

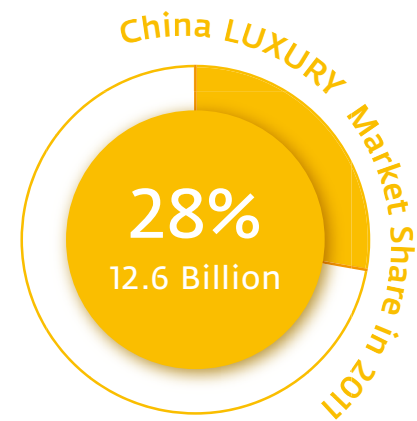
Best Branding Practices in China — LUXURY



How brands become strong, not how strong brands are

品牌 (PINPAI) is the Chinese word for “brand”. With its unique culture and economic growth, China is one of the most ideal markets for international brands. For similar reasons, China is also at the center of media attention in terms of economy, politics and performance. Unlike most foreign markets, the concept of branding is relatively new. Thus, the process of building PINPAI is different.

The Best Branding Practices in China 2012 white papers explore these areas and focus on the development of strong brands in China.



Luxury in China

Leveraging on strong growth in average disposable income, nouveau riche and a deep culture heritage of gift-giving for different occasions, the rise of Chinese luxury industry came as no surprise. Despite rising high domestic prices, Chinese luxury industry continues to expand with the addition of foreign luxury brands entering the market. Brands that may start to struggle in other parts of the world also see China as a great platform for balancing out one's financial statement.

Nevertheless, competition is growing and the rise of luxury industry poses an interesting dilemma in terms of branding. How to balance the much protected "exclusivity" brand image of luxury goods while brands continue to expand and grow in revenue?

Luxury Brands Web Presence Ranking in China

In this digital age, how brands perform in the virtual community is also an important factor in building up one's brand equity. Taking this into consideration, Labbrand and Linkfluence analyzed luxury brands' presence score among Chinese online communities dedicated to luxury and fashion. The presence score measures whether or not a particular brand is mentioned in the communities.

Louis Vuitton ranks as number one on the list with 76% of luxury & fashion communities discussing the brand. Number two is **Hermes** with 75% and **Chanel** comes in 3rd with 74%.

Luxury Brands Web Presence Ranking in China

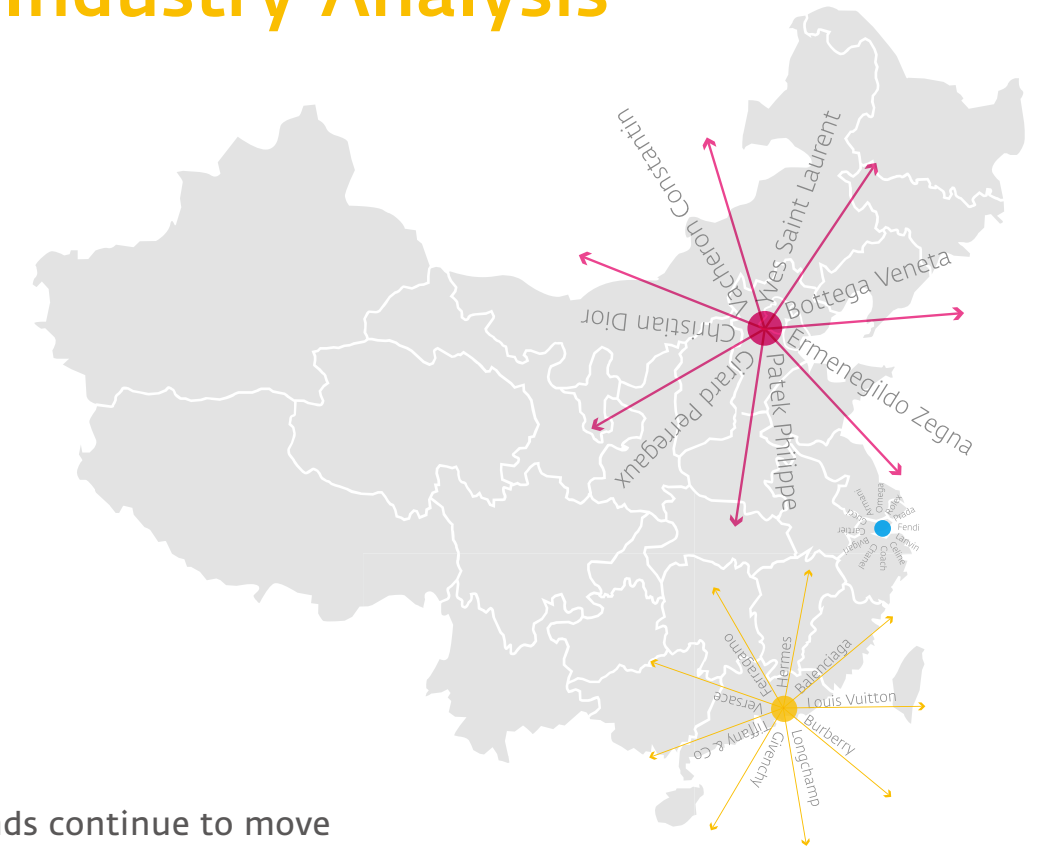
1	Louis Vuitton	76%	15	Vacheron Constantin	62%
2	Hermes	75%	16	Versace	62%
3	Chanel	74%	17	Fendi	61%
4	Bvlgari	71%	18	Givenchy	61%
5	Gucci	71%	19	Tiffany & Co	61%
6	Armani	68%	20	Coach	59%
7	Cartier	68%	21	Bottega Veneta	58%
8	Christian Dior	67%	22	Celine	58%
9	Prada	67%	23	Ermenegildo Zegna	58%
10	Burberry	66%	24	Patek Philippe	58%
11	Rolex	66%	25	Lanvin	54%
12	Yves Saint Laurent	66%	26	Balenciaga	53%
13	Ferragamo	62%	27	Girard Perregaux	50%
14	Omega	62%	28	Longchamp	49%

