



A THINK TANK
for PRESTIGE BRANDS

China Digital IQ Team

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**MAUREEN
MULLEN**
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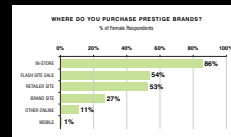
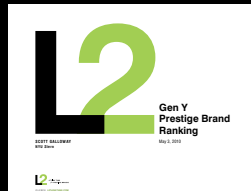
STANFORD
UNIVERSITY



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A Think Tank for Prestige Brands

Research



Education



Advisory Services

L2 Calendar 2010

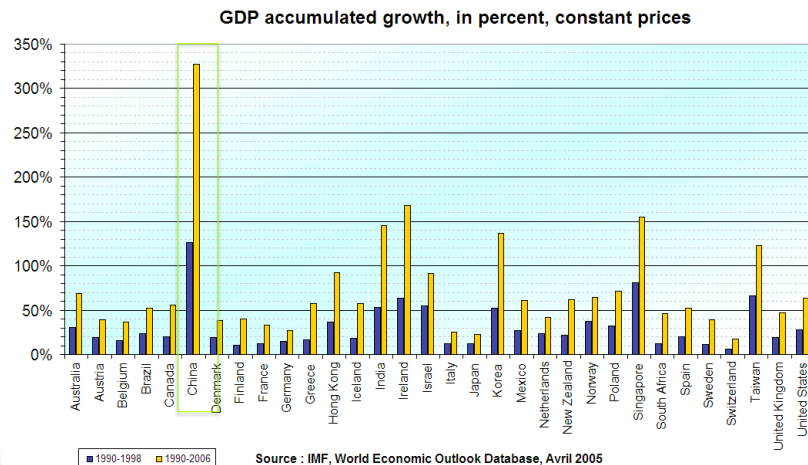
RESEARCH	DIGITAL IQ Automobiles	DIGITAL IQ Pharma	GEN Y Luxury	DIGITAL IQ China	DIGITAL IQ U.S. Senate	DIGITAL IQ Specialty Retail	DIGITAL IQ Luxury	DIGITAL IQ Travel
EVENTS	CLINIC The Social Graph	CLINIC Organizing for Digital	FORUM Generation Next	CLINIC Mobile	MASHUP MBA RECRUITING	CLINIC The New Media Plan	CLINIC Ecommerce 2.0	FORUM Innovation 2010
WORKING LUNCHEONS	Tomorrow's Media Plan	Social Shopping	iPad Implications	Prestige Social Media Case Studies				

INTRODUCTION:

