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# Emerging Markets Insight

**BY MIRAE ASSET FINANCIAL GROUP**
**Q2 2015**

## CHINESE COSMETICS

# ASIAN BEAUTY SECRETS MEET HIGH-END COSMETICS

**American and European brands may have been the traditional leaders in a majority of luxury goods sectors, but in high-end cosmetics, Asian brands, led by Japanese and South Korean companies, is making its presence known.**

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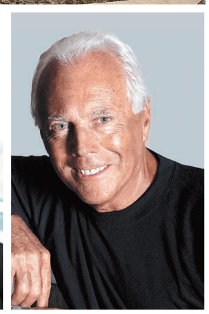




Emerging Markets Insight

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*Emerging Markets Insight* is a quarterly, on-line publication of Mirae Asset Financial Group. Our editorial mission is to provide timely and actionable information about economics, finance, and business opportunity to key stakeholders in emerging market investing, particularly financial professionals, strategists and academics.

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South Korea's high-end cosmetic brands such as Sulwhasoo are making a big impact in Chinese market.

# ASIAN BEAUTY SECRETS MEET HIGH-END COSMETICS

American and European brands may have been the traditional leaders in a majority of luxury goods sectors, but in high-end cosmetics, Asian brands, led by Japanese and South Korean companies, is making its presence known.

**By Zhou Ying**

When it comes to choosing cosmetics, the first decision most Chinese people face is deciding whether to go with American and European or Japanese and South Korean cosmetics.

Japan's Shiseido Group, led by its cosmetics brands Shiseido and Clé de Peau Beauté, has long held a place as one of the world's top 10 giants of the high-end cosmetics industry. During the 2014 fiscal year (which ended in March of 2014), 50.5% of the group's $5.53 billion in revenue came from foreign markets and by the middle of January of this year, the group's market value had reached $5.5 billion. The quintessential example of a comprehensive cosmetics group, Shiseido's brand positioning covers the high, mid-range and mass consumer groups, while its range of products extends into a number of areas such as skin and hair care, makeup, sunscreen, perfume and beauty supplements.

Quite a few Chinese consumers' first experiences with high-end cosmetics started with Shiseido. The flagship brand of the group's international business, Shiseido products are sold in 89 countries and regions around the globe. No matter if it's in the US, Europe or Asia, the Shiseido brand can be found in high-end retail stores such as Nordstrom, Harrods, Neiman Marcus and Lane Crawford right alongside Lancôme, Dior, Sisley and other big-name American and European brands—a testament to its influence in the industry. As for China, for the past seven years, Shiseido has continually won a place among the top-10 in New Fortune magazine's Annual Survey of the Best Loved Luxury Products in Capital Circles.

Of course, it's obvious that whether it's the global stage or the Chinese market, European and American brands still possess overwhelming advantages over their Japanese and South Korean counterparts when it comes to aspects such as brand awareness, business models, market share and profitability.


***Represented by Sulwhasoo and Whoo, this South Korean wave is currently sweeping through the international high-end cosmetics market.***

### South Korea Makes Waves

While the Shiseido brand has long been a familiar face at high-end retailers around the world, it has a new Asian neighbor and competitor in the form of South Korean brands. Represented by Sulwhasoo and Whoo, this South Korean wave is currently sweeping through the international high-end cosmetics market.

Sulwhasoo is one of AmorePacific's top-tier products, whereas Whoo comes from South Korea's LG Group. It's said that LG designed Whoo specifically to compete with Sulwhasoo, while the name, which means "empress" in Korean, brings to mind images of regal beauty and the beauty secrets of empresses past.

It's easy to see the impact this South Korean wave has had around the world. For instance, visiting Lane Crawford in Hong Kong's Harbour City shopping mall and heading to the beauty section, one can find Shiseido brand products occupying six sections (three of which are specialty counters; the other three located at perfume counters), while three sections are the domain of South Korean products. Additionally, of the 10 makeover rooms at Lane Crawford, except for the one room that is open to all, three rooms are taken by Shiseido, Clé de Peau Beauté and Sulwhasoo, another three belong to Giorgio Armani, Sisley, Ceanelove and the last three are shared by Clarins/SK-II, Guerlain/Dior and Lancôme/Helena Rubinstein.

Even if this doesn't explain why Sulwhasoo is able to encroach on the territory of cosmetic brands such as Shiseido and Lancôme, it clearly sends an important message to consumers: Sulwhasoo's AmorePacific has the money and the ambition to try and stand eye to eye with traditional European and American brands.

In addition to Sulwhasoo and Whoo, other South Korean brands at Lane Crawford include Sulwhasoo's sister brand


***Shiseido's brand positioning covers the high, mid-range and mass consumer groups.***

AmorePacific, the group's namesake brand. A new rising star, AmorePacific has yet to be listed among the other brands on the digital screens at Lane Crawford or on the map of stores at Harbour City.

The spot it currently takes at Lane Crawford originally belonged to Fresh—the American-born brand that made its name with brown sugar facial masks. Acquired by luxury giant LVMH in 2000, Fresh's annual sales currently sit at more than $20 million.

Looking at the 25-square-meter counter area where AmorePacific now stands, it's easy to see why Fresh moved: It needed the space. Fresh now sits right across the walkway from its old location, probably giving AmorePacific the hope it can benefit from Fresh's popularity to get a few extra customers, or maybe someday reach the point where it too will have customers that are willing to wait in line half an hour just to


***With its 40% market share in the South Korean cosmetics market, the AmorePacific Group is the largest cosmetics group in South Korea.***

buy a stick of lip gloss like they do at Fresh.

All in all, the shops are located in a good area. Nearby is the main entry way that leads to Lane Crawford's beauty and cosmetics section and the main escalator that leads to the apparel department downstairs.

