MAKING ONE'S MARK ON TOMORROW'S WORLD

Roger Vickery

International Brand Growers

London Paris Montreux Milan Casablanca

Helping take your name further

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lundi 10 septembre 12

Ladies and Gentlemen, I wish you all a very good morning. My name is Roger Vickery. I run International Brand Growers - IBG - which advises brand owners or would-be brand owners on how to grow premium and luxury brand names **internationally**. IBG assists them in auditing existing brands, developing new brand concepts and brand-names, protecting and defending those brands and in negotiating various sorts of transactions to ensure their development and expansion. We also advise famous and prestigious places - towns - such as Saint-Tropez or St Moritz, on how to grow their names and events into brands and generate revenues with them.

So. Here we have one bunch of people who are saying “Go West, young man” and another bunch of people who are saying “We have to go East, young man”…

Not easy to reconcile, risky, but here we go - “Making **your** mark on tomorrow’s world.”

"The 12th-century chateau and its vineyards were sold earlier this year to a gambling tycoon from Macau for an unprecedented figure of 8 million euros ($10 million)",

Jean-Michel Guillon,
President of the Gevrey-Chambertin winemakers' association.

Last Saturday evening, my daughter, Alexandra, greeted me with a question : "What do I think of the sale of the Château de Gevrey-Chambertin to a Chinese millionaire ? "

To her amazement, my answer was : "As long as he doesn't de-construct and ship it to China - Why not ? It will be good for Burgundy, even if it may mean higher prices for my wine !" Here's why :

and so I gave a subtitle to this talk :

EAST MEETS WEST

“East meets West”

But then again, from what we’ve been reading lately it should probably read :

EAST **EATS** WEST

“China is buying up Europe.”

European Council on Foreign Relations

“East eats West”.

Because this is the tone of what seem to be the fears - however unvoiced they may remain.

A NECESSARY REALITY :

"To reject China's advances would be a disservice to future generations, as well as a deeply pessimistic statement about capitalism's confidence in itself."

The Economist

"84/100 of top new (non OECD) global businesses are headquartered in Brazil, Russia, China, or India !"

Boston Consulting Group

CORPORATE CHINA'S SHARE OF GLOBAL INVESTMENTS
IS ONLY 6%... SO FAR

The British magazine « The Economist » believes that :
« To reject China's advances would be a disservice to future generations, as well as a deeply pessimistic statement about capitalism's confidence in itself. »

It is not IBG's role to have an opinion on this, although we believe firmly in free trade and trans-national investment as parts of a formula for world-safety and peace.

Moreover, of the top 100 new global businesses, from the non-OECD countries, listed in a report by Boston Consulting Group, 84 were head-quartered in Brazil, Russia, China, or India.

Among these, « Chinese firms own **just 6% of global investment** in international business. »

EU TRADING PARTNERS

EU TRADE WITH MAIN PARTNERS (2011)

The Major Imports Partners

Rk	Partners	Mio euro	%
	Extra EU27	1 683 931,0	100,0%
1	China	292 070,9	17,3%
2	Russia	198 178,2	11,8%
3	United States	184 141,2	10,9%
4	Norway	93 528,7	5,6%
5	Switzerland	91 204,1	5,4%
6	Japan	67 444,8	4,0%
7	Turkey	47 588,4	2,8%
8	India	39 256,9	2,3%
9	Brazil	37 751,6	2,2%
10	South Korea	36 057,0	2,1%
11	Saudi Arabia	27 933,3	1,7%
12	Algeria	27 534,4	1,6%
13	Nigeria	24 190,0	1,4%
14	Taiwan	23 917,1	1,4%
15	Canada	22 852,4	1,4%
16	Kazakhstan	22 672,7	1,3%
17	Malaysia	20 988,0	1,2%
18	Singapore	18 937,5	1,1%
19	South Africa	17 774,0	1,1%
20	Thailand	17 534,2	1,0%
21	Mexico	16 269,1	1,0%
22	Indonesia	16 152,5	1,0%
23	Iran	15 887,6	0,9%
24	Ukraine	14 975,3	0,9%
25	Azerbaijan	14 785,5	0,9%

The Major Exports Partners

Rk	Partners	Mio euro	%
	Extra EU27	1 531 122,0	100,0%
1	United States	260 566,8	17,0%
2	China	136 216,9	8,9%
3	Switzerland	121 690,6	7,9%
4	Russia	108 448,9	7,1%
5	Turkey	72 587,6	4,7%
6	Japan	48 970,3	3,2%
7	Norway	46 531,0	3,0%
8	India	40 419,4	2,6%
9	Brazil	35 729,7	2,3%
10	United Arab Emirat	32 614,2	2,1%
11	South Korea	32 418,5	2,1%
12	Australia	30 804,9	2,0%
13	Hong Kong	30 189,6	2,0%
14	Canada	29 607,2	1,9%
15	Singapore	27 131,3	1,8%
16	Saudi Arabia	26 395,5	1,7%
17	South Africa	25 639,0	1,7%
18	Mexico	23 802,6	1,6%
19	Ukraine	21 197,0	1,4%
20	Algeria	17 204,7	1,1%
21	Israel	16 835,9	1,1%
22	Taiwan	16 207,1	1,1%
23	Morocco	15 168,0	1,0%
24	Egypt	13 904,4	0,9%
25	Nigeria	12 501,0	0,8%

The Major Trade Partners

Rk	Partners	Mio euro	%
	Extra EU27	3 215 053,0	100,0%
1	United States	444 708,0	13,8%
2	China	428 287,8	13,3%
3	Russia	306 627,1	9,5%
4	Switzerland	212 894,7	6,6%
5	Norway	140 059,6	4,4%
6	Turkey	120 176,0	3,7%
7	Japan	116 415,1	3,6%
8	India	79 676,2	2,5%
9	Brazil	73 481,3	2,3%
10	South Korea	68 475,6	2,1%
11	Saudi Arabia	54 328,8	1,7%
12	Canada	52 459,6	1,6%
13	Singapore	46 068,8	1,4%
14	Algeria	44 739,0	1,4%
15	South Africa	43 412,9	1,4%
16	Australia	42 559,7	1,3%
17	United Arab Emirat	41 384,3	1,3%
18	Hong Kong	40 322,4	1,3%
19	Taiwan	40 124,2	1,2%
20	Mexico	40 071,8	1,2%
21	Nigeria	36 691,1	1,1%
22	Ukraine	36 172,3	1,1%
23	Malaysia	32 903,0	1,0%
24	Israel	29 476,2	0,9%
25	Thailand	29 393,5	0,9%

"EU27 was China's **largest export market** (20.1%) and its **second** largest source of imports (13.2%) in 2010. In 2011, China was the EU's single **number one** source of imports (17.3%) and its **second largest export** destination (8,9%), behind the USA. EU27 imported a gigantic 292 billion € of goods and services from China, but only exported about 136 billon € worth - less than half.

In 2011, China's overall trade surplus with EU27 was about 155,9 billion €, **down from 169.9 billon €** - or 9% on 2010, but its share of EU27's imports overall dropped 7.4 %.

By comparison, China's trade surplus with the entire world was up from 188.7 billion € to 205.6 billion € - about +9%. In 2011, China exported clothing and textiles to EU27 for 39 billion €, of which 31.9 billion of clothing (44% of all EU clothing imports). China only imported about 1.6 billion € worth - about 60% were textiles.

China's surplus with EU27 for textiles and clothing was therefore about 37.4 billion €. Nonetheless, in spite of this, **China remains EU27's 6th largest market for textiles and its 8th market for clothing.**

This means that China exported, **more or less, 25 times as much clothing and textiles to EU27** as it imported.

BE READY, MOVE SWIFTLY, CONSOLIDATE...
AND LEARN FROM PAST MOVES

- Time for “bottom-picking”
- Time to move
- Time to invest
- Time to make your mark

Protectionist legislation may be in the wings in both hemispheres

“Corporations and investors may have to face greater trade and investment protectionism that may be provoked through increasing political tensions in countries that may be against foreign trade and investment from emerging economies. This could include the USA.”

IMF

After analysing a whole bunch of studies, it is our advice to those Asian or other companies who want to increase their global footprint - to make their mark on the world - that now is a good time to do it.