The Greatest Opportunity for Prestige Brands in a Generation

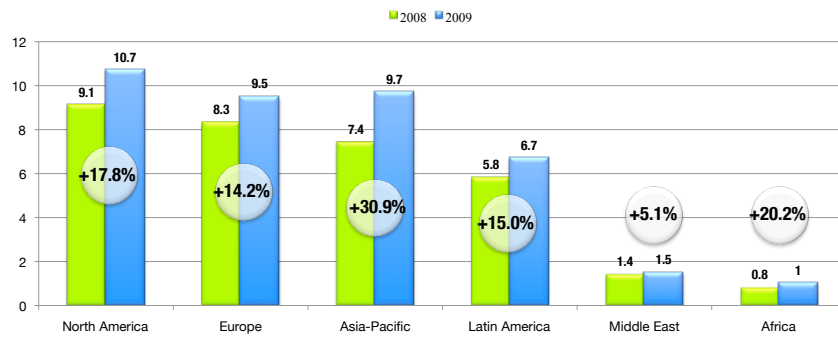


China GDP Growth vs. World



World Wealth Creation

HNWI Wealth Distribution By Region: 2008 vs. 2009



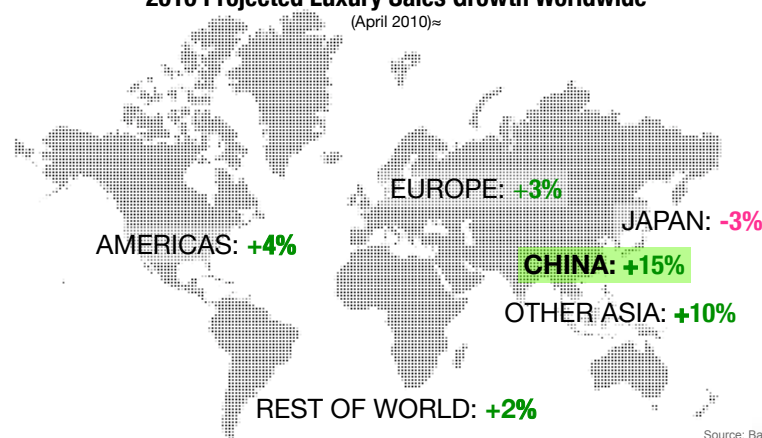
Wealth concentration in Asia surpassed Europe in 2009; China HNWI growth was 31%

Source: CapGemini, Merrill Lynch June 2010

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The World's Fastest Growing Market

2010 Projected Luxury Sales Growth Worldwide (April 2010)=

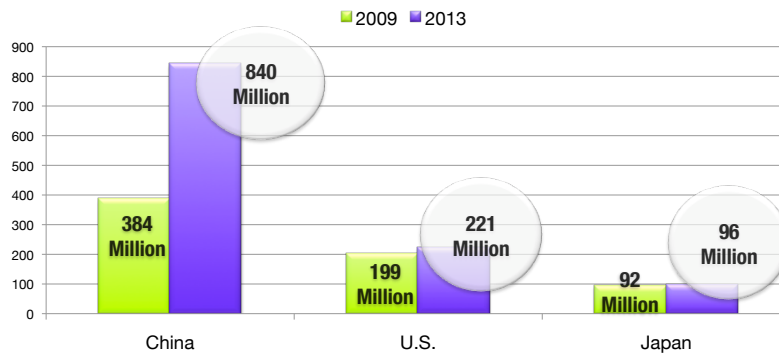


Source: Bain April 2010

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China Online

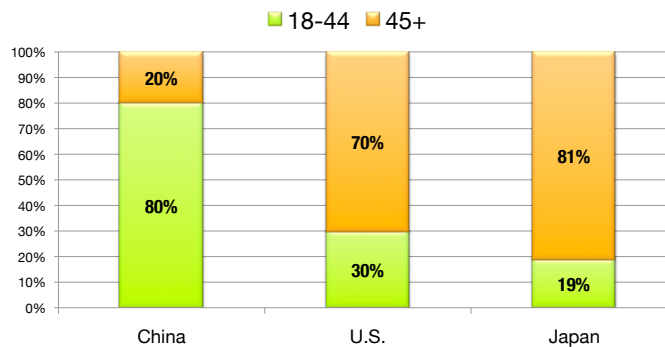
Number of Internet Users:
The World's Three Largest Luxury Markets



Source: Emarketer December 2009

Chinese Consumer = Digitally Native

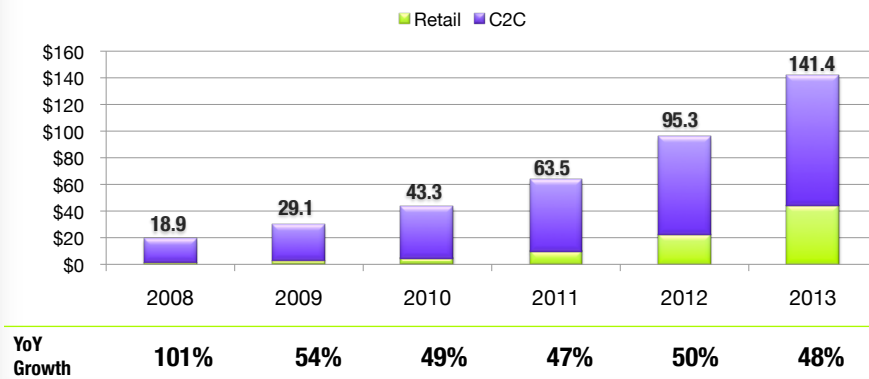
Profile of Prestige Consumers:
The World's Three Largest Luxury Markets