With its 40% market share in the South Korean cosmetics market, the AmorePacific Group is the largest cosmetics group in South Korea. Owners of a diversified brand portfolio, in addition to the group's 13 skincare brands that range from high-end to affordably priced, AmorePacific's reach also extends into daily-use products such as toothpaste, perfume and hair and body care, leading to a total of more than 30 brands under its purview.

Many of these products have been extremely successful. For instance, since hitting the market in 1997, cumulative sales of Sulwhasoo's First Care Activating Serum, one of the group's heavyweight products, has reached more than 1 trillion won (approximately $930 million). With roots tracing back to 1932, over the years AmorePacific has become a global cosmetic powerhouse. Led by Sulwhasoo, Laneige, Mamonde, Innisfree and makeup brand Etude House, the group's sales for the 2013 fiscal year reached approximately $359 million. Additionally, over the past five years, the group's stock prices have grown at a rate of more than 800%, far outpacing the Estée Lauder Group and the L'Oréal Group (Figure 1).

According to the AmorePacific Group website, in October of 2010 it became the first South Korean cosmetics company to be admitted to the Dow Jones Sustainability World Index (DJSI World), an indication of the group's position in the global market. However, taking a closer look, of the group's five skincare brands that have already entered the global market place (according to the group's 2013 fiscal report, AmorePacific had yet to enter the Hong Kong market), only Laneige and Sulwhasoo have entered the American market (the former in 2004 and the latter in 2010), leaving the rest of the group's brands to focus mainly on Asian countries.

From an overall viewpoint, the AsiaPacific Group's annual sales volume is roughly one-third that of the Estée Lauder Group and it is still quite a ways from that of the L'Oréal Group. Additionally, the group's 12% operating margin is only higher than Shiseido's 6.5%. Compared to the more than 15% operating margins enjoyed by Estée Lauder and L'Oréal, the profitability of Japanese and South Korean cosmetics enterprises fall a bit short (Figure 2).

### The Strength of Chinese Money

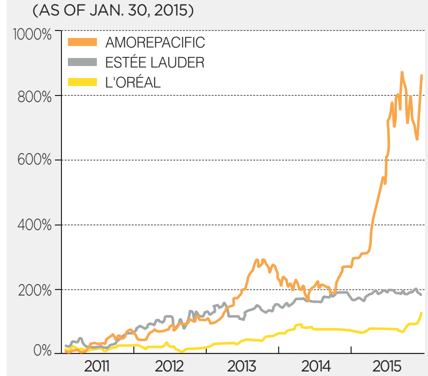
Even though Shiseido and AmorePacific may still lag their contemporaries in the US and Europe, their rapid progress in the high-end cosmetics and even the entire cosmetics industry has been evident for all to see. This is no truer than in China, the world's second largest cosmetics market. To a certain extent, if it weren't for the enormous spending power of Chinese consumers, the luxury market wouldn't be what it is today, nor would Shiseido and AmorePacific have achieved such growth and success.

(Figure 1)

GOING UP

Over the past five years, AmorePacific stock prices have far outpaced the Estée Lauder Group and the L'Oréal Group

(AS OF JAN. 30, 2015)

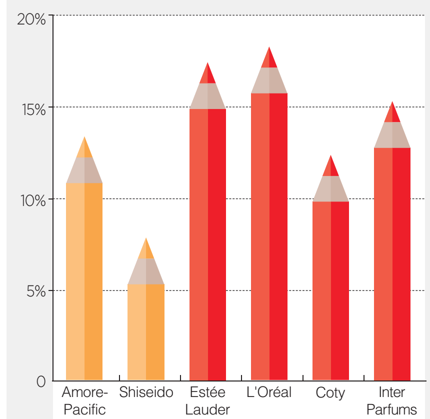



Source Google Business

(Figure 2)

LOW PROFITABILITY

Compared to Estée Lauder and L'Oréal, the profitability of Japanese and South Korean cosmetics enterprises falls a bit short.




Source Company financial reports, New Fortune

Only reaching China in 2006, in less than 10 years, Whoo has established more than 100 stores throughout the country, reaching as far as Gansu, Qinghai and Xinjiang in the west. Currently, Jiangsu Province sits at the top with 18 stores.

The power of mainland money is clear. One of the main reasons Whoo and

Sulwhasoo chose Harbour City's Lane Crawford for its Hong Kong location is because that's where a majority of mainland tourists flock to when visiting the city. Appearing in the same space as Ceanelove, Estée Lauder and other major brands sends a clear message to Chinese consumers that these South Korean brands stand on the same level—a type of free advertising more valuable than many can imagine.

Over the past nearly 10 years, the AmorePacific Group's sales in the China region have averaged annual growth of 47%, forming an important pillar for the group's strong growth in overseas markets (Figure 3). During the first half of 2014, the group's total sales in the Chinese market reached $199.6 million, a year-on-year increase of 26.5%.

To meet the demands of this fast growing market, the group spent a total of $120 million to open a production and R&D center in Shanghai. Opened in October 2014, the center is all part of the group's plan to increase the Chinese market's contribution to the group's global sales from 10% to 28% by 2020.

Compared to L'Oréal's hefty 9.1% market share in China, AmorePacific trails no small distance behind with only a 1.2% share.

***Sales of the 11 brands that L'Oréal has introduced to China double every four years.***

Fighting its way into China's high-end cosmetics market 20 years ago, L'Oréal long established itself in first- and second-tier cities, and has already started fixing its gaze on third- and fourth-tier cities. In 2012 and 2013, the group brought its ace-in-the-hole, Lancôme, to 70 new cities across the nation; of these 33 were third- and fourth-tier cities. As it stands now, Lancôme can be found in 170 cities across China. As for growth, sales of the 11 brands that L'Oréal has introduced to China double every four years, and the group predicts that over the next two years Chinese consumers will become the largest supporting pillar of the group's cosmetics business.

