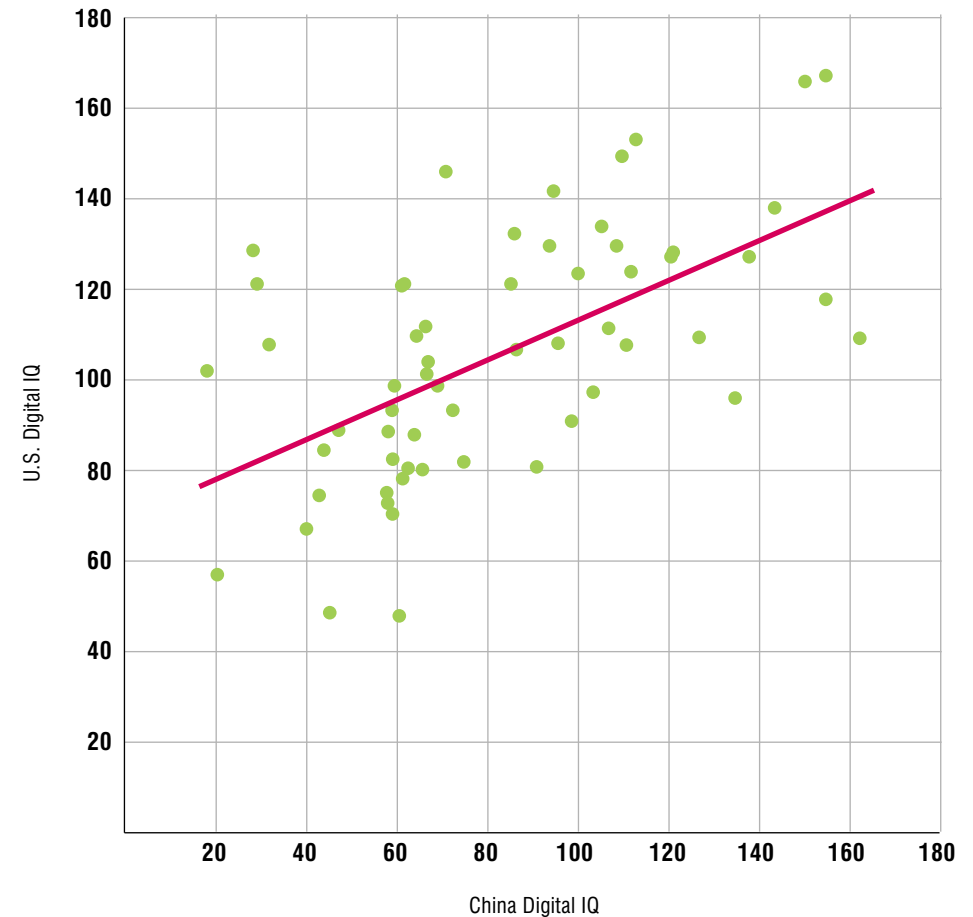
LOOKING GOOD IN CHINA

Brand	China Digital IQ	U.S. Digital IQ	Difference
LANCÔME	162	109	+53
CLARINS	134	96	+38
ESTÉE LAUDER	155	117	+38

NOT SO BUBBLY

Brand	China Digital IQ	U.S. Digital IQ	Difference
VEUVE CLICQUOT	28	128	-100
MOËT & CHANDON	29	121	-92
DOM PÉRIGNON	18	102	-84