Source: McKinsey 2009

China's E-commerce Explosion

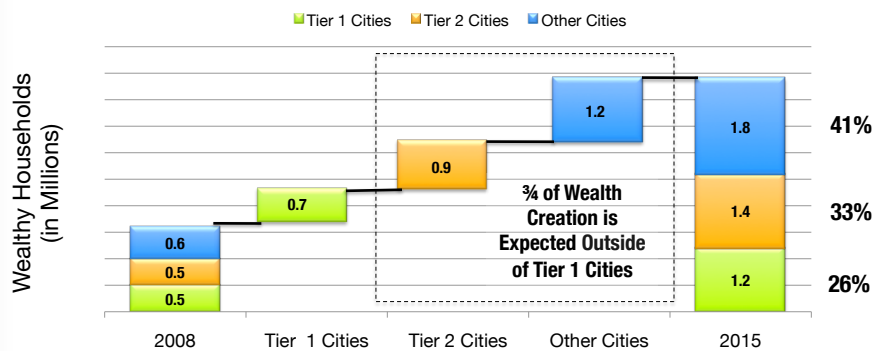
Projected China E-commerce Growth
(In Billions)



Source: Emarketer December 2009

Geographic Challenges

Where do the Wealthy in China Live?:
Projected Growth Affluent Households



Source: McKinsey January 2009

Digital Is Different



62% Market Share in Search



#2 Most Popular Site in China



#1 Video Site in China



9 Million Unique Visitors per Week



No Internet to... Mobile Internet

CHINA & MOBILE ADOPTION

687 Million



Chinese Mobile Subscribers

155 Million



Access the Mobile Web

116 Million



Estimated Chinese Smart phones by 2013



Source: AOL, Universal McCann "Smart Phone, Smart Marketing" December 2009

CONCLUSION:

China Digital IQ =
Growth



The L2 Digital
IQ Index

Digital IQ: China

The only brand audit that benchmarks the digital performance of prestige brands

- **100 prestige brands in 5 categories:** Automobiles, Beauty, Champagne & Spirits, Fashion, Watches & Jewelry
- **90 global brands; 10 Chinese brands**
- **Benchmarks brands across four criteria:**
 - Site Platform (40%)
 - SEO (25%)
 - Social Media (20%)
 - Digital Marketing (15%)



Methodology

Dimension: Platform (40%)

- **Aesthetics:** Translation of Brand Values + Site Themes
- **Interactivity:** Engagement + Use of Medium
- **Chinese Relevance:** Quality of Translation + Local Appeal
- **Host Location:** Local Domain + Technology
- **Localized Content Products & Promotions:** Content tailored to Chinese Market
- **Customer Service:** Availability + Accessibility
- **E-commerce:** Site Transactional Capabilities



Methodology

Dimension: Search Engine Optimization (25%)

- **Local Traffic:** Chinese Site
- **Traffic:** Global Site from China
- **Visibility:** Baidu & Google

Methodology

Dimension: Social Media (20%)

- **RenRen:** Use of Medium + # of Fans + Organic Posts
- **Qzone:** Use of Medium + # of Fans + Organic Posts
- **Youku:** Use of Medium + # of Videos (English & Chinese)
- **Kaixin001:** Use Of Medium + Organic Posts

Methodology

Dimension: Digital Marketing (15%)

- **Activity on BBS Sites:** Presence + Content
- **Brand Blogs & Microsites:** Availability + Content
- **Mobile:** Compatibility + Applications
- **Email Marketing:** Availability on Site