Also working on establishing channels in third-tier cities is Estée Lauder. Looking to make China its second biggest market after the US, in 2012 the group followed in the footsteps of Shiseido's Aupres brand by establishing its own Osiao line of luxury skincare products specifically designed for the Chinese market. As it stands however, it's difficult to predict the brand's potential as the group has currently only established two specialty shops, both of which are located in Hong Kong, one in Lane Crawford in Harbour City and the other at the Elements shopping mall.

Although there is room for expansion, China remains an important market for

Estée Lauder is trying to make China its second biggest market after the US.

***The Chinese-led Asian-Pacific market is fast becoming one of the world's most important markets for luxury cosmetics.***

overseas cosmetics companies. Currently, the Chinese market accounts for 5% of Estée Lauder's annual revenue and 7% of L'Oréal's. Worthy of note is that these numbers don't include sales outside the mainland in Taiwan, Hong Kong and Macau, nor do they factor in the multitude of mainland tourists that buy cosmetics in shopping centers and duty-free shops in Paris, New York or Dubai. If we were to include this into our calculations, Chinese money most likely accounts for as much as 15% of Estée Lauder's annual sales revenue.

According to Estée Lauder's estimates, for every dollar that the group earns in China, Chinese outside the mainland contribute twice as much. Even more important is that the Chinese-led Asian-Pacific market is fast becoming one of the world's most important markets for luxury cosmetics. The region's current 33.1% market share is nearly equal to that of Europe's.

### The Power of Packaging

The rise of cosmetics in Asia is closely tied to the characteristics of the cosmetics industry. No matter if it is watches, jewelry or leather apparel, what the luxury industry values most is a brand's historical heritage, cultural tradition and the exquisiteness of its craftsmanship. However, when it comes to the cosmetics industry, these factors play a lesser role since cosmetics have a much shorter consumption cycle. Basically, when you come down to it, looking past the endless explanations about how a particular skin cream was developed or its effectiveness, what cosmetics are truly selling is a brand.

For luxury brands trying to get a piece of the cosmetics pie such as Burberry and Gucci, this is good news as they already have well- established reputations. When Burberry skin cream or Gucci foundation makes an appearance at the cosmetics counter, consumers' familiarity with these brand names automatically make them seem more valuable.

Looking at the money cosmetics groups spend on advertising can tell us a lot about how important branding is to these companies. Estée Lauder and Coty respectively spent $2.84 billion and $1.56 billion on marketing during the 2014 fiscal year. This includes different types of advertising, promotions and product samples given free or with purchase of other products. By comparison, the two only spent $160 million and $67 million on R&D during that same period, which means Estée Lauder spent 17.7 times the amount of money on marketing than it did on R&D, while Coty spent 23.3 times as much (Figure 4).

To put it a bit more bluntly, cosmetics is an industry that relies heavily on packaging ideas and selling consumers a dream of beauty. This is even truer when it comes to the luxury cosmetics industry, which is far more demanding than other luxury industries when it comes to building an image and telling a story. No matter if we're talking about handbags or watches, creating the type of brand recognition that Whoo did in just 12 years (Whoo was first introduced in 2003) is practically impossible outside the cosmetics industry.

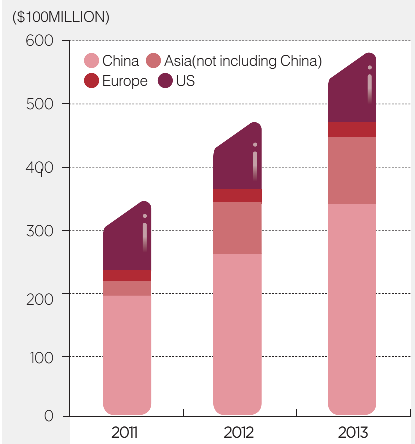
In other words, even if luxury handbag maker Hermès or Swiss ultra-luxury watch maker Patek Philippe had never sold themselves as luxury brands, since the quality of their products would be tested and recognized by the market, they would still have become luxury items. However, when it comes to cosmetics, it really doesn't matter how effective your product may be. So long as you tell a good story and set your prices high, you're already well on your way to becoming a luxury brand. The difference between other luxury items and cosmetics is a bit like the difference in reputations between families from "old money" and those with "new money."

With this in mind, it's easy to see how Japanese and South Korean cosmetics have earned their position in the luxury cosmetics arena. For instance, in 2013, the extremely popular South Korean soap opera "My Love from the Star" could be seen on TV screens throughout Asia. In the

(Figure 3)

**DEPENDING ON CHINA**

China is an extremely important overseas market for AmorePacific

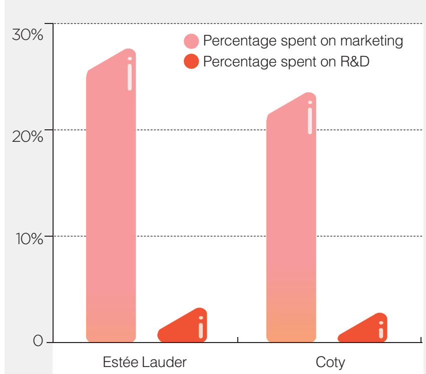



Source Company financial reports

(Figure 4)

**MARKETING IS IMPORTANT**

Marketing expenditures of cosmetics enterprises far surpass that spent on product R&D




Source Company financial reports, New Fortune show, South Korean actress and Hanyul brand cosmetics spokeswoman Jun Ji-hyun's character Cheon Song-yi could often be seen using Hanyul and other AmorePacific brands cosmetics in scene after scene.

Statistics show that sales of Hanyul brand Gogyeol Rich Effect Hydration Essence Water and Ja Woon Dan Moisturizing Cure Balm increased by 75% after appearing on the show. In February 2014, daily sales of the latter at cosmetics stores in Myeong-dong and Insa-dong, Seoul—two areas that are often visited by overseas tourists—were five times higher than January, with Chinese tourists accounting for a majority of purchases. Additionally, in 2013, single-product sales of the IOPE Air Cushion XP that Jun Ji-hyun used on the show broke past the $90.4 million mark to reach cumulative sales of 10 million units.