DIGITAL IQ CORRELATION:
China & U.S. Scores



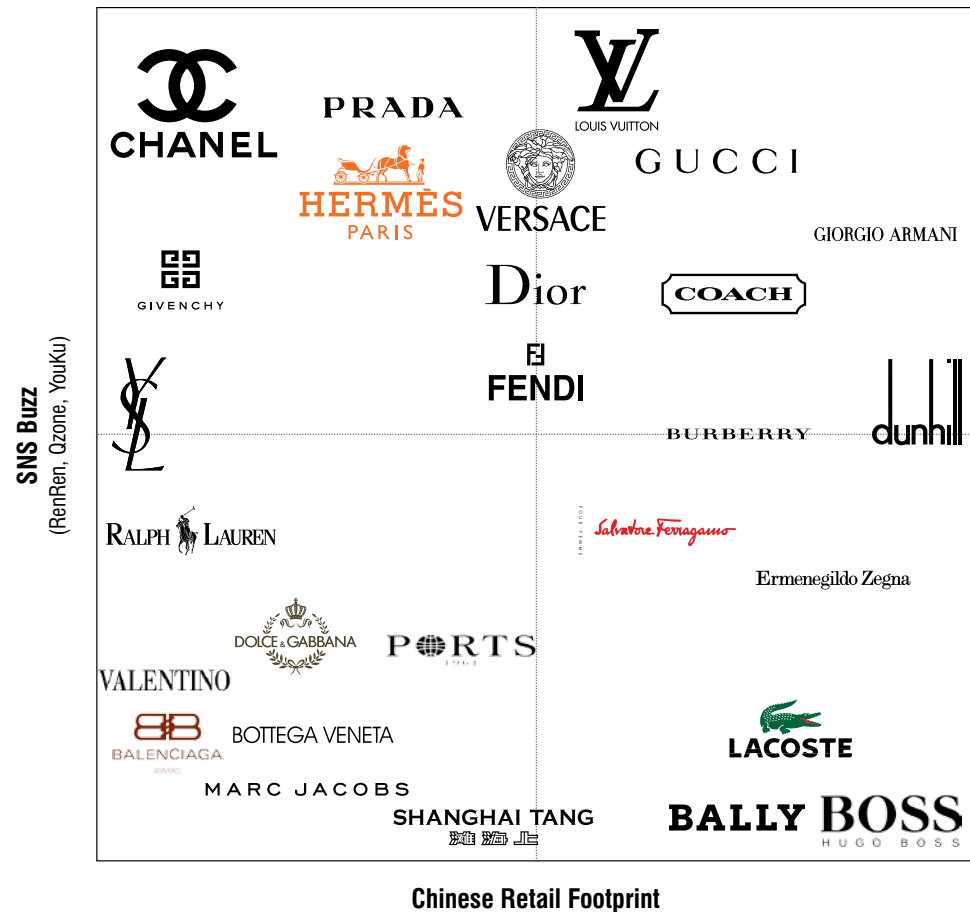
KEY FINDINGS

Brick and Mortar \neq Brand Equity

A close look at the 28 fashion brands in the study suggests that dramatic retail expansion may not offer the brand equity bump brands have experienced in other markets. A comparison of the retail footprint (number of stores and geographic reach) against the number of user-generated comments on social networking sites RenRen, Qzone, and YouKu (proxy for brand awareness) demonstrates no correlation.

Brands like Hugo Boss, Ferragamo, and Ermenegildo Zegna have pursued aggressive retail expansion strategies, including building stores outside of Tier 1 cities, but generate limited buzz online. Meanwhile brands like Chanel, Givenchy, and Yves Saint Laurent have a limited retail presence on the Chinese mainland but generate substantial fan discussion on popular social networking sites.

RETAIL FOOTPRINT VERSUS SOCIAL BUZZ



10 COMMANDMENTS FOR COMMERCE IN CHINA

1. Politics

Politics and politicians matter as much as they did 15 years ago, but for different reasons. The Chinese government is no longer a haven for corrupt officials. The new generation of technocrats generally plays by the rules. They are smart, strategic, often well trained in economics and business, and want China to “win.”

2. Institutions

Institutions matter more than culture. The majority of business literature on China—from academic books to airport best sellers—paints China as a radically different culture. In reality, it is more similar to the West than Japan.

The impenetrable part of doing business in China is the opacity of the institutions. China is a market economy under construction, and the government (at national, provincial, and municipal levels) is constantly adding new rules and systems. Understanding these new institutions is the most challenging part of competing in China's economy. Prestige executives learned this lesson the hard way in March 2010, when officials at the Ministry of Tourism and Commerce in the wealthy Zhejiang province rejected imported goods from several brands including Hermès, Dolce & Gabbana, and Versace for “quality concerns.”

3. Lawyers, Not Relationship Managers

Since the early 1980s, a cottage industry has emerged selling advice on brokering relationships. This is a waste of money, and these charlatans are selling something that is no

longer necessary. Corporations tend to obsess over the relationships at the expense of the understanding the institutions.