Data from Linkfluence and Labbrand, Design by Labbrand





Luxury Industry Analysis



Established brands continue to move toward 2nd and 3rd tier cities

Brands who have already established recognition are continuing the move towards 2nd and 3rd tier cities. There are four reasons behind this change. First, as the Chinese economy matures, 2nd and 3rds economic situation levels with 1st tier cities. Second, 1st tier cities consumers often travel overseas to purchase luxury goods, national sale target needs to be reached with new store opening in other cities. Third, consumers in 2nd and 3rd tier cities are during their conspicuous consumption phrase, demand is higher. Fourth, using luxury goods as business gifts is more popular in 2nd and 3rd tier cities.

Chinese domestic prices are higher than foreign markets but purchase intention is strong

Labbrand's research showed that for a given model of luxury bag, China retail price is generally 30% - 80% more expensive than Europe or North America. Experts suggest that the main reason for the difference is high Chinese tariff and duties for luxury products. However, even if tariff drops, prices would remain the same due to strong purchase intention and the nature of the luxury industry.

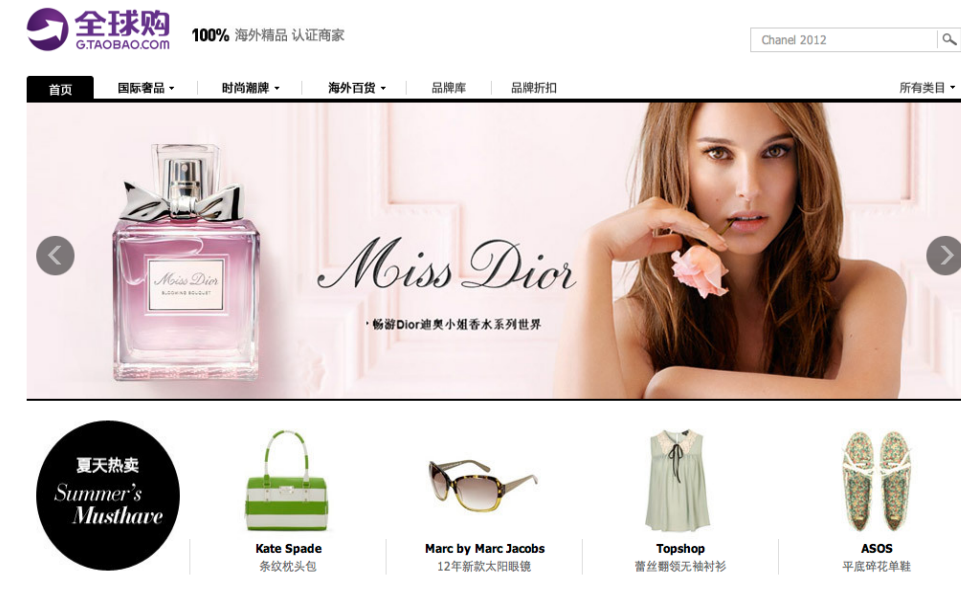


The association of "luxury" and "art" through museums

The practice of integrating "luxury" into "art" was started in China quite a few years ago. Brands indirectly showcase their closeness to being an art form through sponsoring well-known national artists' concerts, performances, or exhibitions. As the market evolves, luxury brands take a step further and directly collaborate with museums to organize branded exhibitions. Among others, The Palace Museum and the National Museum of China became top choices for luxury brand's exhibition locations.