Currently, neither Hanyul nor IOPE have been introduced to markets outside of South Korea. Selling for the equivalent of more than $160, IOPE skin care products fall at the high end of the luxury cosmetics spectrum, with Hanyul just slightly behind.

### Where Are the Chinese Brands

No matter if it's long-established Shiseido or the more recent rising star that is AmorePacific, Asian cosmetics have also benefited from a concept that has been becoming increasingly popular over the past few years: Masstige. A portmanteau of the words "mass" and "prestige," it is a marketing term describing the process by which high-end brands are extended down to the masses and mid-market brands are given a boost. Both Shiseido and AmorePacific have these types of skincare brands that fill the gap between mid-market and super premium brands, becoming a force to reckon with through sheer numbers.

Another thing that shouldn't be overlooked is the geographical advantage that comes from Shiseido and AmorePacific's location in Asia—a natural advantage that sets them apart from their US and European counterparts. Research indicates that women in Asia use an average of eight different skincare products each day, while in France they only use three. This fact provides Japanese and South Korean enterprises the impetus to introduce a more varied line of products. The fact that the skin tone and complexions of Asian consumers in the three countries are very similar, as are ideas about beauty, is also helpful when it comes to managing products for the region.

The question seems to be: Where are Chinese enterprises in all this? While maybe it's understandable why Chinese enterprises can't rival luxury consumer goods makers such as Louis Vuitton and Cartier, it doesn't stand to reason that Japanese and South Korean cosmetics enterprises can take on their American and European counterparts and yet China can't, since China possesses many of the same natural advantages. South Korean cosmetic brands go on about beauty secrets passed down through the ages; China has those as well, in addition to traditional Chinese medicine. With the world's second largest cosmetics market as a local market, why do Chinese cosmetics seem to be missing from the picture?

China is also weak when it comes to the global cosmetics market. While there have been a few Chinese contenders, from Yue


China's local brands are limited to mid- and low-end markets.

Sai and Mininurse to the more recent TJoy and Mg Masks, these were soon bought up by American and European cosmetic giants. This has been good for some brands, but not so great for others. Yue Sai and Mininurse were both purchased by L'Oréal, but while the former has managed to survive at its new home, the latter has completely disappeared. Meanwhile, after losing money after being purchased by Coty, TJoy encountered a similar fate as Mininurse and was eventually abandoned.

The number of local cosmetics brands recognizable to a majority of consumers can practically be counted on two hands and are pretty much limited to mid- and low-end markets. Inoherb, Natural Beauty, Chando and the Shanghai Jahwa Group's Herborist can be considered as some of the China's better-known brands.

A new player in the Chinese and even Japanese cosmetics industry, Shanghai Jahwa has nine major brands which include the GF brand specifically for men. However, when one-third of the market is dominated by L'Oréal, Proctor & Gamble and Shiseido, and another third by other Western brands, this makes it extremely difficult for Chinese brands to find a place in the market, leaving one to wonder just how long it will take for China to come up with a standout international brand of its own.

***With the world's second largest cosmetics market as a local market, why do Chinese cosmetics seem to be missing from the picture?***

NEW TREND

## The Continued Rise of Male Cosmetics

Three years ago, metrosexual, a portmanteau derived from metropolitan and heterosexual, was still very popular in the common vocabulary. However, while metrosexual men have already made way for China's so-called sunshine boys—men who are considerate, positive and show respect towards women—cosmetics aimed at fashionable men willing to spend money to look good are becoming increasingly popular. When it comes right down to it, women don't have a patent on beauty and no matter if you're a metrosexual man or a sunshine boy, wanting to look good is part of everyone's nature.

Changes in social attitudes, increases in living standards and the influence of celebrity idols have all increased male demand for aftershave, moisturizer, anti-aging products and even concealer. This market's huge potential for growth has inspired numerous brands aimed at men. For instance, Clinique, Biotherm, Sisley, Kiehl's, Ralph Lauren and Clarins have all introduced men's skincare products. In 2012, SK-II also entered this growing market, while Tom Ford Beauty began introducing men's skincare and shaving products just three months after beginning to work with Estée Lauder in 2013.

In South Korea—the world's largest consumer market for men's cosmetics—lotions, oils, eye cream, foundation and concealer are basic necessities that every fashionable man needs, while some will even use eyeliner and lipstick.

For this reason, it's easy to understand why BB (blemish balm) cream has become the leading force for a majority of men's cosmetics brands in South Korea. Even Biotherm has introduced men's BB cream, in addition to its more than 70 other men's cosmetics brands.

In order to better serve this male market, in 2011, the AmorePacific Group established a one-stop beauty shop just for men known as Manstudio, which not only sells Laneige and Hera brand men's products, but also has beauty consultants on standby to help men find what's right for them.

Also in Asia, Lab Series, Estée Lauder's Aramis brand men's care cosmetics line, chose a high-end mall in Singapore as the location of its first flagship store. L'Oréal's Biotherm followed close behind, establishing its first stand-alone specialty store at the same mall in 2013. Seeing the potential of this growing market, Estée Lauder has even established a men's cosmetics department.

It seems that the day that men become just as important to cosmetics enterprises as female consumers may not be that far off.


Adopting new technologies has become a key factor in healthcare business.

# TURF WAR IN THE PHYSICAL EXAMINATION INDUSTRY

A Former Rival Becomes an Ally: The Joining of Meinian Healthcare with Ciming Healthcare Checkup Triggers a Battle within the Industry.

**By Cao Shunni**

Over the past 10 years, motivated by capital investment, the third-party physical examination industry has ended its fight for independence and turned into a health management model. This was promoted by big data which is accelerating the alliances among competitors, initiating a competitive-cooperative model integrating both capital and resources

China's third-party physical examination industry has experienced a change with past rivals, turning into allies. As is commonly known, there were three competitive giants in the industry, namely iKang, Ciming Healthcare Checkup and Meinian Healthcare. Since iKang was listed in the US in April 2014, the industry has been undergoing change.