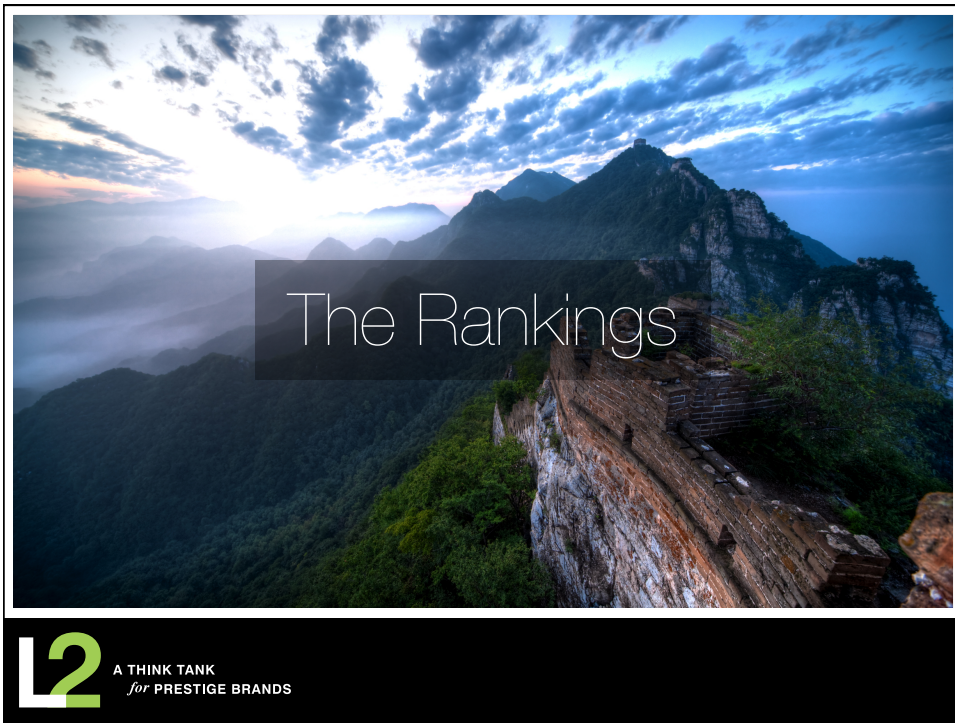


Categorizing Results

Brands parsed into six categories based on Digital IQ score:

140+	Genius: Digital is a point of competitive differentiation
110-139	Gifted: Brand-enhancing, experimenting digitally, conversion oriented
90-109	Average: Functional, yet predictable, few innovation leaps
70-89	Challenged: Limited attempts to tailor content to Chinese Market
40-70	Feeble: Nascent Chinese digital footprint
>40-70	Luddite: Not committing any resources to digital in China





LUDDITE:

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class
93	BOTTEGA VENETA	Fashion	28	39	Luddite
94	MOËT & CHANDON	Spirits & Champagne	13	34	Luddite
94	CHOPARD	Watches & Jewelry	28	34	Luddite
96	SHANGHAI WHITE	Spirits & Champagne	14	32	Luddite
97	PIPER-HEIDSIECK	Spirits & Champagne	15	30	Luddite
98	VEUVE CLICQUOT	Spirits & Champagne	16	28	Luddite
99	DOM PÉRIGNON	Spirits & Champagne	17	23	Luddite
100	FRANCK MULLER	Watches & Jewelry	29	21	Luddite

FEEBLE:

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class
73	JOHNNIE WALKER	Spirits & Champagne	8	60	Feeble
73	HARRY WINSTON	Watches & Jewelry	20	60	Feeble
73	FENDI	Fashion	21	60	Feeble
73	BULGARI	Watches & Jewelry	22	60	Feeble
77	BULOVA	Watches & Jewelry	22	59	Feeble
77	IWC	Watches & Jewelry	23	59	Feeble
79	GIORGIO ARMANI	Fashion	22	58	Feeble
79	LOUIS XIII	Spirits & Champagne	9	58	Feeble
81	DEBEERS	Watches & Jewelry	24	57	Feeble
81	DAVID YURMAN	Watches & Jewelry	24	57	Feeble
83	BALLY	Fashion	23	51	Feeble
84	GIVENCHY	Fashion	24	48	Feeble
85	VALENTINO	Fashion	25	47	Feeble
85	DEWAR'S	Spirits & Champagne	10	47	Feeble
87	MARC JACOBS	Fashion	26	46	Feeble
88	GRAFF	Watches & Jewelry	26	44	Feeble
88	YVES SAINT LAURENT	Fashion	27	44	Feeble
90	AUDEMARS PIGUET	Watches & Jewelry	27	43	Feeble
91	ROYAL SALUTE	Spirits & Champagne	11	42	Feeble
92	PERRIER-JOUËT	Spirits & Champagne	12	41	Feeble