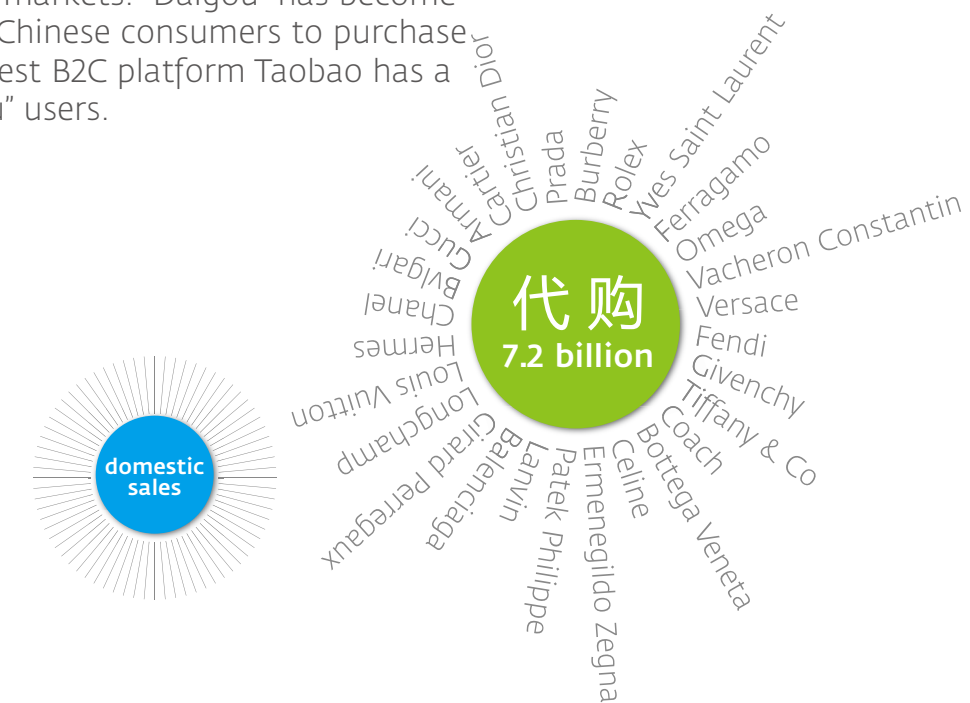
Chinese luxury consumers are categorized with distinct characteristics

Chinese luxury consumers can be generally categorized into three groups. First is the nouveau riche (ultra-rich) group who acquired their wealth over the past decades. These consumers and their families are purchasing luxury goods within mainland China and are not sensitive to the dramatic price differences. A majority of this nouveau riche group reside in 1st to 3rd tier cities. Second is the gifting group; consumers in this group are generally buying luxury goods within mainland China for gifting (mainly for business or government-related purposes). They are not sensitive to price differences because costs will be covered by their corporations. The third group, and by far the biggest in population, is the Chinese middle class consumers who are brand-conscious. These consumers are price sensitive. They often work and reside in 1st or 2nd tier cities.



High domestic prices drive consumers to purchase overseas or through "daigou"

With high domestic prices, price-conscious consumers choose to travel overseas to purchase luxury goods, mainly in Hong Kong or Europe. Recent data shows that during the Chinese New Year holiday in 2012, Chinese overseas luxury sales reached 7.2 billion USD, 4 times the amount of domestic sales during the same period. Others choose to use "daigou" (代购) service, a form of 3rd party procurement by people who either reside or frequently travel to foreign markets. "Daigou" has become one of the main channels for Chinese consumers to purchase luxury goods. The world's largest B2C platform Taobao has a designated section for "daigou" users.

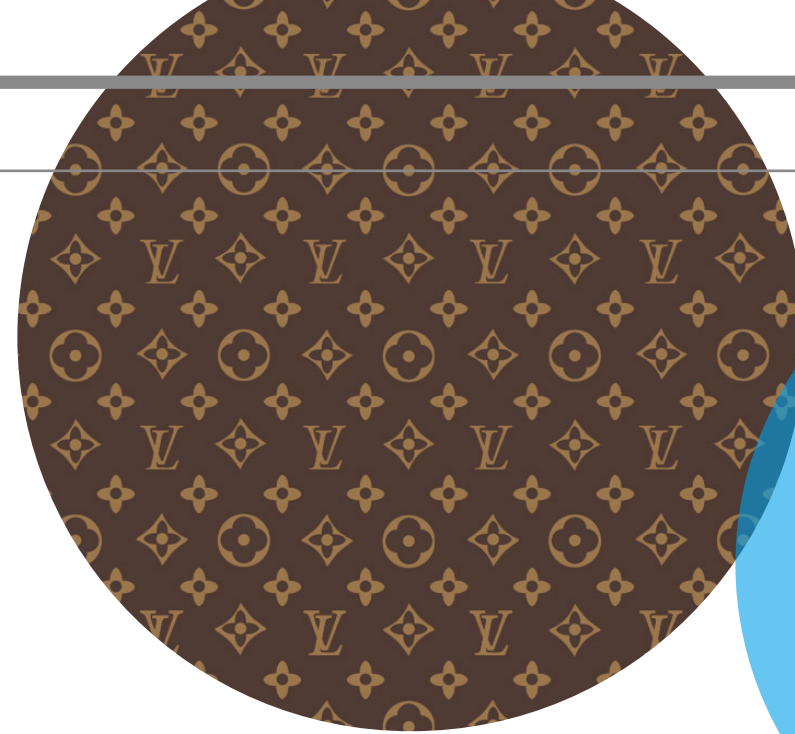


Chinese domestic luxury e-commerce faces sourcing and quality challenges

While dealing with “daigou” is popular, domestic luxury e-commerce websites face trust issues. First, even though all local established websites claim that their luxury items are authentic, major international luxury brands declared that none of them is their authorized sales agent online in China. The source of these luxury goods remains a secret. Second, quality is not 100% guaranteed. E-commerce websites might be sourcing from 3rd party supply agents, which could be facing the risk of fake goods. Also, because these websites are not authorized sale agents, consumers who purchase luxury goods there cannot enjoy the same after-sale services and warranty as in-store transactions.