With the news at the end of 2014 that Meinian Healthcare would join hands with Ciming Healthcare Checkup, on Jan. 6, 2015 Ciming announced on its website a strategic investment from Meinian Healthcare, the largest professional physical examination agency up to that point in the industry.

Ciming welcomed this investment in order to collaboratively forge an alliance within the industry, which also brought about the termination of the tripartite rivalry. China's third-party physical examination industry is now embarking on a new period.

"Simply speaking, as we are in the same industry, we would create the largest synergistic effect," explained Han Xiaohong, CEO of Ciming Healthcare Checkup, to China Entrepreneur at the company's headquarters when talking about its collaboration with Meinian Healthcare.

According to their plan, after completing the merger, the next step will be to list itself on the main board in 2015.

SYNDICATION / CHINA ENTREPRENEUR


Blood test lab of Ciming Healthcare Checkup.

### Tough Road to Going Public

Regarding the wrestling behind the scenes, outsiders tend to analyze this merger from the perspective of capital investment. A popular saying is that, from 2005 on, CDH and Ping'an Ventures would join in the private equity (PE) investment agency of Ciming Healthcare Checkup, as they are expecting capitalization soon. As they wished to leave and put their hopes on being listed on the market, the domestic A share market remained at a standstill for five years, which embarrassed Ciming Healthcare Checkup as it had always hoped to become a market leader in China. Therefore, Ciming had to adjust its strategy and seek new investors. To everyone's surprise it turned out that the investor was its traditional rival Meinian Healthcare which has a reputation for being good at capital operations. Rumor has it that the deal was for $160 million.

It has always been painful for Han Xiaohong to mention how she never thought that it would take so long for Ciming to go public. Even her daughter played a joke on her, saying, "Mum, you are really brilliant. Even after I graduated from the university, I still haven't seen your company go public."

Although Han denies that Ciming gave up on its ambitions because its longstanding shareholders like CDH exerted any pressure, Ciming had more or less become passive about the capital market. In January 2014, according to market assessments of the prospectus produced by Ciming, the planned sales level of shares onto the market was no more than 37 million shares, most of which were stock shares that early PE investors like CDH and Ping'an Ventures would have sold if they ended their ownership as planned.

According to Han Xiaohong, "At the beginning of every new year, we thought we would go public, but it was a surprise to us that we encountered two rounds of halts on issuing new shares."

Since 2010, Ciming has been preparing to go public on the growth enterprise stock market. However, national policy was that the physical examination industry should not be allowed to go public on that stock exchange. Instead, Ciming turned to middle and small capital stock shares in March 2011. After a trial period in July 2012 when it thought it was about to go public unfortunately, it came across an eighth IPO halt which lasted for the longest period in A share market history, one and a half years. When the share market was finally opened in January 2014, Ciming again applied for an IPO road show but encountered yet another unexpected halt.

"During these five challenging years, we applied for a compliance certificate every six months with 300 seals at one time or 600 seals a year. The total number of seals reached 3,000 within five years," said Han Xiaohong. During the five-year waiting period, Ciming would add more chain stores, even without the financing advantage of going public, reflecting its actual profitability. According to previously released prospectuses, the net profits of Ciming between 2010 and 2012 were $5.93 million, $13.94 million and $15.68 million respectively with an average annual compound growth rate between 20% and 30%. Looking at its business transaction records, Ciming did not lack for money because $28 million was raised through the sale of 40 million shares in the market. Proceeds from this sale were to be used for such projects as establishing the Aoya physical examination center, which in fact had been in operation for more than two years prior to Ciming's going public.

"If we had known it would take five years without any returns, we would have turned to other methods. The gaps among the three of us were so big that we had not made any money while the other two had spent nearly [$160 million]," said Han Xiaohong. The five years that Ciming encountered these frustrations was also the period where the industry was developing the fastest.

When Ciming finished its share reform in 2009 and prepared for its IPO in 2010, the physical examination industry was characterized by huge external investments. In 2012 and 2013, investment groups like the Carlyle Group and Ping An Insurance Group invested more than $96 million in Meinian Healthcare. It was with the help of such huge investments that Meinian could quickly acquire other physical examination agencies and become the market leader with over 100 stores.

After its founding in 2004, iKang received significant investment from venture capitalists. In 2013, it received investments of nearly $100 million from Goldman Sachs and GIC, a Singaporean government investment company. iKang went public in April 2014 on Nasdaq with record funds raised of nearly $153 million. Before it went public, iKang had 45 self-supporting medical centers and 300 third-party cooperative agencies.

Compared with its two rivals which had both received huge investments during their race for market share, Ciming, despite always being praised as the first to go public, was not receiving any favors from investment agencies. "Because everyone knew that we were going public and that there would be no opportunities for anyone else to enter, they began looking for other potential players," Han Xiaohong said. She believed that these five years led Ciming to lose the favor of funds while bringing benefits to its rivals, resulting in a dense outlay of capital in the industry.

After realizing the vast cost of lost time, Han Xiaohong did not stick with the path of going public. From 2014 on, for new investors like the insurance companies, fund companies, listed medical agencies and pharmaceutical companies that offered to work with Han Xiaohong, she could not reject their assistance any longer. After careful review of candidates over more than six months, she finally chose Ciming rival Meinian Healthcare as the new partner, "No matter what business coordination or complementarities in strategic layouts in different cities, the alliance of the two of us would have the greatest impact surpassing potential mergers with any other investment agencies," said Han Xiaohong.

From the perspective of city layout, Ciming, with Beijing as its center, now has 19 subsidiaries, 80 chain stores and franchising centers distributed across over 20 provinces and cities in China. On the other hand, Meinian Healthcare is mainly located in the northeastern and southern parts of China. It has established a service network covering 29 provinces and over 40 core cities, owning over 110 physical examination centers and medical centers.