FEEBLE:

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class
52	VACHERON CONSTANTIN	Watches & Jewelry	11	69	Feeble
53	NE.TIGER	Fashion	14	68	Feeble
53	MONTBLANC	Watches & Jewelry	12	68	Feeble
53	MOVADO	Watches & Jewelry	13	68	Feeble
53	BENTLEY	Automobiles	11	68	Feeble
57	ROLLS-ROYCE	Automobiles	12	67	Feeble
57	RALPH LAUREN	Fashion	15	67	Feeble
59	ERMELEGILDO ZEGNA	Fashion	16	66	Feeble
59	JAEGGER-LECOULTRE	Watches & Jewelry	14	66	Feeble
59	HUBLOT	Watches & Jewelry	15	66	Feeble
62	PRADA	Fashion	17	65	Feeble
63	BALLANTINE'S	Spirits & Champagne	7	64	Feeble
63	HUGO BOSS	Fashion	18	64	Feeble
65	BACCARAT	Watches & Jewelry	16	63	Feeble
65	LAMBORGHINI	Automobiles	13	63	Feeble
65	VERSACE	Fashion	19	63	Feeble
68	PATEK PHILIPPE	Watches & Jewelry	17	62	Feeble
68	RAYMOND WEIL	Watches & Jewelry	17	62	Feeble
70	QEELIN	Watches & Jewelry	19	61	Feeble
70	DOLCE & GABBANA	Fashion	20	61	Feeble
70	BENEFIT	Beauty & Skincare	13	61	Feeble

CHALLENGED:

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class
38	L'OCCITANE	Beauty & Skincare	11	89	Challenged
39	SK-II	Beauty & Skincare	12	87	Challenged
40	FERRARI	Automobiles	10	86	Challenged
41	BALENCIAGA	Fashion	7	85	Challenged
41	BURBERRY	Fashion	7	85	Challenged
43	HERMÈS	Fashion	9	84	Challenged
44	PORTS 1961	Fashion	10	82	Challenged
45	ALFRED DUNHILL	Fashion	11	78	Challenged
46	HENNESSY	Spirits & Champagne	5	76	Challenged
47	VAN CLEEF & ARPELS	Watches & Jewelry	9	75	Challenged
48	SWELLFUN	Spirits & Champagne	6	73	Challenged
49	FERRAGAMO	Fashion	12	72	Challenged
49	LACOSTE	Fashion	13	72	Challenged
49	PIAGET	Watches & Jewelry	10	72	Challenged

AVERAGE:

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class
18	CHRISTIAN DIOR	Beauty & Skincare	6	109	Average
19	LOUIS VUITTON	Fashion	1	108	Average
19	TIFFANY	Watches & Jewelry	2	108	Average
19	LUK FOOK	Watches & Jewelry	3	108	Average
22	SHANGHAI TANG	Fashion	2	107	Average
23	CHRISTIAN DIOR	Fashion	3	105	Average
24	OMEGA	Watches & Jewelry	4	103	Average
25	SWAROVSKI	Watches & Jewelry	5	102	Average
25	SHISEIDO	Beauty & Skincare	7	102	Average
27	GUCCI	Fashion	4	101	Average
28	ROLEX	Watches & Jewelry	6	99	Average
28	CHANEL	Fashion	5	99	Average
30	CHIVAS REGAL	Spirits & Champagne	3	98	Average
31	YUE-SAI	Beauty & Skincare	8	96	Average
31	LONGINES	Watches & Jewelry	7	96	Average
33	LA MER	Beauty & Skincare	9	95	Average
33	TAG HEUER	Watches & Jewelry	8	95	Average
35	COACH	Fashion	6	94	Average
36	RÉMY MARTIN	Spirits & Champagne	4	91	Average
37	GUERLAIN	Beauty & Skincare	10	90	Average