New wave of foreign luxury e-commerce platforms entering China

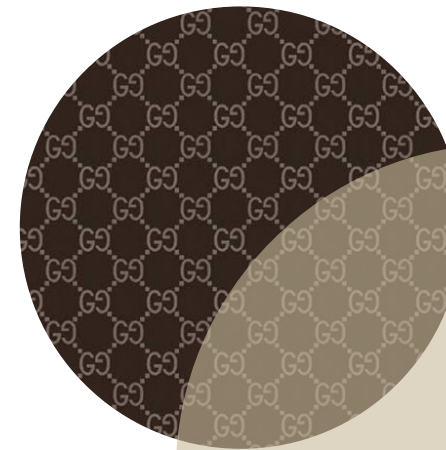
Domestic luxury e-commerce’s challenges created opportunities for foreign platforms. In 2012, British luxury website Net-a-porter officially entered the Chinese luxury e-commerce segment with theoutnet.cn, a website that’s adapted to Chinese shopping habits such as paying with Alipay (China’s version of Paypal) or COD. Luxury brands favour foreign luxury platforms due to their experience and understanding of properly handling online luxury product display, a major weakness for Chinese e-commerce platforms that prefer presenting products in a flashy format to attract traffic and attention.



Louis Vuitton



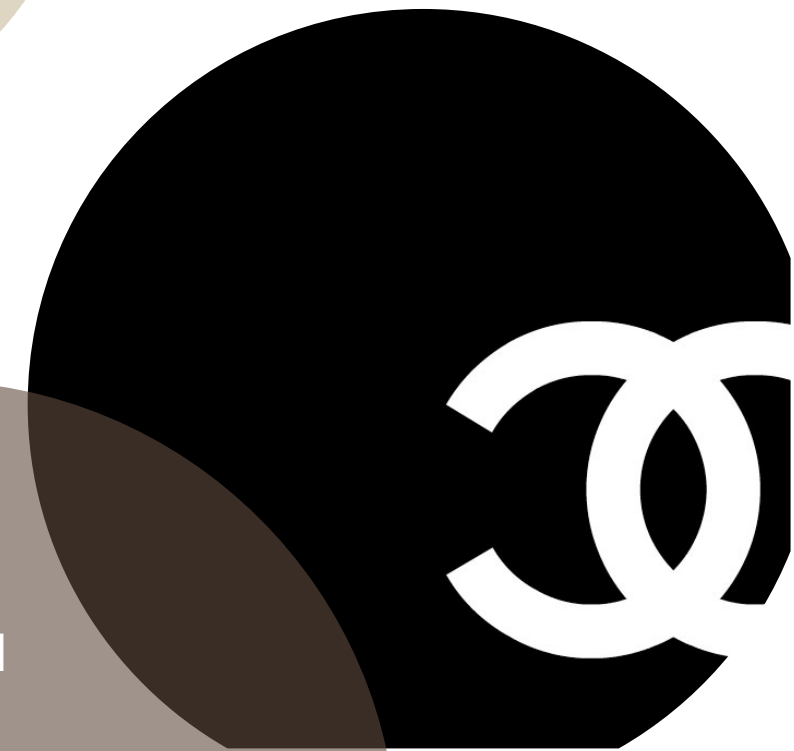
Coach



Burberry

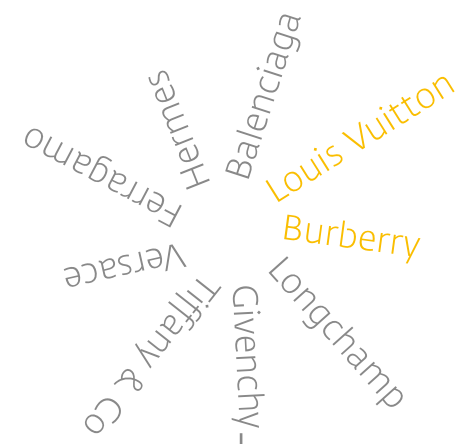


Gucci



Chanel

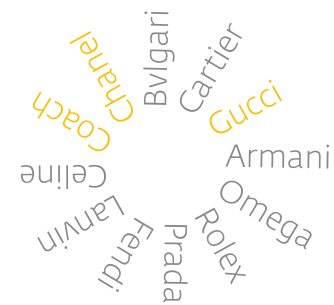
Best PINPAI Practices in China LUXURY INDUSTRY



Deepen brand knowledge and transcend brand culture through acclaimed platforms - Louis Vuitton



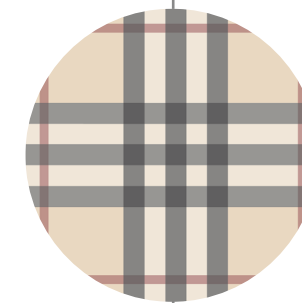
Leveraging on Chinese elements to draw connections with consumers - Gucci