After the merger of the two giants, the national service network of centers would reach nearly 200 with an annual delivery capacity of nearly nine million physical examination appointments, becoming the

慈铭体检
CIMING CHECKUP
只 为 健 康

"If we had known it would take five years without any returns, we would have turned to other methods."
—Han Xiaohong, Ciming Healthcare Checkup

美年大健康
Health 100

"The collaboration with Ciming should be seen from the perspective of improving the whole industry."
—Yu Rong, Meinian Healthcare

爱康国宾
360° 健康全管理

"Focusing only on the physical examination business will never forge a platform."
—Zhang Ligang, iKang Healthcare


Meinian Healthcare in Beijing.

largest domestic private enterprise in the process.

Apart from the operational scale achieved, Han Xiaohong claims that there is greater cooperative space for both sides in promoting the standardization of the industry and the integration of their resources.

**After the merger of the two giants, the national service network of centers would reach nearly 200.**

### Meinian Healthcare's Triple Jump

In 2012, after obtaining an investment from the Carlyle Group, the chairman of Meinian Healthcare announced that the company would be listed in 2015.

After completing its investment to Ciming, Meinian Healthcare is moving steadily toward its IPO. At 9 o'clock on Jan. 24, 2015, Yu Rong looked tired when showed up for an interview with China Entrepreneur. He told a journalist from the magazine, "Kindly understand that I will not touch the topic of our IPO." Yet he said it was possible to talk about the alliance with Ciming.

Although Yu Rong's name is not that familiar to outsiders due to his discreet conversations with the media, unlike Han Xiaohong of Ciming and Zhang Ligang of iKang, Yu Rong's actions are usually sharp and swift, winning him a name in the market as a showstopper or capitalist in the physical examination industry. He has forged Meinian, the largest private enterprise of its kind, formed over the past 10 years through mergers and acquisitions, in the process achieving a "triple jump."

Yu Rong, after accumulating his first pot of gold in the real estate industry, established Tianyi Investment Group Co., Ltd in 1998 and took up its chairmanship. In the first decade, his investments took many directions, but focused mainly on science and technology, agriculture, securities and environmental protection. Its attention to the healthcare industry started just after the transfer of 20% of its shares in 2006 from Guobin Physical Examination Center (which merged in 2007 with iKang Net, becoming iKang Physical Examination Center). That same year, Yu Rong set up Meinian Healthcare which symbolized its formal entry into the industry.

Yu Rong, despite his company's late entry, played his potential to the fullest. On Oct. 17, 2011, Meinian Healthcare came into being after the merger of Meinian with Big Health. At that time, Meinian had over 20 medical centers, mainly covering the southern part of China, including the Yangtze River Delta and Beijing-Tianjin Region. Big Health had nearly 30 medical centers, covering the northern part of China including key provinces and cities such as the Northeast and Shandong Province. By focusing on high-quality health physical examinations, Big Health has developed such added-value services as health products, cures using traditional Chinese medicine, and medical security.

The merger of Meinian Healthcare helped Yu Rong leap to the top three in the industry, creating a three-way rivalry.

After its merger, Meinian Healthcare sped up its acquisition of physical examination agencies, including Beijing Lvshengyuan Physical Examination Center, the chain of Kangcheng Physical Examination Center in Xian, and Rger Physical Examination Center (the largest in Guangdong). By the end of 2012, Meinian Healthcare already had 100


iKang went public in April 2014 on Nasdaq with record funds raised of nearly $153 million.

centers, reflecting a compound annual growth rate of roughly 40%, becoming the largest private physical examination agency in the country. Behind the scenes, it has relied on capital support from the Carlyle Group.

Just before the IPO of Meinian Healthcare in 2015, it joined its shares with Ciming, which once again manifested its efficiency in capital operations.

According to Yu Rong, "Expanding by means of capital conforms to the characteristics of the physical examination industry." He also claimed that the two big mergers with Big Health in 2011 and with Ciming in 2015 reflected different market backgrounds and not just motivation because of the capital provided.

"The merger with Big Health should help realize the national business layout considering the competitive position of the industry. Yet the collaboration with Ciming should be seen from the perspective of improving the whole industry," he said. According to Yu Rong, capital is needed in order to gain a competitive advantage. Therefore, mergers and acquisitions of physical examination agencies of tested good quality are needed rather than each firm opening stores all by itself because the industry at this time is competing to obtain resources, markets and clients.

Yet after the appearance of this three-way rivalry, the three giants all have their own advantages in terms of resources and market share. Therefore, it is not sufficient just to rely on the model of capital integration in order to support the improvement of the industry. What is needed more is business coordination, or in Han Xiaohong's words, a "competitive-cooperative" model.

"Together with Ciming, we will collaboratively help the government formulate industry standards and the construction of a public healthcare system, create new research institutes and release national healthcare reports," she said. According to Yu Rong, this is the future commercial model for Meinian Healthcare: that is, to construct a healthcare management platform and let physical examination agencies become the gateway for preventive medicine. Yu Rong thinks that future industry competition will take place in healthcare management: 1. Offline physical examination at the front end, conducting daily healthcare management through mobile medical care. 2. Offline physical examination and completion of a closed-circuit system at the rear end. This management model will change the backward healthcare concepts and behavior of Chinese people who "spend 80% of their medical funds during the last three years of their life" and improve the accuracy of healthcare services through long-distance medical care in order to add loyalty.

Han Xiaohong agrees with Yu Rong's point of defining healthcare management as the future competitive core of the industry, saying that "Insiders understand this point very well." According to Han Xiaohong, despite the injection of huge amounts of investment by Ciming, it still operates independently. Only in such new areas as resource sharing and mobile medical care will they coordinate in order to operate.


***The theme of the industry has entered a new period of platform resources integration.***

Just as Ciming and Meinian Healthcare were making their alliance, iKang also seemed to sense the crisis in this industrial transformation, focusing its attention on how to construct a healthcare platform.