Not just because of the smartness of “bottom picking”, but because it is somewhere between possible and probable that over the next few years, nationalistic reactions in some countries will start to interfere with private sector ambitions **and** protectionist legislation may come to bear.

Nonetheless, while European national and regional investment promotion agencies compete to attract Chinese investment, certain concerns have been voiced about some restrictive Chinese rules and practices in the “level playing field”, because of the strong Chinese support for its companies when investing abroad, especially on behalf of the state owned firms.” (IMF)

TRACKING GROWTH

ONE MAN'S LOSS IS ANOTHER MAN'S GAIN (AND MAY BE HIS TOO)

" As some companies in the West struggle amid the recent economic recession, it provides Chinese enterprises with ripe acquisition opportunities. "

" è possibile anzi molto probabile che aziende della moda con marchi minori e finanziariamente deboli finiranno per essere tentate dai capitali cinesi. "

Ferruccio Ferragamo

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" It is possible, even very probable, that financially weak fashion houses with secondary brands will finish by being tempted by Chinese capital. "

Ferruccio Ferragamo

Looking more closely at fashion and luxury, with slow growth both in Europe and the USA - **even if the USA is starting to look somewhat better** - and following the principle that says that the Chinese **luxury goods markets is growing at about twice the rate of GNP** (Gross National Product), *(Yang Qingshan, UIBE)* I guess there isn't much of a debate going on.

If Europe is struggling to reach somewhere between 1 and 2% annual growth in GNP, and if, as Bain &Co says, China's luxury market is still growing at the rate of about 20%, even if it's down from about 30% in 2011, (hardly a disaster by comparison) **and**, if, as McKinsey is telling us, by 2015, China is going to represent over 20% of total world market for luxury and more than US$ 10 billion, **where are Italian, French, German and British brand owners going to be looking to build their businesses**, profits and brand presence?

It sounds to us as if some sort of "coming together" has to happen.

COMING TOGETHER ?

European brand owners see China as their perpetual cheap source of manufacturing and a quick way to finding high volume consumption fast and at low cost.

Luxury Society – The Bulletin - 14 Jun 2012

While the “Euro Zone crisis” is an “external risk” for China, both its politicians and its industrialists see Europe as a potential fundamental strategic partner.

Ironic : it is said that Chinese industrialists only think “short term” and their European counterparts “long term”.

As to future business relationships between Europe and China:

On the one hand, European brand owners see China as their perpetual cheap source of manufacturing and now as a quick way to save their skins – following what “Luxury Society’s” blog calls the “hangovers from 2008’s global financial crisis” - by finding high volume consumption fast and at low cost.

On the other hand, while the “Euro Zone crisis” is considered to represent a significant “external risk” for China, we have both China’s politicians and its industrialists looking to Europe as a potentially **fundamental** strategic partner.

We find this sort of ironic, as the official line is that Chinese industrialists only think “short term” and their European counterparts “long term”.

ALREADY REALITY

A historic transfer of relative wealth and economic power from the western hemisphere to the eastern hemisphere.

"More firms will become global and those operating in the global arena will be more diverse, both in size and origin, more Asian and less Western in orientation."

Either way, we are witnessing **an historic transfer of relative wealth and economic power from the western hemisphere to the eastern hemisphere**, and even if Richemont owns "Shanghai Tang", Hermès is launching "Shang Xia" and rumours have it that PPR is still trying to buy at least one Chinese luxury brand, the movers and shakers are likely to be coming out of China.

"More firms will become global and those operating in the global arena will be more diverse, both in size and origin, more Asian and less Western in orientation", according to the NIC report "2025".

Chinese and other sovereign wealth funds have injected more capital into emerging markets than the IMF and World Bank combined and this trend could even continue with unwinding global imbalances. China is already beginning to couple SWF (Sovereign Wealth Funds) investment with direct investment, often directly outbidding the World Bank on development projects.

TAKING A SHARE IN GROWTH

« We seek global investment projects. They should have relations with the Chinese market and be able to benefit from the growth of China. Europe has many good opportunities. The most popular investment sector is consumption upgrading, followed by financial services, resources and industrial upgrading. »

Liang Xinjun, CEO, Fosun Group

« Most of the acquisitions carried out by Chinese companies in Europe are intended to bring new technologies and products to China in order to improve their growth in the Chinese market."

Antwerp Management School
Euro-China Investment Report 2011-2012

Chinese investors appear to be aiming at taking an indirect share in the increases and improvements in consumption in their own domestic market and believe that the ways of doing so are to be found in Europe. Looking at the leading brand names in China, mostly foreign as we know, this is, indeed, an obvious place to be looking for opportunities.

Liang Xinjun, CEO of Fosun Group - now this man is really putting his mark on the world - has said that - beyond retail and resorts - the "other areas" of interest to Chinese investors are energy, infrastructure, automobile and consumer electronics." So, he doesn't seem to have spotted wines yet.

According to the United Nations, "**China's outbound direct investment came to $68 billion in 2010**, up 20.4 percent year-on-year." That's still small compared with the US at $329 billion, but more than five times what it was five years earlier.

According to the Ministry of Commerce, the **outbound direct investment of China will be $150 billion in 2015.** »

PACMAN STRATEGY

- Aquascutum, UK (Japan/HK) - YGM, China
- Bedat &Co, Switzerland - Luxury Concepts, Malaysia
- Cerruti, Italy and Gieves & Hawkes, UK - Trinity, (Li & Fung) China
- Escada, Germany, Mittal, India
- Ferretti (yachts), Italy - Shandong, China
- Folli Follie, Greece and Club Med, France - Fosun, China
- IBM, USA - Lenovo, China
- Jaguar and Land Rover, UK - Tata, India
- Lanvin, France - Shaw-Lan Wang, Taiwan
- Miroglio, Italy - Mandarin Capital Partners, China
- Pringle of Scotland, UK - Fang Brothers Knitting, Hong Kong, China
- Sonya Rykiel , France- Fung Brands, Hong Kong, China
- ST Dupont, France - Dickson Poon, Hong Kong, China
- Valentino and Missoni, Italy - Mayhoola, Qatar

These are just some of the luxury and premium brands and companies that have recently been bought by Middle Eastern and Asian investors.

READY MADE FROM ITALY

“La Cina sia pronta a cogliere ogni opportunità per inserirsi nella partita del made in Italy del lusso.”

Mario Boselli

“China is ready to take every opportunity to get into the « made-in-Italy».“ luxury business

Mario Boselli

“China is ready to take every opportunity to get into luxury “made-in-Italy “ “. (President, Mario Boselli.)

READY MADE FROM ANYWHERE

"…The paradigm of provenance is changing too. Burberry unashamedly manufactures in China, where it believes it can find the most price effective levels of high quality."

"Provenance seems less defined today by manufacturing locale or controlling conglomerate, than it is by communications and respect for heritage."

"Nobody really cares any more where clothes and leather goods, or even jewellery, are made as long as they're well and fairly made. They do about watches and cars"

Western use of Chinese manufacturing has been helped by a significant change of attitude for everything except the highest positioned luxury names.

« … Burberry, a brand whose key proposition is its 'British-ness', unashamedly manufactures in China, where it believes it can find the most price effective levels of high quality. They once again achieved growth in the double digits and record-breaking global sales. »

Ralph Lauren was already making trousers in Korea over 20 years ago. That never seemed to bother anybody then and does even less now, particularly in the USA.

People don't really care any longer where things are made, with the possible exceptions of products of France and Italy and Scotland, if they are made well and if they are sure that **the brand owners** have verified and controlled their sources of production: primarily they expect **real** « greenness » and will reject "green-washing".

We will see later that the question of origin is not quite so simple in legal terms.

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Walking around the Royal Academy exhibition of « The Three Emperors, 1662—1795 », a few years ago, it dawned on me just how deeply entrenched the art of fine fabrics and workmanship in clothing and objets d'art are in Chinese history and culture.

In the 18th century, China and India were the largest contributors to worldwide economic growth. Now, both countries are restoring the positions they held two centuries ago when, China produced approximately 30% and India 15% of the world's wealth.

Then came the 19th and 20th centuries and European prominence, then communism and world wars. In the 1930's - according to my father - the finest tailors in the world for light-weight suits were in Shanghai.