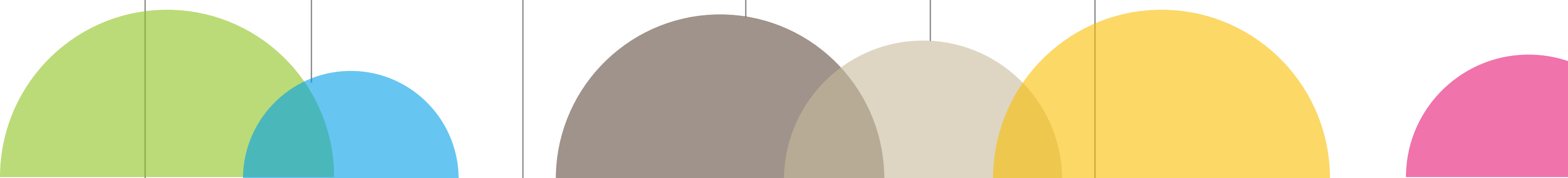
Mastering brand storytelling to anchor brand knowledge - Chanel



Extensive market research to understand consumer habits - Coach

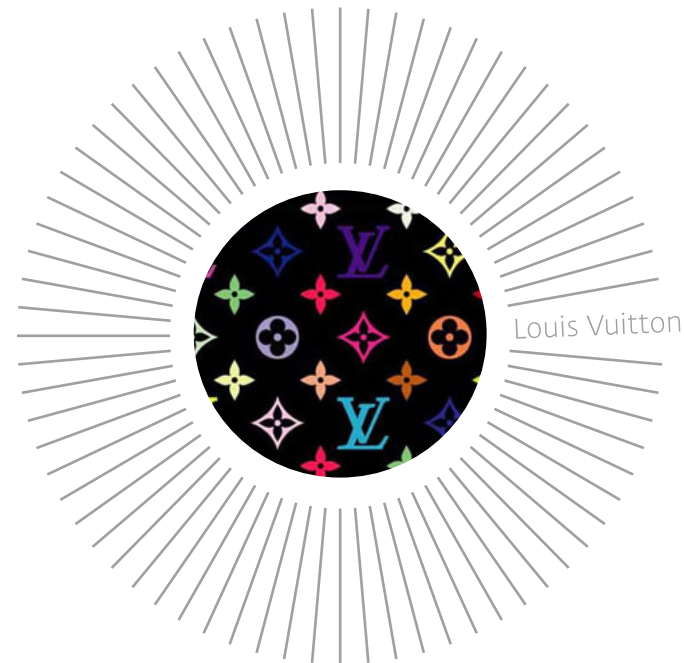


Step out of comfort zone to leverage digital strategy for differentiation - Burberry



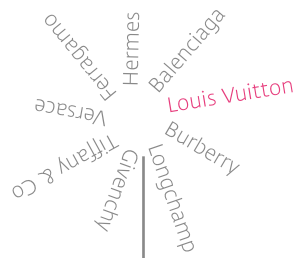


Deepen brand knowledge and transcend brand culture through acclaimed platforms



Brand Story

For luxury brands, leveraging their rich history and exquisite craftsmanship is important. In June 2011, Louis Vuitton showcased its brand legacy with "Louis-Vuitton Voyages" at The National Museum of China. The exhibition featured 4 show rooms which celebrated Louis Vuitton's 157 years of history and presented luggage and bags that demonstrated the brand's evolution. The practice of using exhibitions to enhance brand knowledge is not new, but the location for Louis Vuitton is quite unique. The National Museum of China is **highly regarded by Chinese citizens** to be one of the best museums which display top tier art pieces that contributed to culture changes in China. Louis Vuitton is the first commercial brand the museum agrees to partner with for exhibition.

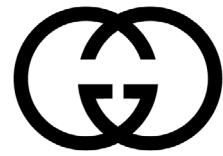


Why is it important for China?

The **symbol and status** associated with **acclaimed platforms** such as The National Museum of China could be transferred to brands. By having an exhibition in The National Museum of China, the brand wishes to show that it is not simply a luxury brand; but rather its deep cultural heritage and history is praiseworthy; the cultural connotation of luxury brands are magnified. This practice was also followed by BVLGARI with its "125 Years of Italian Magnificence" exhibition in The National Museum of China and Chanel's "Culture Chanel" exhibition in The National Art Museum of China.