GIFTED:

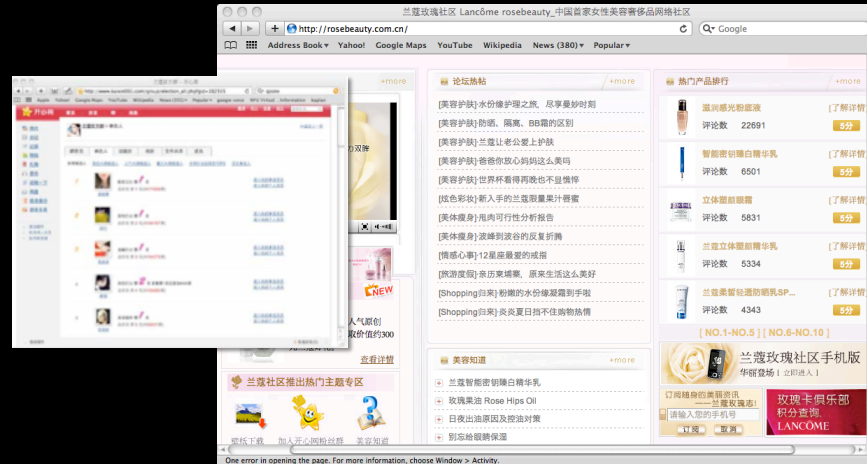
Overall Rank	Brand	Category	Category Rank	Digital IQ	Class
6	MERCEDES-BENZ	Automobiles	3	138	Gifted
7	CLARINS	Beauty & Skincare	4	137	Gifted
8	ACURA	Automobiles	4	130	Gifted
9	CADILLAC	Automobiles	5	124	Gifted
10	WULIANGYE	Spirits & Champagne	1	121	Gifted
11	LEXUS	Automobiles	6	119	Gifted
12	LAND ROVER	Automobiles	7	118	Gifted
12	INFINITI	Automobiles	8	118	Gifted
14	MOUTAI	Spirits & Champagne	2	115	Gifted
15	CARTIER	Watches & Jewelry	1	114	Gifted
16	PORSCHE	Automobiles	9	113	Gifted
17	HERBORIST	Beauty & Skincare	5	112	Gifted

GENIUS:

Overall Rank	Brand	Category	Category Rank	Digital IQ	Class
1	LANCÔME	Beauty & Skincare	1	167	Genius
2	BMW	Automobiles	1	157	Genius
2	ESTÉE LAUDER	Beauty & Skincare	2	157	Genius
4	AUDI	Automobiles	2	150	Genius
5	CLINIQUE	Beauty & Skincare	3	146	Genius



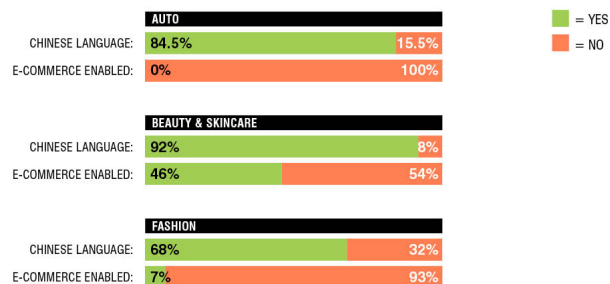
Big Winners: Lancôme



Selling Is Knowing

OBSERVATION: Only 10% of prestige brands are selling online. Brands with e-commerce boast IQs 50 points higher than those that are not.