Since the end of World War II, the USA has led and dominated the world. In the US and Europe, older brands are often preferred to new ones. In China, old Chinese brands are an anathema, for the most part, because they recall an era of scarcity and little or no consumer choice.

Some experts are querying whether acquisition of foreign brands is “ the best way for Chinese enterprises to enter the luxury market, since the acquired brands are still foreign and lack Chinese elements.”

What we do know is that only if brands respect and talk about their own DNA will they have a chance of penetrating the minds of luxury goods and fashion consumers. Market share in luxury too depends on “mind share”.

For the time being, it is **just as possible** that the **relative** novelty of the mandarin collar, frog buttons, and slit skirts will wear off quite quickly through **over-exposure**, as it **is possible that** these looks will become the new standard black-tie format from Mexico to Moscow.

We tend towards the thinking that, through travel, through education abroad, Internet, and the inherent exposure to international brands and taste, the Chinese market’s own tastes will come more and more into in line with global taste and, more particularly, certain notions of social dress and conventions. On the global front, it is likely that retail influence will cause Chinese up-scale clothing reduce attributes based on Chinese culture, but Chinese clothing manufacturers will reap benefits - especially during their launch phase - from certain traditional crafts that could be pleasing to the global market, at least for a while. The support of the Chinese diaspora for new “Chinese Global Brands” may extend this launch period in some countries, in particular for formal and ceremonial clothes - weddings, New year, graduation...

It is also a possibility that, hand-crafted, high-quality traditional Chinese furniture and furnishings (including home-textiles) or such items using modern designs with a traditional Chinese “look-and-feel” may find a global welcome and become a longer-lasting fashion, along the lines of early 20th Century “Orientalisme” or they may even become “new antiques”, if there is **excellence**.

TOMORROW'S WORLD ?

- At the end of the 17th century the world population of naked apes was only 500 million.
- It has now risen to 3000 million. (1965) (* 2010 : about 7 billion)
- Every 24 hours it increases by another 150 000.
- In about 250 years time, if this rate of increase stays steady, which is unlikely, there would be a seething mass of 400 000 million naked apes crowding the face of the earth.
- This gives a figure of 11 000 individuals to every square mile of the entire land surface.

Desmond Morris (The Naked Ape) around 1966 - revised 1994

Like Dr. Morris, we do not believe that present population growth rate will remain steady and 250 years is very long term, anyway.

As John Maynard Keynes put it "in the long term, we're all dead" anyway.

Estimates for 2020 to 2025 are that there will be between 7.5 and 8 billion human apes on earth.

So let's take a look at the next 10 years or so.

WHERE WILL MAIN MARKETS BE BY 2020 - LUXURY OR OTHERWISE ?

By 2020, or thereabouts, it is probable that something like :

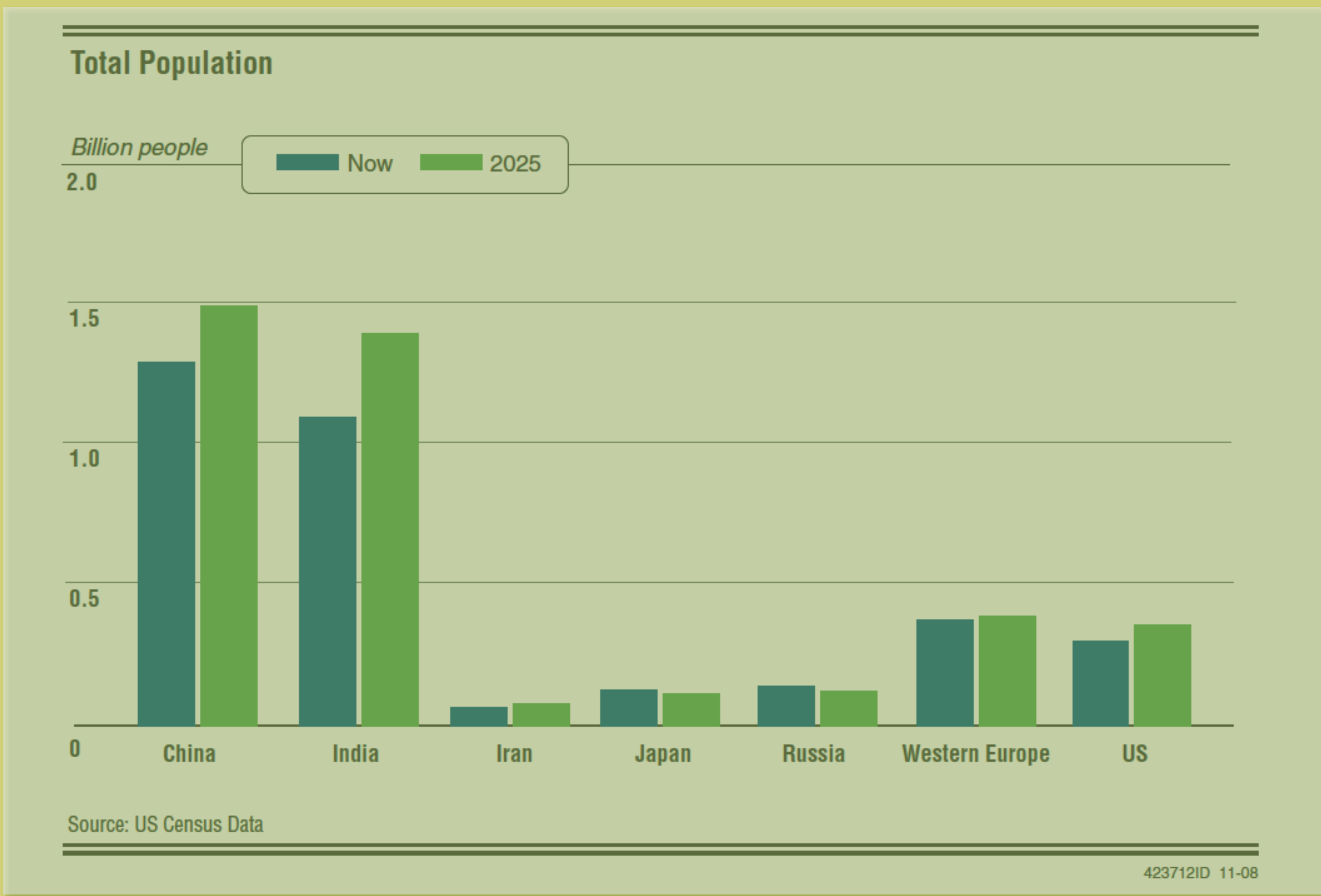
- 19 out of every 100 human beings on Earth will be Chinese
- 17 out of every 100 will be Indian
- i.e.: total Asia will represent 56 out of every 100 people on Earth
- 16 will be African, of which 13 will be from Sub-Saharan Africa
- 13 will live in the Americas but only 4 in the USA
- 7 out of every 100 will live in Central Europe and the Ex Soviet Union
- **Only 5 will live in Europe**
- **And only 3 out of every 100 will live in the Near and Middle East**

NIC Report 2020 - IBG Analysis

Isn't that staggering ? It staggered me !

For Chinese and Italians alike, these simple percentages show just how important it is to get a handle on where those capable of buying **anything,** including branded products, are going to be found in coming years, if they are going to make their marks in shifting world markets.