GUCCI



Leveraging on Chinese elements to draw connections with consumers

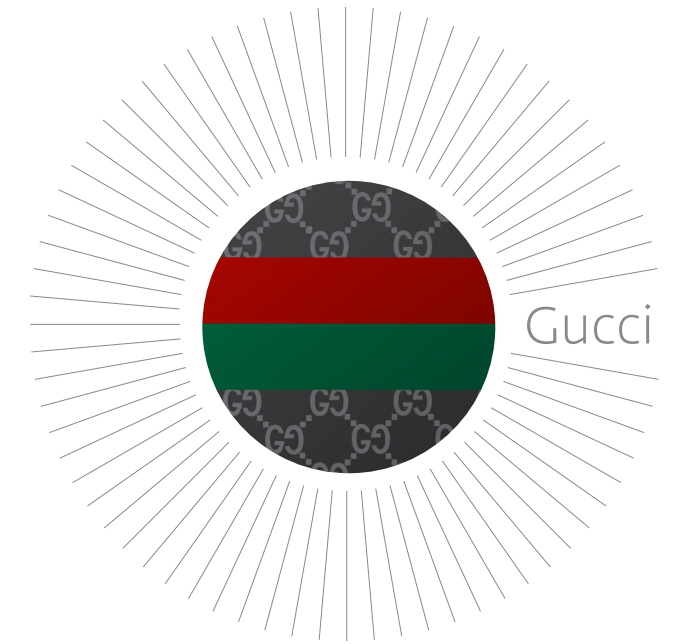
Brand Story

In April 2012, Gucci appointed Li Bing Bing as the new face and brand ambassador for its Asia-Pacific market. Li Bing Bing is a superstar in China known for her poised beauty and global recognition in Snow Flower and the Secret Fan and Resident Evil: Retribution. Li will be the new Gucci women and featured in Gucci's advertising campaign in mainland China, Hong Kong and Taiwan. The renowned Italian luxury fashion brand also demonstrated its focus in the Chinese market by having a first-ever fashion show in China in April 2011 with the appearance of Gucci's renowned creative director Frida Giannini.

Why is it important in China?

For luxury brands, leveraging on its rich foreign history and using foreign models for campaigns have been the norm in China. However, as the Chinese market matures and brands start to move into 2nd and 3rd tier cities, using Chinese elements in one's branding initiatives might be more effective. In 2011, Gucci opened 12 new stores in mainland China with plans to open 10 more in 2012, among which over half are in 2nd and 3rd tier cities.

Some companies may not choose to adopt a Chinese brand ambassador directly, but will **seek to relate to the Chinese market in its own way**. Examples can be seen in the increasing popularity of Chinese models on international runways or the appearances of Chinese celebrities on the front row seats in European fashion shows.





Mastering brand storytelling to anchor brand knowledge



CULTURE
CHANEL
法国设计先锋与艺术大师们的对话

中文 — FRANÇAIS — ENGLISH

Brand Story



Classics and icons are important for luxury brands. This rule also applies to the Chinese market; however, because the Chinese luxury industry is at a different stage of development when compared to foreign market, the process will be different. For example, while the legendary story of Chanel's founder Gabrielle "Coco" Chanel is quite well-known in Europe, in China, her story is just starting to show its magic.

Leveraging the iconic Mademoiselle Chanel has always been a key branding strategy for Chanel. True "storytelling" goes beyond simply using Coco Chanel's name or image during advertisements and promotion, especially in China. In 2011, Chanel organized an exhibition titled "Culture Chanel" in Shanghai and Beijing. The exhibition was "specially made for China" and aimed to further introduce Coco and what inspired her to create classics such as the interlocking C symbol, No.5 perfume, the camellia flower along with concepts such as "invisibility", "hidden luxury" and more. The effect goes beyond simply introducing Coco Chanel. The purpose is to establish an emotional connection with potential customers and transcend the association between Chanel's signature designs (aesthetic symbols) with the iconic Mademoiselle Chanel (story).

Why is it important in China?

In China, the home of a multitude of brands, **having storytelling in the branding "tool kit" is a necessity to anchor the brand's esteem and knowledge.** Communication channels vary and evolve from time to time. Through designed characteristics, products themselves tell stories that elicit consumer responses. According to Labbrand research, **Chinese consumer's capacity to perceive and differentiate brand codes is still in a maturation stage.** Therefore, brand messages combined with story-telling will be highly advantageous especially for foreign luxury brands.



Step out of comfort zone to leverage digital strategy for differentiation



Brand Story

Social media, especially in China, has been a tricky platform for luxury brands due to the fear for lack of control. While some choose to stay rather cautious and conservative, Burberry **successfully differentiated** itself by **integrating diverse social media channels** and **Chinese shopping habits** into its **digital strategy**.

As a start, Burberry has official accounts on five different top social media platforms in China (Sina Weibo, Youku, Kaixin, Douban, and Jiebang, which would be the equivalent of Twitter, Youtube, Facebook, SNS/BBS, and Foursquare). Besides the obvious consistent design and coherent info on these platforms, all sites are cross-referenced enabling greater brand exposure and deeper brand