Money is better spent on lawyers and accountants who comprehend the complexity and nuances of the rapidly changing business environment.

4. Localism

Local development means local opportunity. China is an exceptionally diverse, decentralized, and fractured market. Many companies mistakenly think that China is one market. Beijing, Shanghai, Dalian, Suzhou, and Chengdu all present different challenges. As prestige brands focus on expanding their marketing and retail presence in Tier 2 and Tier 3 cities to tap into fresh sources of wealth, a one-size-fits all approach is less likely to succeed.

5. Entrepreneurial Local Governments Are an Opportunity

Get out of Shanghai and Beijing. These cities are crowded with competition, and the governments lack an entrepreneurial mindset. In contrast, Tier 2 cities have embraced economic reform and are more flexible and eager regarding foreign direct investment. The Suzhou government's joint venture with Singapore to create the Singapore-Suzhou Industrial Park and Chengdu's bid to woo Intel away from Shanghai illustrate that entrepreneurial local governments create opportunities for corporations that are willing to look farther afield for upside.

10 COMMANDMENTS FOR COMMERCE IN CHINA

6. Local Competition

Homegrown competition is a threat and an opportunity.

Too often, local players are not taken seriously. This view is out of date. Haier, Huawei, Jili, and Baidu are all emerging domestic brands that are outperforming their international counterparts.

Not a single global Internet commerce or media leader (e.g., Google, Ebay, Yahoo!, Amazon, etc.) **has a leadership position in China.** Forging alliances with dynamic local brands provides opportunities for companies that appreciate the strengths of these growing Chinese powerhouses. Even the luxury industry, where demand is often thought to be dependent on the virtue of foreign appeal, faces competition from local players.

7. Understand Digital, Chinese-Style

China has a frenzied digital scene, but it is very local.

Google never understood this. Baidu has established leadership with a much more Chinese brand than Google.cn ever aspired to be. Although Chinese consumers love foreign brands, in the digital space they will opt for interfaces that cater to local tastes. Partnering with Chinese technology firms, agencies, and vendors is key to recognizing the digital opportunity.

8. Process Innovation

China's inability to develop a native tech powerhouse is often cited as evidence of a lack of innovation. This view defines innovation too narrowly. China's strength lies in process innovation. Companies like Pepsi and IBM have benefitted from the process innovation absorbed from their China operations.

9. Leadership

Invest in human capital. The leadership vacuum is a problem for all companies, domestic and foreign alike, particularly in the prestige industry, which lacks qualified sales associates. A reputation for investing in local talent is a self-fulfilling prophecy.

10. Locate Near Universities

The human capital problem in China is a real one.

One way savvy multinationals address the issue is to locate near universities. There are several pockets of higher education that serve as breeding grounds for eager talent.

RANKINGS BY CATEGORY

AUTOMOBILES

Category Rank	Brand	Overall Rank	Digital IQ	Class
1	BMW	2	157	Genius
2	AUDI	4	150	Genius
3	MERCEDES-BENZ	6	138	Gifted
4	ACURA	8	130	Gifted
5	CADILLAC	9	124	Gifted
6	LEXUS	11	119	Gifted
7	LAND ROVER	12	118	Gifted
8	INFINITI	12	118	Gifted
9	PORSCHE	16	113	Gifted
10	FERRARI	40	86	Challenged
11	BENTLEY	53	68	Feeble
12	ROLLS-ROYCE	57	67	Feeble
13	LAMBORGHINI	65	63	Feeble

BEAUTY & SKINCARE

Category Rank	Brand	Overall Rank	Digital IQ	Class
1	LANCÔME	1	167	Genius
2	ESTÉE LAUDER	2	157	Genius
3	CLINIQUE	5	146	Genius
4	CLARINS	7	137	Gifted
5	HERBORIST	17	112	Gifted
6	CHRISTIAN DIOR	18	109	Average
7	SHISEIDO	25	102	Average
8	YUE-SAI	31	96	Average
9	LA MER	33	95	Average
10	GUERLAIN	37	90	Average
11	L'OCCITANE	38	89	Challenged
12	SK-II	39	87	Challenged
13	BENEFIT	70	61	Feeble