WHERE WILL WORLD MARKETS STAND BY 2025 ? POPULATION GROWTH



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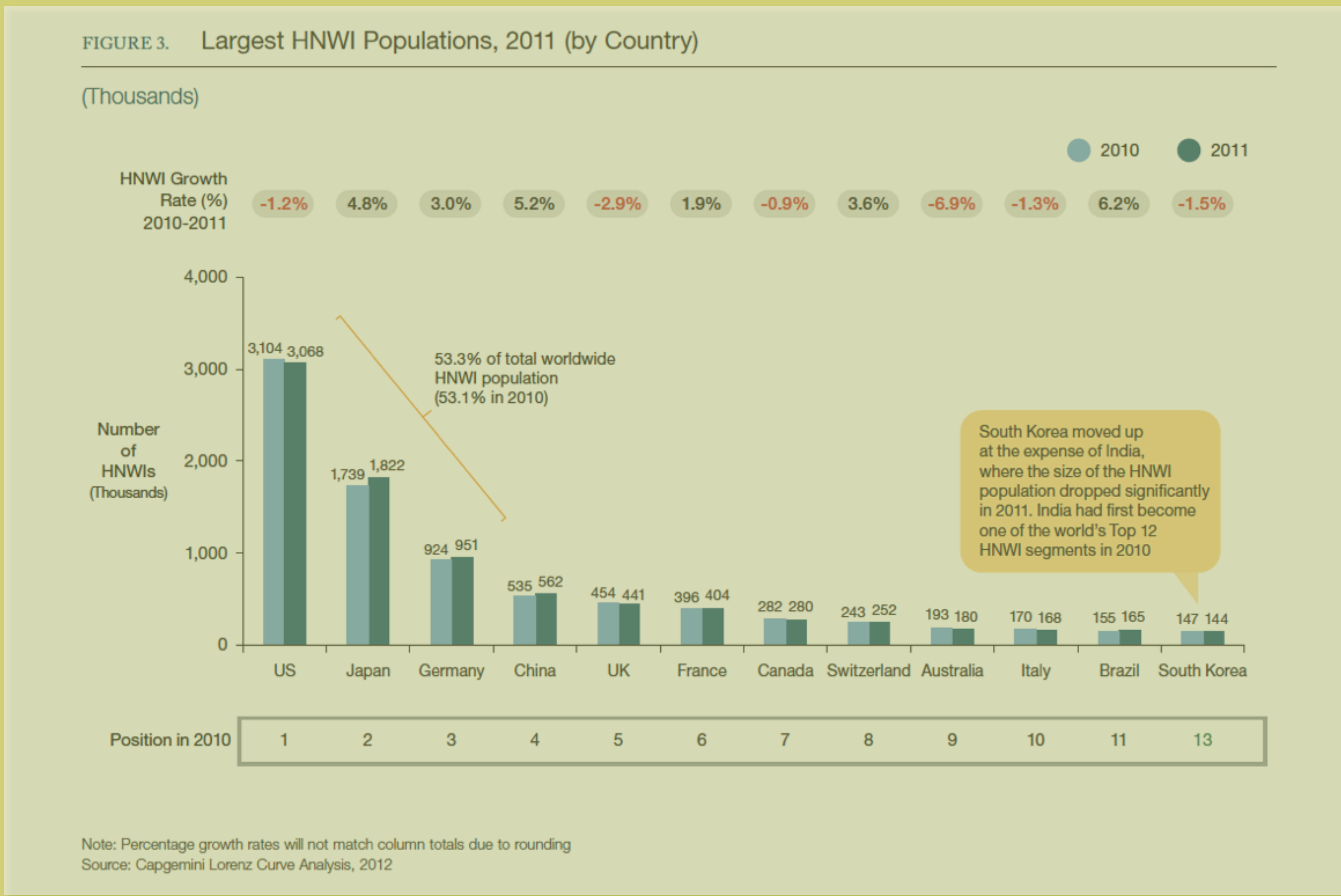
Over the next 20 years, Asia, Africa and Latin America will account for virtually all population growth. Less than 3% of the growth will occur in the West. The populations of China and India could reach 1.5 and 1.4 billion respectively.

“By 2025 it is probable that three trading and financial clusters will make up the world - North America, Europe and East Asia.” (NIC)

Sub-Saharan Africa will continue to be a difficult market or a market with low potential. If China makes consequential moves in favour of human development in Africa, while exploiting its natural resources, this will help the image of Chinese industry and to put its mark on this continent.

PRESENT-DAY WEALTHY INDIVIDUALS



HNWI's are "High Net Worth Individuals" - for short, millionaires.

The US still has the most millionaires, followed by Japan. Germans are the wealthiest Europeans. Then come the Brits the French, the Swiss and at the bottom of the top ten, for the moment, the Italians. Canadians, Australians, Brazilians and South Koreans have clear potential.

Estimates for China vary considerably and depend partly on the definition of **millionaire**, whose disposable assets Bain &Co puts at 1 million Euros and Forbes at US$1.5 million.

There are somewhere between 400 000 and just under 900 000 Chinese millionaires. 70% of wealthy Chinese people live in Tier 2 cities, and there could be between 140 (Capgemini) and 400 Chinese "dollar billionaires" (Rupert Hoogewerf, The Hurun Report of Wealthy Chinese), whose wealth jumped from 170 to 314 US$ billion. *(We suspect that these figures include Hong Kong, Macao and Taiwan.)*

By region, Guangdong province is home to nearly 80,000 of the super rich, with Zhejiang in second place (40,000), followed by Jiangsu, Beijing, Shanghai and Fujian.

THE MILLIONAIRES MARKET

- Asia-Pacific HNWI's rose 1.6% to 3.37 million in 2011, surpassing North America for the first time
- Investable wealth of Asia-Pacific HNWI's also declined, to US$10.7 trillion (-1.1%).
- Europe's HNWI's assets = US$10.1 trillion, down 1.1% in 2011
- N° of HNWI's in Europe rose by 1.1% to 3.17 million
- In Latin America, HNWI's wealth declined 2.9%, though the HNWI population grew by 5.4%.
- India dropped out of the Top 12, and was replaced by South Korea. India's HNWI's shrank by 18.0%.
- Middle East HNWI's rose 2.7% to 0.45 million and wealth edged up 0.7% to US$1.7 trillion.
- Hong Kong's HNWI's shrank by 17.4%
- HNWIs declined 7.8% in Singapore and 7.3% in Poland.

Capgemini & RBC (World Wealth Report 2012)

The number of HNWIs in Asia-Pacific rose 1.6% to 3.37 million in 2011, surpassing North America for the first time.

In North America, HNWIs' assets totaled US$11.4 trillion in 2011, down 2.3% from 2010, and Asia-Pacific's HNWI's held assets worth US$10.7 trillion, down 1.1%

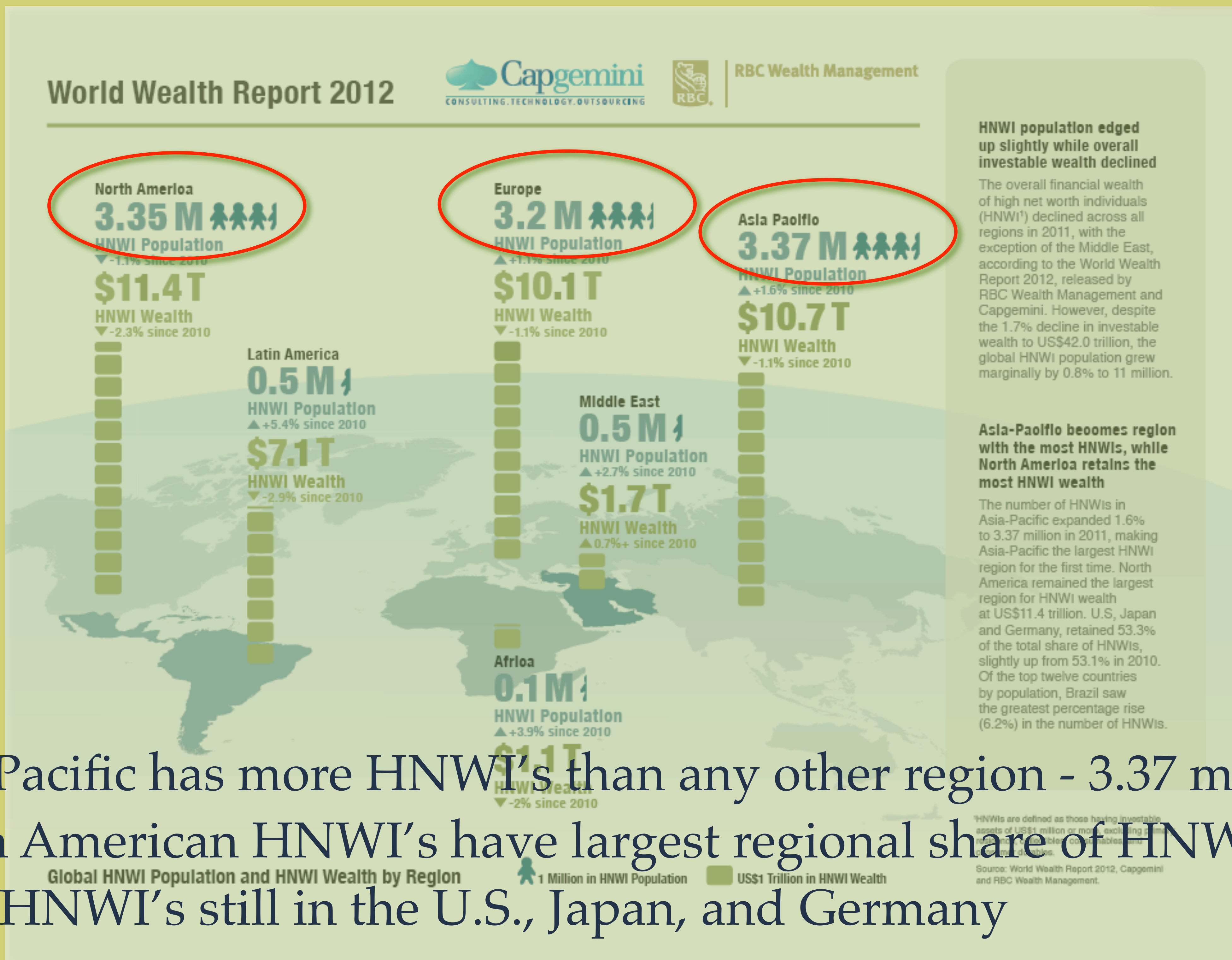
Hong Kong's HNWI population shrank by 17.4%.