DIGITAL ADOPTION BY CATEGORY
% of brand sites per category with the following attributes:

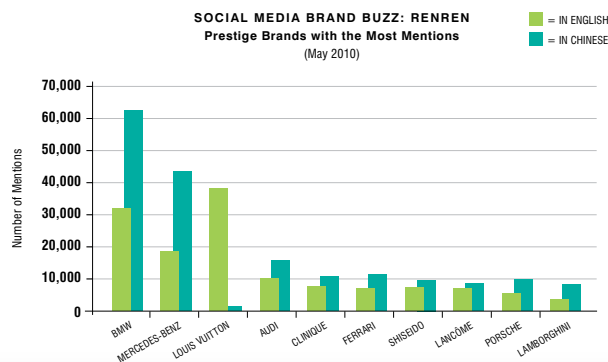


Selling Is Knowing: Clarins



Social Mania

OBSERVATION: While most brands are generating significant organic buzz, less than 15% of brands maintain an official presence on Chinese SNS sites



Social Mania: Mercedes Benz



Mighty Microsites

OBSERVATION: Four of the brands in the study have invested in branded 2.0 communities. Several auto brands maintain simple interface BBS sites.



保时捷车友会
PORSCHESKY.COM



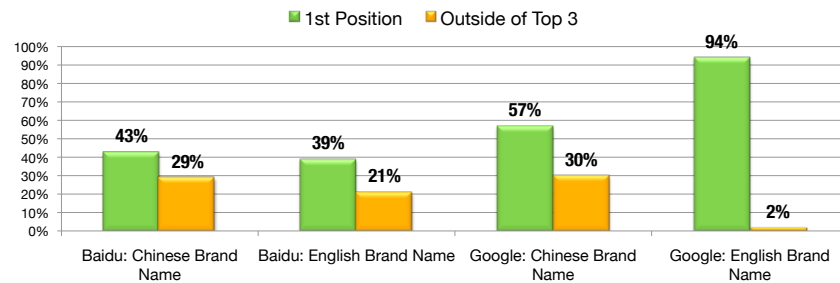
MyBMWClub.
BMW中国官方俱乐部



Google: A Distant Second

OBSERVATION: Only 39% of prestige brands come up first in Organic search results on market leader, Baidu.

Organic Search Results: Baidu & Google
(May 2010)



Mobile: Can You Hear Me Now?

OBSERVATION: While 46% of Chinese internet users access the web through a mobile phone, only 42% of prestige brand sites are mobile enabled



Local Learning

OBSERVATION: Brands of Chinese or Hong Kong origin outperform global luxury peers by 11 IQ points; Site scores were on average 50% higher

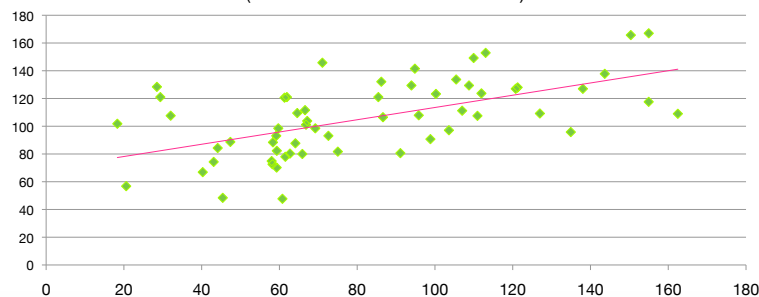


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IQ Correlation

OBSERVATION: There is a correlation of .58 between brands' Chinese & U.S. Digital IQ, suggesting learning and investment can be leveraged across geographies

US Digital IQ vs. China Digital IQ
(Brands Included in Both Studies)

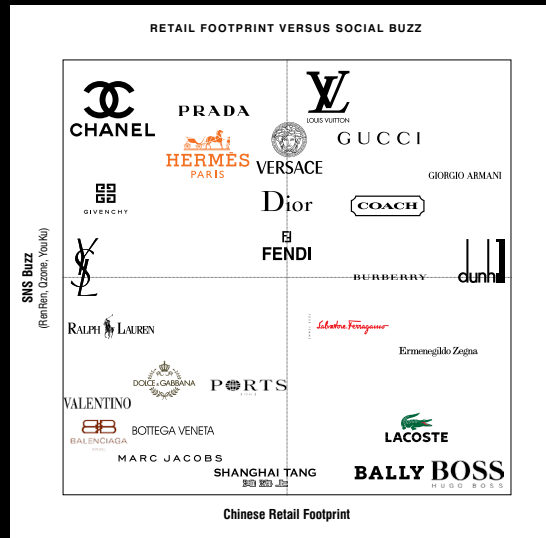


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Brick & Mortar \neq Brand Equity