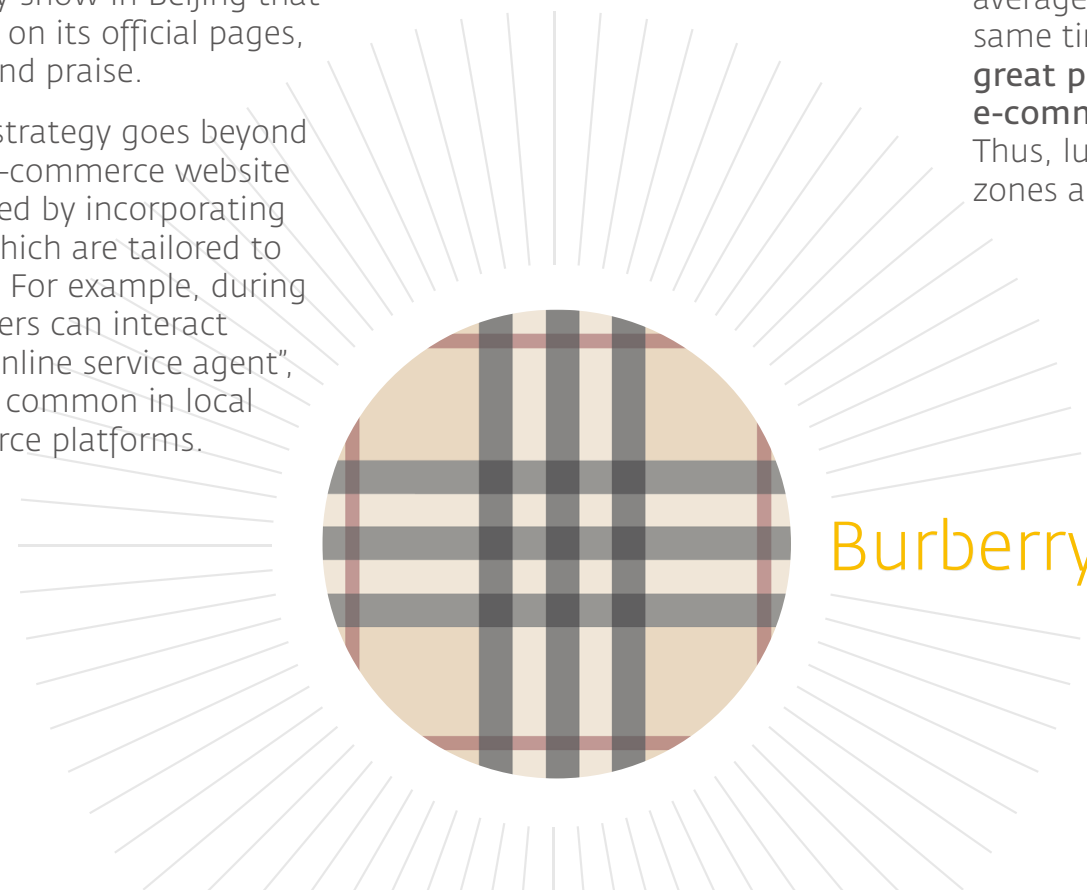
knowledge, a key concern in the Chinese luxury market where brands struggle to go beyond their generic "western luxury" identity. In April 2011, Burberry then surprised netizens with an innovative 3D holograms runway show in Beijing that was streamed live on its official pages, generating buzz and praise.

Burberry's digital strategy goes beyond social media; its e-commerce website is also differentiated by incorporating unique features which are tailored to Chinese shoppers. For example, during checkout, customers can interact directly with an "online service agent", a feature which is common in local Chinese e-commerce platforms.



Why is it important in China?

With over 513 million Chinese internet users and growing, the **need to build comprehensive digital strategy** for luxury brands becomes more evident, especially in a market where the average consumer is much younger than other countries. At the same time, 3rd party e-commerce is facing trust issues; there is **great potential for luxury brands to build their own strong e-commerce platform** to sustain future growth in this sector. Thus, luxury brands need to step out of their current comfort zones and plan ahead their digital strategies for the future.