The HNWI population of Singapore dropped 7.8%.

Poland's HNWI population, which suffered the direct effects of the Eurozone crisis in 2011, dropped 7.3%.

WHERE SHOULD YOU BE MAKING YOUR MARK ?

RECENT SHIFTS IN KEY WORLD MARKETS FOR LUXURY GOODS



- Asia-Pacific has more HNWI's than any other region - 3.37 million
- North American HNWI's have largest regional share of HNWI wealth
- Most HNWI's still in the U.S., Japan, and Germany

According to the World Wealth Report 2012 by Capgemini & RBC:

The world's population of HNWI's changed little in 2011. There are about 11 million of them, but their aggregate investable wealth – in terms of asset values - dropped 1.7% to US$ 42.0 trillion.

For the past thirty years or more, the USA has represented 50% of the world's luxury goods market. but its share has started to slide and it is likely to continue to do so. The luxury retail market in Asia-Pacific, excluding Japan, has more than doubled in the last five years. In North America, HNWIs' assets totaled US$11.4 trillion in 2011, down 2.3% from 2010, and Asia-Pacific's HNWI's held assets valuing US$10.7 trillion, down 1.1%

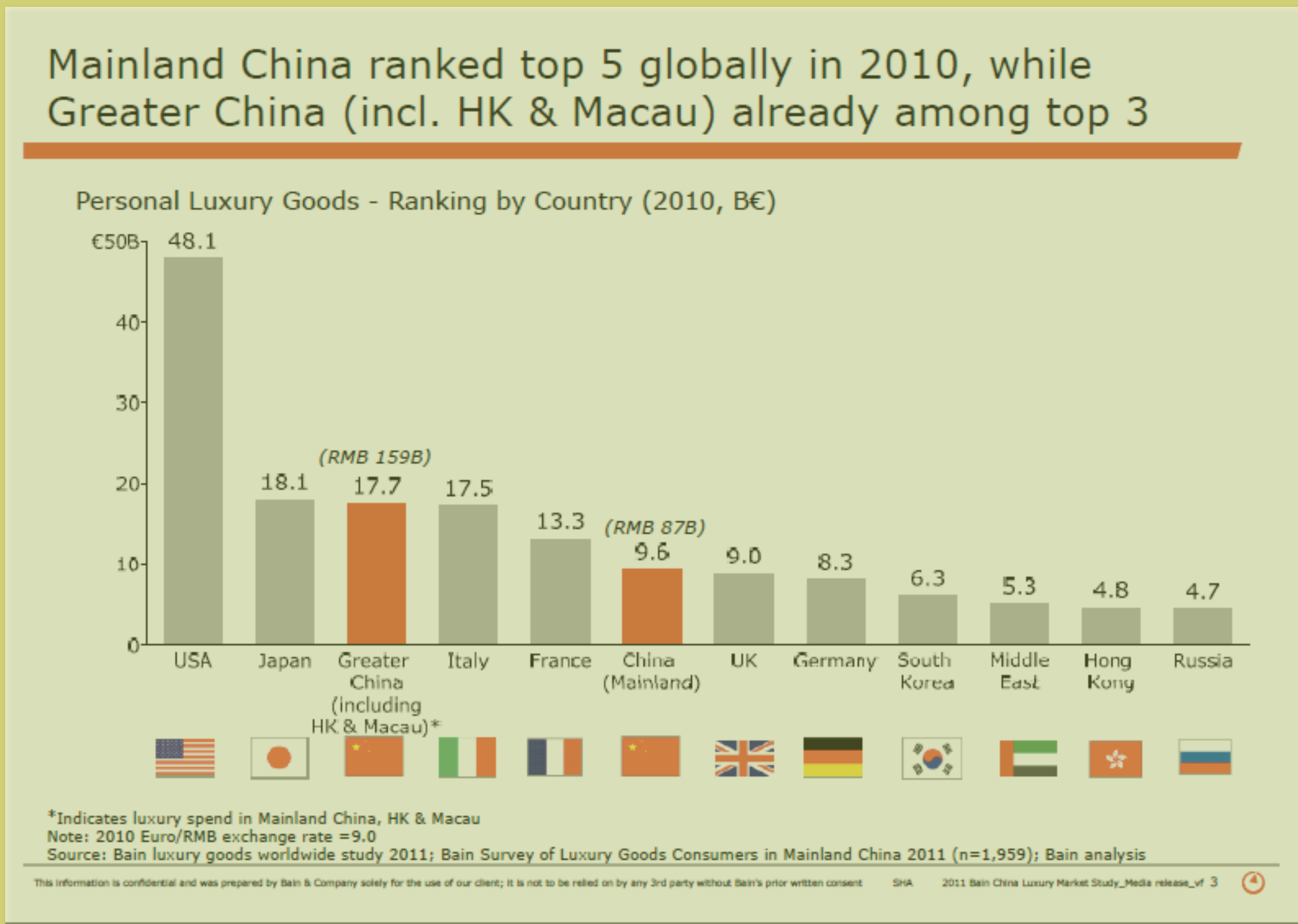
Now distribution of wealth held by HNWI's - is about equal among the US, Europe and Asia Pacific : 1/3 each with around 11 trillion dollars. However, the actual number of HNWI's per country shows a rather different picture. The global luxury market is forecast to increase by over 50% by 2015. Expenditure in Asia-Pacific, excluding Japan, now equals the Americas.

Asia-Pacific is now home to slightly more HNWIs than any other region, though North American HNWIs still account for the largest regional share of HNWI wealth.

The bulk of the world's HNWI population remains concentrated in the U.S., Japan, and Germany.

Of course, the proportion of "ultra-rich" among HNWI's changes the scenario somewhat, especially when it comes to the Middle-East.

PRESENT RANKING OF WORLD MARKETS FOR LUXURY GOODS



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In China, fashion sales have tripled in 5 years, luxury car sales have been multiplied by 5, and luxury real estate by 7. (Note that the precise evaluation of luxury consumption in China is made more difficult by the inclusion of data relating to variously defined product groups and services.)

Interest in luxury is moving beyond handbags, jewellery, fashion, wines and the like and much is said about the trend towards more discreet consumption. A growing number of Chinese luxury consumers are also spending heavily on spas and other wellness activities.

Statistics on expenditure by Chinese abroad vary to the point that we consider them to be unreliable. It is also difficult to assess the role of Chinese, or indeed other non domestic consumers, in luxury purchases for countries such as the UK, France and Italy. **The essential trend appears to be that Mainland China is getting an increasing share of luxury consumption, all in.**

China is expected to account for about 20 percent, or 180 billion renminbi ($27 billion), of global luxury sales in 2015, according to new McKinsey research.