OBSERVATION:

There is no correlation between brands' retail footprint and Chinese brand awareness



10 Commandments of Doing Business in China



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1. **Politics**

Politics matter as much as they did 15 years ago, but for different reasons

2. **Institutions**

Understanding institutions is more important than understanding culture



3. **Lawyers, Not Relationship Managers**

Money is best spent on lawyers and accountants to understand Chinese nuances

4. **Localism**

China is an exceptionally diverse, decentralized market and approach must be tailored by region



5. **Entrepreneurial Local Governments**

Some of the best opportunities are outside of Shanghai and Beijing

6. **Local Competition**

Homegrown competition is a threat and an opportunity



7. **Understand Digital, Chinese Style**

Not a single global internet or media player has a leadership position in China

8. **Process Innovation**

Learn from best practices in Chinese operations



9. **Leadership**

Invest in local human capital

10. **Locate Near Universities**

Pockets of higher education serve as a breeding ground for local talent



Conclusions

Size Matters:

Small successes in the Chinese market will drive more shareholder value than homeruns in other markets

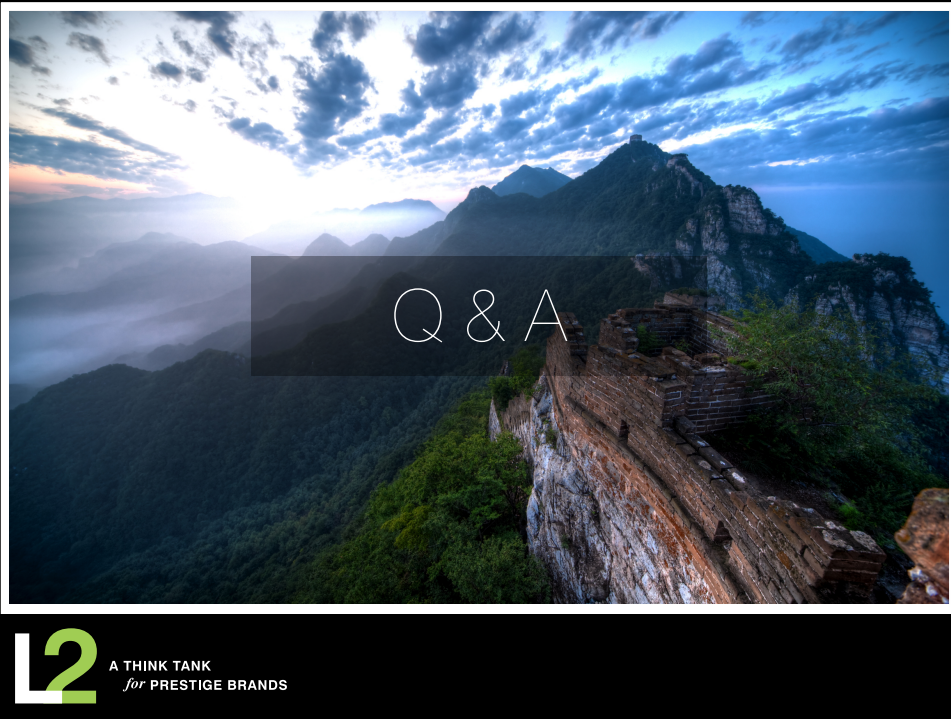
Think Local:

Brand equity remains largely the same, but translation, content, and platforms need to be localized

Your Biggest Door:

Your biggest store in the world in three years should be your Chinese e-commerce site







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