RANKINGS BY CATEGORY

FASHION									
Category Rank	Brand	Overall Rank	Digital IQ	Class	Category Rank	Brand	Overall Rank	Digital IQ	Class
1	LOUIS VUITTON	19	108	Average	15	RALPH LAUREN	57	67	Feeble
2	SHANGHAI TANG	22	107	Average	16	ERMELEGILDO ZEGNA	59	66	Feeble
3	CHRISTIAN DIOR	23	105	Average	17	PRADA	62	65	Feeble
4	GUCCI	27	101	Average	18	HUGO BOSS	63	64	Feeble
5	CHANEL	28	99	Average	19	VERSACE	65	63	Feeble
6	COACH	35	94	Average	20	DOLCE & GABBANA	70	61	Feeble
7	BALENCIAGA	41	85	Challenged	21	FENDI	73	60	Feeble
7	BURBERRY	41	85	Challenged	22	GIORGIO ARMANI	79	58	Feeble
9	HERMÈS	43	84	Challenged	23	BALLY	83	51	Feeble
10	PORTS 1961	44	82	Challenged	24	GIVENCHY	84	48	Feeble
11	ALFRED DUNHILL	45	78	Challenged	25	VALENTINO	85	47	Feeble
12	FERRAGAMO	49	72	Challenged	26	MARC JACOBS	87	46	Feeble
13	LACOSTE	49	72	Challenged	27	YVES SAINT LAURENT	88	44	Feeble
14	NE.TIGER	53	68	Feeble	28	BOTTEGA VENETA	93	39	Luddite

RANKINGS BY CATEGORY

WATCHES & JEWELRY

Category Rank	Brand	Overall Rank	Digital IQ	Class	Category Rank	Brand	Overall Rank	Digital IQ	Class
1	CARTIER	15	114	Gifted	16	BACCARAT	65	63	Feeble
2	TIFFANY	19	108	Average	17	PATEK PHILIPPE	68	62	Feeble
3	LUK FOOK	19	108	Average	17	RAYMOND WEIL	68	62	Feeble
4	OMEGA	24	103	Average	19	QEELIN	70	61	Feeble
5	SWAROVSKI	25	102	Average	20	HARRY WINSTON	73	60	Feeble
6	ROLEX	28	99	Average	22	BULGARI	73	60	Feeble
7	LONGINES	31	96	Average	22	BULOVA	77	59	Feeble
8	TAG HEUER	33	95	Average	23	IWC	77	59	Feeble
9	VAN CLEEF & ARPELS	47	75	Challenged	24	DEBEERS	81	57	Feeble
10	PIAGET	49	72	Challenged	24	DAVID YURMAN	81	57	Feeble
11	VACHERON CONSTANTIN	52	69	Feeble	26	GRAFF	88	44	Feeble
12	MONTBLANC	53	68	Feeble	27	AUDEMARS PIGUET	90	43	Feeble
13	MOVADO	53	68	Feeble	28	CHOPARD	94	34	Luddite
14	JAEGER-LECOULTRE	59	66	Feeble	29	FRANCK MULLER	100	21	Luddite
15	HUBLLOT	59	66	Feeble					

RANKINGS BY CATEGORY

CHAMPAGNE & SPIRITS				
Category Rank	Brand	Overall Rank	Digital IQ	Class
1	WULIANGYE	10	121	Gifted
2	MOUTAI	14	115	Gifted
3	CHIVAS REGAL	30	98	Average
4	RÉMY MARTIN	36	91	Average
5	HENNESSY	46	76	Challenged
6	SWELLFUN	48	73	Challenged
7	BALLANTINE'S	63	64	Feeble
8	JOHNNIE WALKER	73	60	Feeble
9	LOUIS XIII	79	58	Feeble
10	DEWAR'S	85	47	Feeble
11	ROYAL SALUTE	91	42	Feeble
12	PERRIER-JOUËT	92	41	Feeble
13	MOËT & CHANDON	94	34	Luddite
14	SHANGHAI WHITE	96	32	Luddite
15	PIPER-HEIDSIECK	97	30	Luddite
16	VEUVE CLICQUOT	98	28	Luddite
17	DOM PÉRIGNON	99	23	Luddite