WHERE WILL MAIN MARKETS BE BY 2020
THE ARRIVAL OF THE NEW MIDDLE CLASS

- 1994 - 2004 - over 135 million people escaped from poverty

By 2020 :

- World economy will be 80% bigger than in 2000

By 2025 :

- World's poverty will shrink by 23% - BUT still 63% world population
- Virtually all population growth will come from Asia, Africa and Latin America for the next 20 years
- Europe and Japan - still highest per capita
- Indonesia could be the size of individual European countries by 2020
- Bad outlook - Pakistan, Afghanistan, Nigeria and Yemen

Between 1999 and 2004 more than 135 million people - the population of Japan or almost as many as live in Russia - escaped dire poverty. By 2025 to 2030 the portion of the world considered to be poor will shrink by about 23%, but the world's poor - still 63% of globe's population - stand to become relatively poorer - dixit The World Bank.

By 2020 it is projected that the world economy will be about 80% larger than it was in 2000 and average per capita income will be roughly 50% higher – although growth will not be linear.

Over the next 20 years Asia, Africa and Latin America will account for virtually all population growth. Less than 3% of the growth will occur in the West.

Europe and Japan are likely to continue to outdistance the emerging powers of China and India in terms of per capita wealth but they will struggle to maintain robust growth rates because the size of their working age populations will decrease.

The US may be a partial exception to the ageing of populations in the developed world because it will experience higher birthrates and more immigration.

Indonesia could also be the size of individual European countries by 2020.

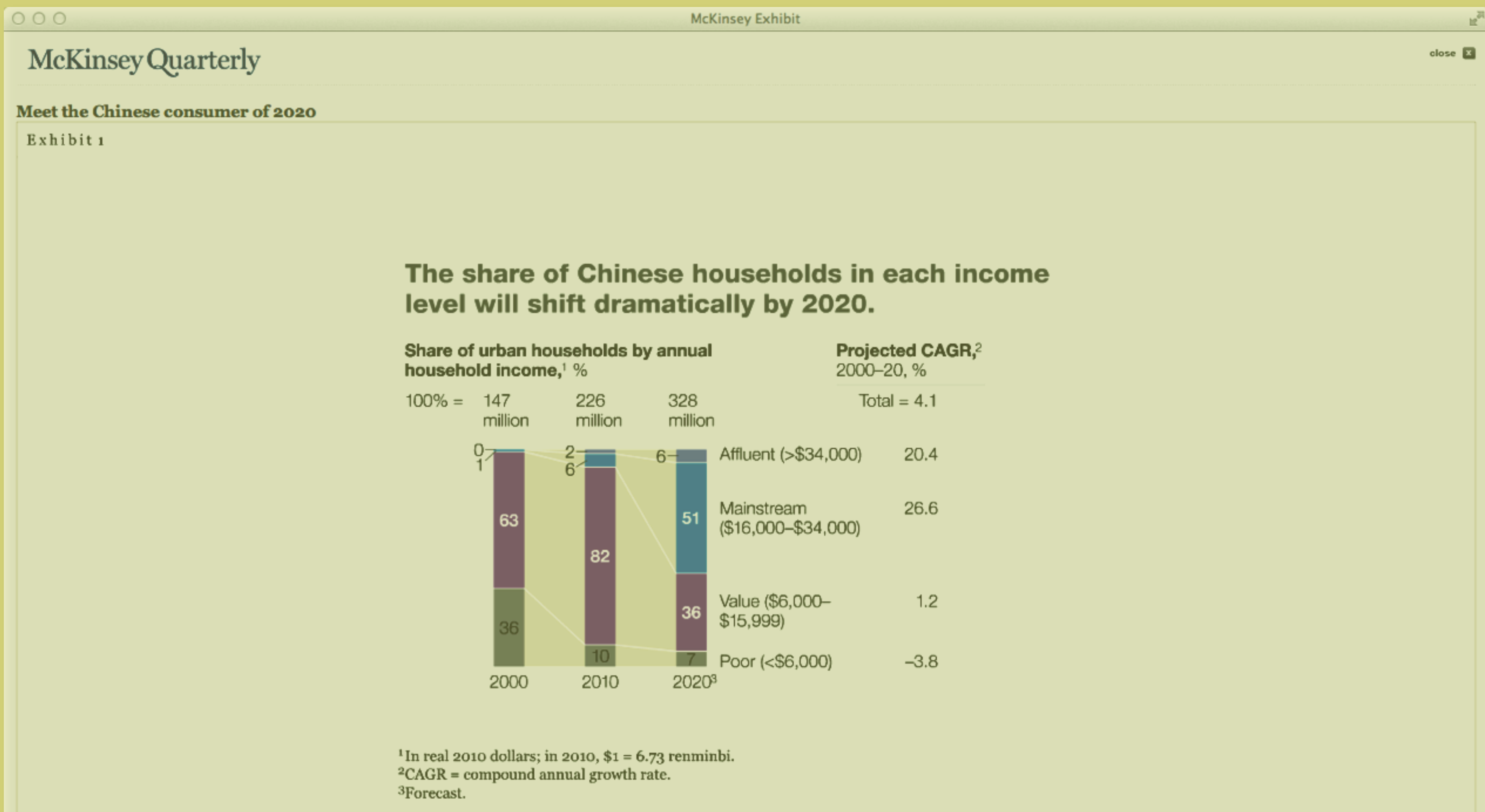
In those countries, which will have to deal with "youth bulges" and weak economic underpinnings such as Pakistan, Afghanistan, Nigeria and Yemen, the radical Salafi trend of Islam is likely to gain traction and markets are unlikely to develop. (NIC)

The next phase of expansion into the luxury markets in Asia-Pacific and other parts of the globe, but particularly in China, will be the new middle-classes. Official Chinese estimates are that there will be around 280 million middle class families by 2020, but this could well come sooner.

Chinese per capita GDP shot through the US$ 5000 barrier once again far earlier than expected, even if "China's GDP growth fell to 7.6% year-on-year in the second quarter of this year, the lowest in three years." (National Bureau of Statistics.)

When doing similar research on emerging markets in 2008, we noted that various high-level reports expected China to become the world's second largest economy in around 2014/15. It happened, in fact, some time between 2010 and 2011 !

WHERE WILL MAIN MARKETS BE BY 2020 - LUXURY OR OTHERWISE ?



Global middle class will number 1.2 billion by 2020

Most new members will be in China and India - mostly China

The global middle class is projected by the World Bank to swell from 440 million to 1.2 billion or from 7.6% of the world's population to 16.1% by 2020. Most of the new entrants will come from China and India, but mostly China. According to Bain &Co, in China, such new middle-class households with monthly incomes of around 15 000 RMB (2 000 €), in Tier 1 cities, could spend about 21 000 RMB (2 500 €) on luxury goods - we prefer to call this face of the market "non-essentials" - per annum.

The members of China's new middle class are between 25 and 40 years old. The average age of a luxury brand buyer in China is said to be just 34. However, this may be misleading in as much as there are different levels of luxury and certain estimates suggest that 80% of the most expensive items are bought by men of 40 and over. In China, "white-collar workers" – managers – 150 million in all, are steadily becoming regular buyers of luxury brands. There are presently estimated to be 15 to 25 million of them or about 1% of the population. This is an obvious growth market and a community where luxury brands must make their mark.

Boston Consulting Group suggests that by 2020, there will be 330 towns in China with the same purchasing power that Shanghai had in 2010. However, one has to remember that China is 2 1/2 times as big as Europe and that its living conditions are as different as those between "Sweden and Morocco". China is not one market but a group of complex markets, (as Jonathan Siboni, ESSEC, Paris, put it)

It is expected that China will become the world's largest luxury market somewhere between 2015 and 2020. It may happen faster. It jumped from 2 billion dollars in 2004 to an estimated US$15.6 billion last year.

BRANDING TOMORROW'S WORLD

Putting your brand - mark - on tomorrow's world

WHAT MAKES A GOOD BRAND ?

A BRAND IS LIKE AN ICEBERG,

MOST OF WHAT IT'S ALL ABOUT CAN'T BE SEEN !

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A brand is like an iceberg - most of what it's all about can't be seen ! Within that iceberg, hidden below water-level, should be those core values, history, ideas, beliefs and ambitions with which the consumer has to identify.

WHAT MAKES FOR A SUCCESSFUL BRAND ?