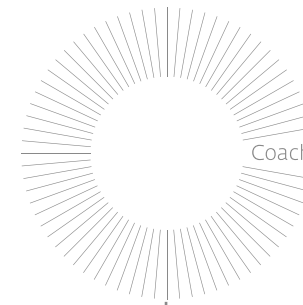


Extensive market research to understand consumer habits

Brand Story

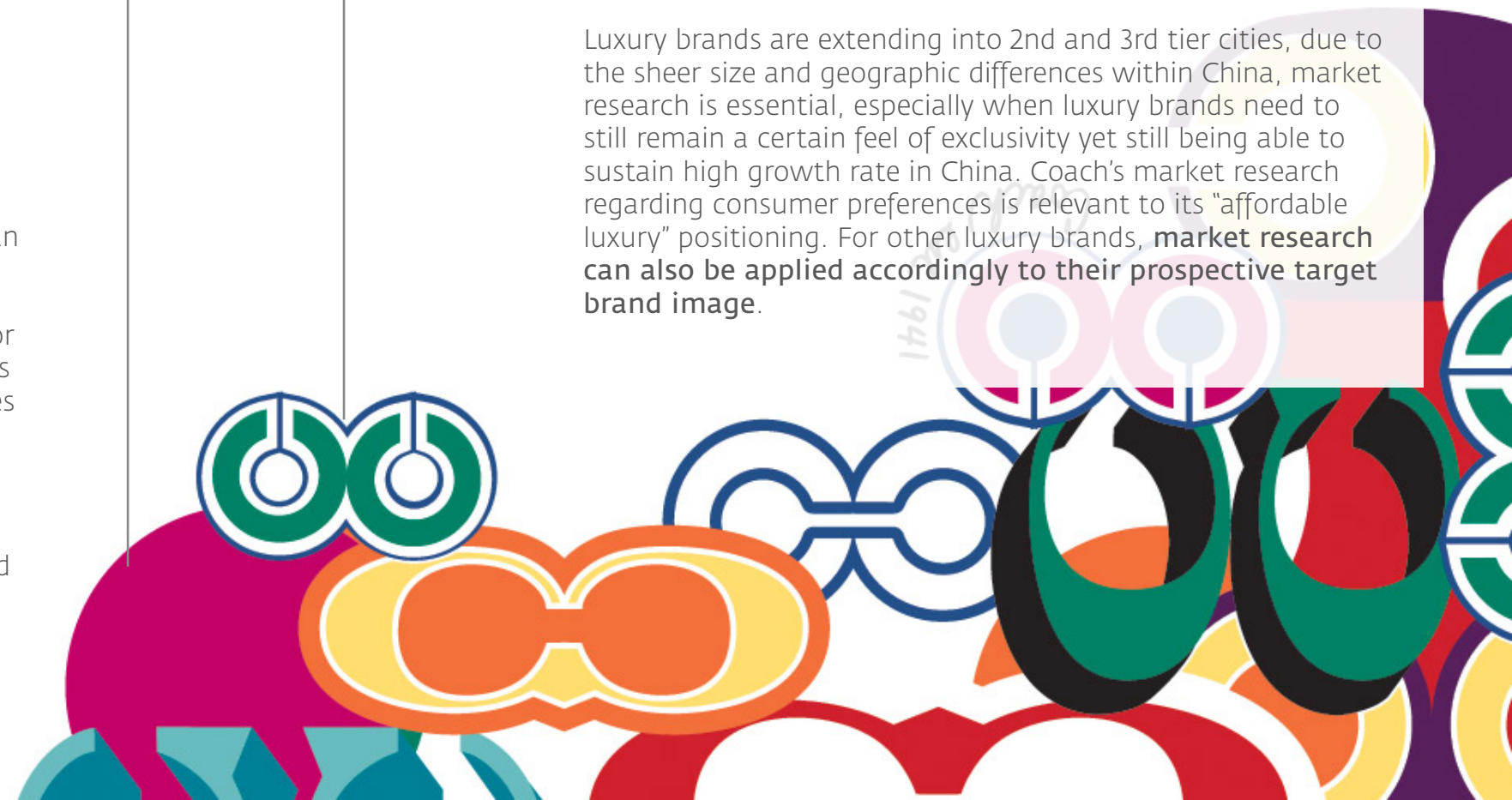
For brands entering China, **market research** is essential to one's success, especially because luxury goods' symbol, status and price are closely related to Chinese custom and culture. Coach's dedication and emphasis on consumer market research has yielded great return with sales revenue reaching 108 million RMB in 2010 and 185 million in 2011, a 71% increase. The "Coach" brand really began to take off in 2009, after the company brought back operational license from previous partners. Since 2009, Coach is able to **directly control the operational level to implement research findings**. Through market research, Coach identified special needs from Chinese shoppers. For example, Coach's market

research indicated that the majority of Chinese women are career women who prefer a bag that's fashionable yet suitable for work, leisure and a variety of different occasions. Thus, a bag that is big enough to fit A4 papers is widely popular. Also, on average, Chinese consumers tend to carry more cash than bank or credit cards. To accommodate this, Coach's wallets in China have fewer slots for cards, but more space for storing bills. A few months ago, Coach's latest research from 2nd or 3rd tier cities such as Xiamen, Xi'an, Shenyang, and Chengdu showed that consumers are less focused on carrying bags which have clear logos than they expected. Based on this, Coach products allocated to these markets will differ accordingly.



Why is it important in China?

Luxury brands are extending into 2nd and 3rd tier cities, due to the sheer size and geographic differences within China, market research is essential, especially when luxury brands need to still remain a certain feel of exclusivity yet still being able to sustain high growth rate in China. Coach's market research regarding consumer preferences is relevant to its "affordable luxury" positioning. For other luxury brands, **market research can also be applied accordingly to their prospective target brand image.**



Special Thanks



Linkfluence is a commercial brand of RTGI SAS, a French company founded in 2006 by members of Franck Ghitalla's university research group. Linkfluence's innovative tools, methods and concepts allow the company to divide, analyze and map social web communities. Linkfluence is an ESOMAR Excellence Award nominee with offices in Paris and Mannheim.

Labbrand is the leading China based branding consultancy that provides market and consumer research, brand strategy, and creative services to develop and manage successful brands. With headquarter in Shanghai M50 Creative Industries Park and featuring an international team of market research and branding experts, Labbrand combines creative and scientific methods to inspire, guide, measure, and create local and global branding practices.

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Dan CUI – Fashion Director at GQ China

GQ is one of the most influential male fashion magazines in China. As the Fashion Director of GQ, Mr. Cui frequently interacts with top luxury brands and has a rich understanding of branding within the luxury industry.

Zhiliang YUE – Publisher at LUXURIES

LUXURIES is a top DM magazine focusing on distributing among five-star hotels and high-end private clubhouses. Mr. Yue has extensive background in the industry and has co-organized the 2012 Chinese Luxury Star event.

David TURCHETTI – Managing Director at Blu Inc Media

Blu Inc Media is a subsidiary of Singapore Press Holdings (SPH), one of the largest media groups in Asia and listed on the Singapore Stock Exchange. The company publishes several magazines targeting China's wealthiest tycoons and entrepreneurs, including Asia-Pacific Boating, China Boating, JET Asia-Pacific, Asia Spa, POLO, Action Asia and Luxury Properties. Offices are located in Singapore, Hong Kong, Shanghai, Beijing and Shenzhen.



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