TEAM

SCOTT GALLOWAY

*Clinical Associate Professor of Marketing, NYU Stern
Founder, L2*

Scott is a Clinical Associate Professor at the NYU Stern School of Business where he teaches brand strategy and luxury marketing and is the founder of L2, a think tank for prestige brands. Scott is also the founder of Firebrand Partners, an operational activist firm that has invested more than \$1 billion in U.S. consumer and media companies. In 1997, he founded Red Envelope, an Internet-based branded consumer gift retailer (2007 revenues: \$100 million). In 1992, Scott founded Prophet, a brand strategy consultancy that employs more than 120 professionals in the United States, Europe, and Asia. Scott was elected to the World Economic Forum's "Global Leaders of Tomorrow," which recognizes 100 individuals under age 40 "whose accomplishments have had impact on a global level."

Scott has served on the boards of directors of Eddie Bauer (Nasdaq: EBHI), The New York Times Company (NYSE: NYT), Gateway Computer, and UC Berkeley's Haas School of Business. He received a B.A. from UCLA and an M.B.A. from UC Berkeley.

DOUG GUTHRIE

*Dean of the School of Business, George Washington
University; Founder Guthrie & Associates*

Doug has been an expert in Chinese economic reform for more than decade, a trusted adviser of both multinationals and local Chinese companies and a student of China for some 25 years. He is the author of *Dragon in a Three-Piece Suit: The Emergence of Capitalism in China, China and Globalization: The*

Social, Economic and Political Transformation of Chinese Society, and Social Connections in China: Institutions, Culture, and the Changing Nature of Guanxi. He is currently writing *China's Radical Transformation: Economic Reform, Global Integration, and Political Change in the World's Largest Nation*, which is an in-depth look at how China's government-driven form of capitalism has successfully overcome traditional theories of development and helped China become the economic and political juggernaut it is today. In addition to these major works, Doug has published more than 60 articles on China and has been an invited speaker on a number of occasions. Management, Leadership, and Corporate Governance are other areas of expertise.

Doug has taught at NYU Stern, Harvard Business School, INSEAD, and the graduate schools of business at Stanford University, Columbia University, and Emory University. He received his B.A. in Chinese literature from the University of Chicago and a Ph.D. in organizational sociology from the UC Berkeley.

AMANDA LIU

Creative Director, Labbrand

Amanda is Vice President and Creative Director of Labbrand, an innovative brand consulting agency based in Shanghai. She has seven years of experience in consulting and has accumulated experience in branding, market/consumer research, and branding-related creative work in the Chinese market. Amanda graduated from Shanghai Polytechnic University with a master's degree in applied linguistics. She also attended regular training and workshops organized by ESOMAR.

TEAM

MAUREEN MULLEN

L2

Maureen leads L2's research and advisory group and has benchmarked and/or developed digital and social media initiatives for over 300 prestige brands. She began her career at Triage Consulting Group in San Francisco. At Triage, she led several managed care payment review and payment benchmarking projects for hospitals including UCLA Medical Center, UCSF, and HCA. She has gone on to lead research and consulting efforts focused on digital media, private banking, M&A, insurance industry risk management, and renewable energy economics for professional firms and academics. Maureen has a B.A. in Human Biology from Stanford University and an M.B.A. from NYU Stern.

VINAY GANTI

Guthrie & Associates

Vinay has focused on advising startups and helping early stage ventures grow, commercialize, and reach their market potential with regard to both business and legal issues. He is currently writing a case study on Intel's successful western expansion in China that will be published in *Harvard Business Review*. With Professor Guthrie, Vinay is editing *The Invisible Hand*, an in-depth review of the history of corporate social responsibility in the U.S. Vinay was a principal investigator at Foresight Science & Technology, worked at the Environmental Defense Fund, and has summered at the law firm Wilson Sonsini Goodrich & Rosati. Mr. Ganti received his B.A. in international relations from Brown University and his J.D./M.B.A. from New York University.

FABIENNE PELLEGRIN

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Fabienne has several years of work experience in China. She attended Shanghai Jiaotong University for a year and then worked in marketing and public relations for luxury brands. Fabienne also worked for DKSH as business development executive, analyzing market trends and structuring comprehensive business plans for foreign consumer health brands entering the Chinese market. Fabienne speaks Mandarin, French, and Spanish. She has a B.S. from the École Hôtelière de Lausanne and an M.B.A. from NYU Stern.



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