- Massive consumer awareness - visibility
- A good underlying concept - depth, originality, clarity - keep messages simple
- A credible and virtuous history - solid track record
- A strong brand community - a fan club - committed stakeholders - good partners - TRUST
- Consistant creative talent and style - “look-and-feel” - wow effect - a super website
- Superb products - intelligent pricing - reliable logistics
- Memorable and unique brand assets
- Lots of your own single brand stores
- Daring - if you can, start big and think big - constantly question your assumptions - will to fight and compete
- Time and timing - for some : lots of time

STORIES TO TELL, PLACES TO TELL THEM IN
AND MONEY TO TELL THEM WITH !

A brand can be most simply defined as “the embodiment of all knowledge a given consumer population has about a brand-owner - his activities, his products, his beliefs and values”. The brand is what allows the consumer to choose a product or service and to measure his degree of satisfaction with regards to the promises made by the brand owner.

Behind a good brand there must be a strong and original brand concept, based on the brand-owners core values, history and ambitions, and beautifully-made products that are as charismatic as the brand. **Never promise what you can’t deliver !** If you disappoint your customers you’ll never be able to build brand-confidence or loyalty.

Successful brands are brands you can trust. Without TRUST, there can be no loyalty. A brand without loyalty can have no “clan”. Without a clan, there is no “peer identification” or repeat business.

The entire “brand language” must convey the reasons for the consumer to believe that trust is justified.

A brand strategy is a long-term, holistic management system. That simply means that the whole organisation has to be involved, to accept, understand and respect brand policies. Because, brands don’t dilute well !

In new world markets, consumers seem to be calling for brands with stories to tell. Brands are a mixture of realities and beliefs, but a brand with no credibility is not a brand !

WHAT MAKES A TOP INTERNATIONAL BRAND ?

Facts of life :

- Only powerful brands work
- All leader brands have tough supremacy policies
- Only branded products can benefit from consumer recognition and create loyalty
- Only brands with high visibility succeed

AND... REFERRALS AND ENDORSEMENTS DO GIVE VISIBILITY

Because :

- Consumers have to know you exist
- Consumers have to be persuaded they want your brand's products
- Consumers have to be able to find them
- Consumers have to enjoy the experience of

A) Buying them
B) Using them
C) Owning them

Some facts of life :

Only powerful brands influence consumers and their purchasing decisions. Research and trade professionals conclude that only truly global brands with global recognition and the power to influence consumers will participate in the takings from new world markets.

All leader brands have domination - **supremacy** - policies – with monopolistic tendencies. Trying to take market share or brand share away from them is **tough and expensive**.

Only branded products can benefit from consumer recognition and create loyalty, bring greater and regular added value and higher margins - but they need building first. Budgets begin in tens of millions of euros.

Referrals and endorsements do work and that costs money. Indirect star referrals work best ! Expect to see footballers and tennis players, as well as movie, hip-hop and pop stars, as brand ambassadors for more and more luxury brands.

For these reasons :
Consumers have to know you exist - and that puts **awareness** at the top of the list. There's no point in having an image if no one knows about you !
You have to convince consumers to identify with your company and to want your brands' products.

Consumers have to be able to find them easily - brands are as distribution-dependent (retail) as manufacturing-dependent

Consumers have to enjoy the experience of

A) Buying them
B) Using them
C) Owning them

So the whole chain has to fit and work synchronously.

CHINA'S 10 BEST KNOWN BRANDS

THE MOST RECOGNIZED BRANDS

Rank	China's top 10 best brands	Asia's top 10 best brands
1	Apple	Sony
2	Nestle	Samsung
3	Chanel	Panasonic
4	Sony	LG
5	Samsung	Canon
6	Uni-President	Apple
7	Panasonic	Hewlett-Packard
8	Nike	Google
9	Canon	Nestle
10	Starbucks	Nike

Source: Campaign Asia-Pacific and Nielsen LI YI / CHINA DAILY

The 10 brands that successfully made their way into the top ten brands in China include Apple Inc, Nestle S.A., Chanel S.A., Sony Corp, Samsung Group, Uni-President Enterprises Corp, Panasonic Corp, Nike Inc, Canon Inc and Starbucks Corp.

It is the first time the luxury brand "Chanel" was listed among the Top **10**.

Only three brands in the Top **20** in the Chinese market were Chinese brands.

No homegrown Chinese brand was listed among the Top **100** in the Asia-Pacific region.

Consumer-electronics brands, for the third year in a row, continue to dominate the rankings.

Haier, TCL and Huawei are starting to appear on Western markets. With the exception of Lenovo, (note the clever Franco-Portuguese name chosen to replace Legend), which gained global awareness overnight by buying IBM's PC business, Chinese brands still have very low international consumer awareness.

Haier sells compact appliances under its own name in the United States, but still sells under European brand names in Europe. Few other companies have reached even that level.

TCL now sells under its own name in developing markets, but markets under the Alcatel, Thomson and RCA brands in the West.

RANKING OF TOP BRANDS FOR LUXURY GOODS IN CHINA

BJ/SH: a few new brands entered top 3 in BJ/SH compared with overall China market in 2010

"What are the top 3 brands you are most likely to purchase in each category in 2011?"

BJ/SH ONLY

	1st	2nd	3rd
Watches	OMEGA	Cartier	ROLEX
Cosmetics, perfumes & personal care	CHANEL	Dior	LANCÔME
Leather goods	LOUIS VUITTON	GUCCI	NEW HERMÈS PARIS
Menswear	GIORGIO ARMANI	Ermenegildo Zegna	NEW BOSS HUGO BOSS
Jewelry	TIFFANY & Co.	Cartier	NEW BVLGARI
Shoes	Salvatore Ferragamo	PRADA	NEW BALLY
Womenswear	CHANEL	BURBERRY	NEW Dior

*Ranking improved in 2011** *New to Top 3 in 2011**

* Ranking compared with view on overall China market in 2010; not for BJ/SH only
Source: Bain Survey of Luxury Goods Consumers in Mainland China 2011 (n=571 for BJ/SH)

Omega is China's favourite watch. Chanel it's favourite cosmetics brand and Vuitton its favourite leather goods. Note that all but one are European brands.

According to the Luxury Institute's report "2011 Luxury Brand Status Index", **Hermès** is top of the list for women's luxury brands followed by **Prada** and third Louis Vuitton. Two French – one Italian.

Homegrown Chinese brands saw their standing weakening on the same list.

In 2004, Chinese spent $2 billion on luxury goods, according Ernst & Young. Last year, estimates are that they spent about $15.6 billion, all in all, putting China on course to become the world's largest luxury market by 2015.

Sales to China now represent 30 to 40% of Italian luxury brands' overall revenues. This is disproportionate to the overall split in world markets and represents a certain danger.

WHAT WILL MAKE A SUCCESSFUL LUXURY BRAND TOMORROW ?

A successful luxury brand is one that makes you feel good – or "cool" - when you wear, carry, eat or drink the goods it signs off on, sit, ride or sleep in them, phone or write with them, watch them, play with them, or simply dream of having them and makes you believe they were hand-made by elves !

IBG

A successful luxury brand is one that makes you feel good – or "cool" - when you wear, carry, eat or drink the goods it signs off on, sit, ride or sleep in them, phone or write with them, watch them, play with them, or simply dream of having them and one that makes you believe they were hand-made by elves !

For "heritage" brands, the elves and their ancestors have been making them in the same way for over a century, somewhere in France or Italy, and tomorrow, who knows where ? Shanghai perhaps ? Certainly somewhere beyond the Cloud...

It is both amusing and relevant to recall that Samsung just lost a trade-mark suit in London to Apple because the judge decided that "Samsung products are not as "cool" as Apple's !)

On a more matter of fact note, the whole of humanity appears to be going through an identity crisis. All emerging markets have personality issues to solve, but so do all dwellers of "megapoles" and the "old world" which has also lost its bearings. The globe is in a state of perpetual social flux.

The world's ego - or self - is in search of help. In a world of instability and displaced populations there is a lack of any clear references on which to build individual identity. In all Asian society "face" - "self-esteem" - is immensely important. Luxury brands stroke the ego. They offer a sort of "crutch for the ego", an "ego support system", a prothesis even.

Particularly in China, signalling one's success and that one is on the way up the social ladder, not just to one's peers but to the strata above and below, by the use of « symbols » works wonders for the ego!