### Mobile Healthcare—The Focus Is Beginning to Shift

Does Zhang Ligang feel upset about the merger and acquisitions of Ciming and Meinian Healthcare? Actually, in iKang's eyes, the purpose behind the merger of Ciming and Meinian Healthcare is not to attack iKang. The competitive model of the industry includes more than three powers. Maybe one day, it will not be the previous physical examination agencies that become the market leader; such industry disruption may be caused by such mobile Internet companies as BAT. The chairman of iKang has publicly stated that the way out for the industry must lie in its own hands. Depending only on the physical examination business cannot help these companies retain their customers. What it should do is maximize the platform model and expand and provide more healthcare services so that it can control the source of its clients.

"Focusing only on the physical examination business will never forge a platform. Clients, apart from physical examinations, will utilize other services. More business models expanded on the basis of a physical examination will probably become the platform model," Zhang Ligang said. On Jan. 16, while being interviewed by China Entrepreneur at iKang's headquarters office, he said that, "In the future, we should redefine the interrelationship with our clients."

After seeing the alliance between Ciming and Meinian Healthcare, he said that iKang is not afraid. Rather, it is the impact brought about by mobile medical care that worries him. "If mobile medical care is not dealt with well, we will all work for BAT in the future."

In April 2014, some critics said that the business scope of iKang as it was listed in the US is much too simple, relying only on profits from physical examinations. Responding to such cynics, iKang reconstructed its business layout in 2014 and expanded its income sources three ways: physical examinations, dental business and mobile medical care.

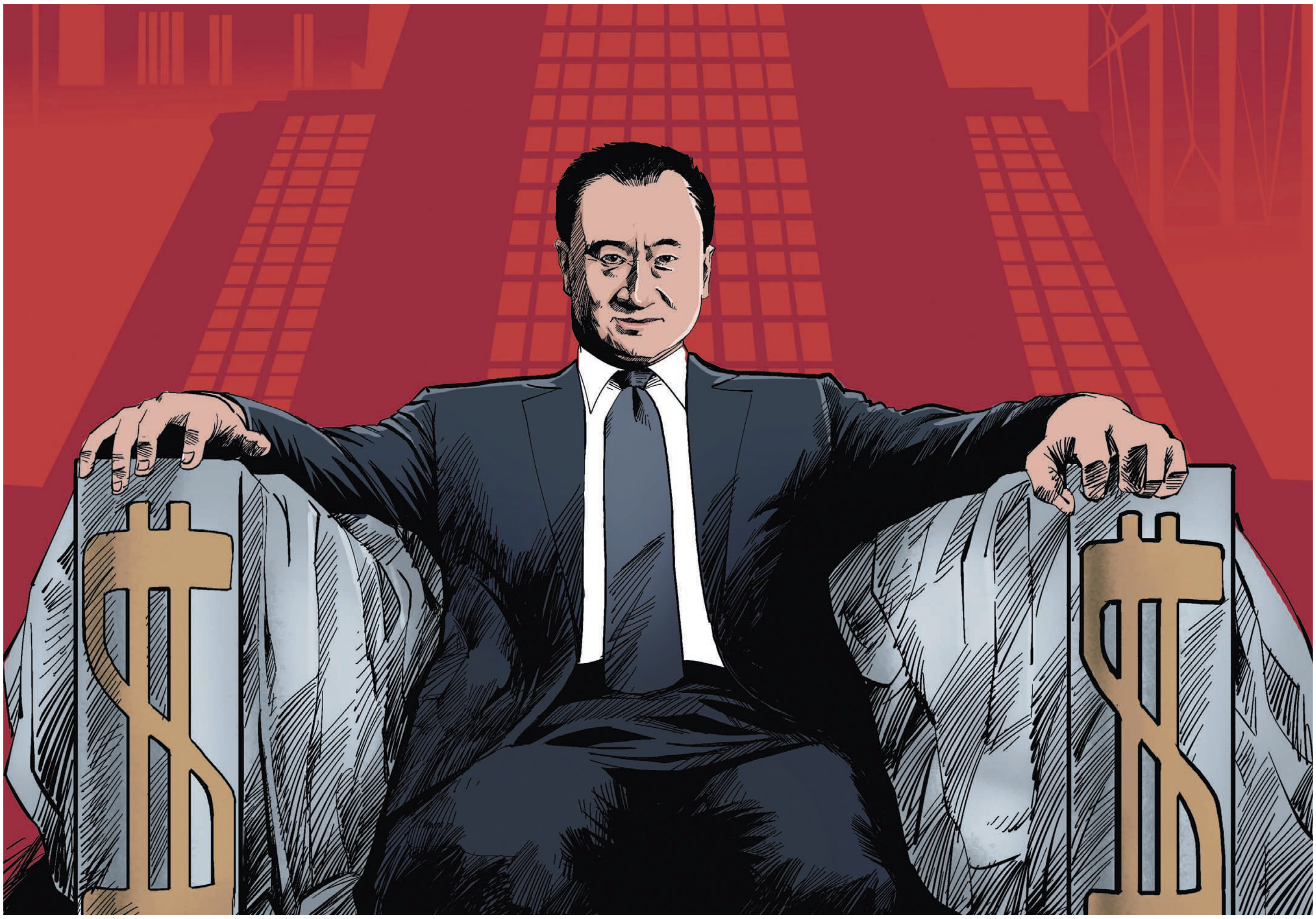
When Zhang Ligang embarked on iKang net in 2004, he started from the Internet, hoping to construct an internet platform combining IT and traditional medical care. Yet because of the scarcity of medical resources, he realized that by relying on online traffic alone, IKang can never provide their clients with solutions. Therefore, in August 2007, iKang net merged with the professional chain agency, Guobin Physical Examination Group, changing its name to iKang Guobin. Zhang Ligang planned offline net stations which pay attention to capital resources and therefore bring many rounds of financing to the entire company. In the 10 years since, and after iKang Guobin had gone public, Zhang Ligang is clearer about the development direction of the platform model, which will expand to more businesses on the platform and utilize 15% of the listing finance for the new business line, i.e. dental care business.