« Ostentatious consumption » (Thorstein Veblen ; Universities of Chicago, Stanford and Missouri, « The Theory of the Leisure Classes", 1899), has always been a sign of power, social status and a successful life. There is plenty of room for such luxury brands in China and many other markets.

"It is very enticing to show success through visible (ostensible) signs capable of giving one a « face equivalent to one's aspirations ».(Eric Fouquier, semiologist, Thema, Paris - in ParisTech review - July 11th, 2012). However, this ostentation is becoming more complex and more subtle in terms of "ego management". The choice of sending children to Europe or the US to get the education that the self-made father did not have himself is a kind of luxury expenditure and a substitute for more material signs of wealth, just as luxury holidays are. The ways in which luxury brands work are changing and if the "status symbol" still works, "tribal brands" and "peer recognition" within a given community are gaining in importance constantly worldwide.

Luxury brands are signs and signatures. As signs, they have to signify criteria such as dignity, worthiness (virtue) and honour in order to function as much as style or monetary value. As signatures they have to guarantee, certify and underwrite their promises. The earliest brands were seals which guaranteed the authenticity of the Emperor's signature. The first known seal was Chinese and dates from 1600 years BC. (Some suggest as much as 4000 years BC.) This was the start of monogrammes which became logos.

WHAT WILL MAKE A SUCCESSFUL LUXURY BRAND TOMORROW ?

A luxury brand is like a cigarette. the more you pull on it, the more all you have left is a “dog-end”.

Pierre Berger

As Chinese consumers become more and more exposed to international luxury and fashion brands, and more discerning, **those same brands run the risk of over-exposure**, if their sales to the Chinese market become excessively high.

Do you recall the first rounds of the Adidas and Burberry’s brand careers ? They both met with “visual saturation” and progressive rejection by the market, until a new creative manner of using their brand assets was put in place with a full relaunch involving products and control of distribution - flagship stores and single brand retail - as locomotives for sales and to ensure optimal buying experiences.

Moreover, if tomorrow the world is split in 3 equal cluster markets, it makes economic sense (Ricardo’s law) to ensure relative market share in any branded business. If China still has to reach 20%, then is not questionable that China should represent as much as 30 or 40% of Italian and other European brands’ business.

This summit is about the global market and the interests of both Italy and China’s manufacturers.

ARE BRANDS ANOTHER FORM OF PROTECTIONISM OR LEGITIMATE SELF-DEFENCE ?

A brand is a sort of protective barrier even if it is essentially psychological or social,

BUT...

It's the brand that allows the consumer to make a choice

Critics say that brands offer a sort of protective barrier, even if this barrier is primarily psychological and sociological and that a well-registered and well-defended trade-mark gives its owner a sort of monopoly.

Yet, if a product cannot be identified, then it is a commodity. The consumer cannot compare and choose.

As said, without a recognisable brand, there can be no consumer-loyalty, no brand-community and no identifiable added value.

The consumption of luxury brands pulls overall consumption upwards and helps to structure society.

TRADE-MARKS AND LABELS OF ORIGIN

- Origin and description - traceability, transparency,
- Increasing obligations to source and make “at origin”
- “Made-in-Italy or “Made-in-China” - same problem
- What is “Italian-ness” or “Chinese-ness” ?
- How to manage brand-extension - line extension - diversification
- Matching design precepts to brand concept - signature look
- Local market specifics
- Does the concept work globally

ENSURE THE LEGAL FOOTING ON WHICH THE BUSINESS MODEL CAN BE UNDERWRITTEN

If new brand-owners focus on “origin” for their brand’s basic consumer promise, whether it be “Made-in-Italy or “Made-in-China” and if their “luxury claim” is based on products being materially well made and well finished, with notions of reliability and durability, then products must bear out those promises.

The idea that “Made in Italy” offers some “uniqueness” is at risk with its future target markets, if anybody of any nationality can just give an Italian name to its products. Emerging markets are, as yet, largely uneducated in terms of the geography and history of Italy and to the principle of “origin”. Italo-Chinese partnerships should put in place agreements to improve the knowledge level of Chinese staff and clients.

Prestige for a “Made-in-China” label still has to be built and this will be achieved by a mixture of engaging the global markets’ emotions and gaining mind-share” as well as improving China’s reputation for material quality, workmanship and excellence.

More fundamentally, **using origin as a main claim makes the trademark “origin-dependent”** and, as such, dependent on the general perception of **the attributes of “Italian-ness” or “Chinese-ness”**.

The problem of product origin and trade-mark protection goes well beyond the threat represented by trade-mark pirates and counterfeit manufacturing. Threats cannot necessarily be removed through legal proceedings under present-day law and it is not sure that intellectual property laws will evolve sufficiently quickly, or indeed that there is an interest in enforcing existing ones or changing them.

The design function of branded products has to be entirely compatible with any such “Made in - ” promise.

One of the increasingly important legal aspects of trade-marks has to do with the “look and feel” of products sometimes called their “signature looks”. “Look and feel” are key to modern-day legal protection.

An essential aspect of any brand strategy is investment in the full protection of the trade-marks. Managing intangible assets also implies early decision-making as to ownership structures and taxation issues.

Within this context of fragile economies and major shifts in market priorities, any brand owner has to ensure a strong legal footing on which the brand’s business model can be underwritten.

BRANDS CONTRIBUTE TO THE CREATION OF WEALTH

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Economically speaking, by influencing consumer purchasing decisions, behaviour and motivations, brands contribute to the creation of wealth through their perceived added value, which determines the price differential to the equivalent commodity (or unbranded equivalent product).

Globally speaking :
It is those companies which have the strongest brands which have the highest PER's

It is said that over 90% of the market capitalisation of today's world stock-markets is brand value - also called brand equity. One only needs to look at LVMH, PPR, Google, Yahoo, Apple or Facebook for confirmation of this hypothesis.

What is clear is that it is those corporations that have the strongest brands that have the highest PER's (price-earnings ratios).

It is in the stock price of quoted companies and not in the assets of the balance sheet that the value of brands is capitalised advantageously. Non quoted companies often have difficulties on this front.

CONCLUSIONS

- The "S.W.O.T." still works
- A "BRAND AUDIT" is your starting point
- Build on what you have and what you are
  i.e.: Remember your roots when sprouting your wings
- Identify priority growth markets and product groups
- Question your assumptions - things move faster than expected
- Invest in design and communication
- Protect your intellectual property effectively
- Get friendly with your bank... and find a good advisor

Measure your Strengths Weaknesses and the Opportunities and Threats (risks) in your various potential markets.

A **brand audit** is the starting point for any revision of a brand strategy and for any acquisition of a brand. A strong **brand concept** is the starting point for any new brand.

Build on what you have and what you are - remember your roots when sprouting your wings. However important your history you have to get out and fly. Think of Ralph Lauren's "heritage" - a New York tie salesman who started in a small room just some 40 years ago...

If you want to put your mark on the world successfully, you first have to decide where you want to be most. In the world of Internet, the tendency is for new markets to impose themselves on you and to confuse strategic choices.

Don't put all your eggs in one basket ! Ricardo's law counts for Chinese and Italians brands/markets. Even if China will be the biggest single market very soon.

Identify strategic product groups - and stick to them, and as all the good books say, "always question your assumptions". Things move fast - usually faster than expected.

As soon as design is involved, art is involved. The higher the market level, the greater the requirement for original and unique design. We all perceive art and design differently. So it is indispensable to foresee design procedures with "checks and balance", to ensure everyone respects the branding process.

The **look-and-feel** of products and their material content must live up to the brand's promises. Good value for money will have more and more meaning. Any fashion brand or luxury brand plays a role in their consumer's ego-management.

Do not underestimate your IP and particularly your trademark budget.

You only reap what you sow and you have to commit sufficient finance.

CONCLUSION

Only companies that own
well-developed brands
can become masters of their own destiny and
put their mark on the world

There is only one single global market for top brands. In the medium term, there is probably no room for national or regional brands. Internet imposes this alone. Any top brand has to be global for if your brand is not recognised in the key global cities, ultimately, you won't be recognised at home.

Only companies that own well developed brands can become masters of their own destiny and put their mark on the world.

THANK YOU FOR YOUR KIND ATTENTION

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Ladies and gentlemen,
Thank you for your kind attention