"In the process of completing the physical examinations, we discovered that 20% of the clients need to clean their teeth and have their teeth filled. Thus, if we do not offer such services, we lose those commercial opportunities as well as a complete service net. Therefore, the reason why we have added the dental business is due to demands from our customers." Zhang Ligang claims that up to now iKang Guobin has already created over 20 physical examination centers that also provide dental healthcare.

Zhang Ligang said that the next step for the company would not be expanding chain stores in order to increase profits, but developing more physical examination service chains and putting more efforts into healthcare management using mobile care. This path is also being pursued by the other two companies.

"The transformation of the whole group, I think, would involve stripping the physical examination business from the company and founding an independent business. Huang Feiyan, COO of iKang, would act as our chairman of the physical examination company so that in the future, we would totally put more efforts in mobile care." Zhang Ligang said that after the spring festival of 2015, the company will issue a series of new mobile medical businesses, for example, wearable technology equipment, smart medical hardware cooperation, etc. According to his understanding of the platform model, apart from controlling the source of their customers, they should also provide healthcare management services and cooperate more with professional agencies.

In the past decade, with the capital push, a three-party system has been formed. The current situation is just like Shu and Wu's joint venture in order to confront Wei at Red Cliff, leading to a two-party competition. This also means the theme of the industry has entered a new period of platform resources integration. This new round of competition would then focus on how to improve client loyalty, how to control the clients and how to master the incoming flow of data entry by adopting new technologies.



# WANDA CINEMA LINE: FINDING ITS WINGS IN A WIND TUNNEL

Wanda Department Store, affiliated with Wanda Group, has been in the red since its establishment in 2007. However, the Wanda Cinema Line has taken the top spot in its field within just five years of its creation and remains on top today. This fits the saying of Lei Jun that "Even a pig can fly if it's standing in a wind tunnel."

**By Su Longfei**

On Nov. 28, 2014, the Wanda Cinema Line Corporation (hereinafter referred to as "Wanda Cinema Line") obtained the approval of the China Securities Regulatory Commission in its application to be listed on the Shenzhen Stock Exchange, becoming the first cinema theater chain company in the A-share market. With the listing of Wanda Commercial Properties on the Hong Kong Exchange Dec. 23, 2014, Wang Jianlin's goal of "pushing the listing of one or two main companies of the group this year" that was announced at the mid-year work conference in July 2014 was realized successfully by the end of 2014.

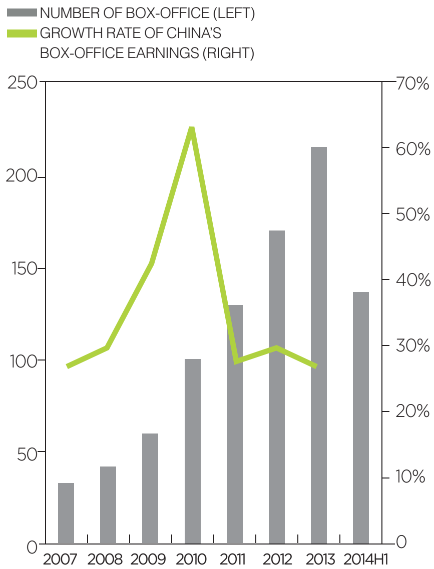
Wanda Cinema Line is not only the first subsidiary, but also the most mature subsidiary of Wanda Group at present. Since its establishment in 2005, Wanda Cinema Line became the leader of its field in a few years, and what was orchestrated by Lei Jun was fulfilled.

### Getting a Pig Off the Ground

Wanda Department Store, affiliated with Wanda Group, has been in the red since its establishment in 2007. However, from 2011

SYNDICATION / XIN CAI FU 新財富

(Figure 1) **INCREASE OF TOTAL BOX-OFFICE EARNINGS IN CHINA**




DATA SOURCE
PROSPECTUS OF WANDA CINEMA LINE

to 2013, the total annual operating income of Wanda Cinema Line was $353.4 million, $485 million, and $644 million respectively.

Since China broke the "province-city-county" multi-layered administrative system for film releases and implemented the cinema line system in 2002, the number of cinemas has increased rapidly, with more and more people choosing to go to the cinema to watch films. As a result of this steady growth, China's box-office earning continues to experience a compound annual growth rate of more than 30%. (Figure 1)

Wanda Group also started to develop commercial complexes, as represented by Wanda Square in 2002. As a basic cultural and entertainment facility, its cinemas match well with the function of a city commercial complex. Facing the rapid rise of the film market, the Wanda Group decided to operate cinema lines by itself instead of renting to third parties.

The Wanda Cinema Line was established in January 2005, and its cinema layout spread throughout China with the expansion of Wanda Plaza. Since 2009, Wanda Cinema Line took a leading place in box-office earnings, market share and attendance for five consecutive years.

By June 2014, Wanda Cinema Line had 150 cinemas with 1,315 screens in 85 cities in China. Of these, 89 cinemas are operated on sites rented by Wanda Plaza, accounting for 60% of Wanda's total number of cinemas, while the rest are rented by third parties.

In 2013, box-office earnings of Wanda Cinema Line reached $505.6 million, making Wanda the only movie theater company topping 3 billion yuan ($480 million) in paid attendance in China, while Shanghai Lianhe


***Since its establishment in 2005, Wanda Cinema Line became the leader of its field in a few years.***

Cinema Line, ranked second, earned less than 2 billion yuan ($320 million). In the first half of 2014, Wanda Cinema Line realized box-office earnings of $316.8 million, accounting for 14.46% of China's market share. In terms of box-office earnings for the top five cinema lines in China, Wanda Cinema Line's market share increased steadily, and showed a trend of gradual growth. (Figure 2)

Although Wanda Cinema Line is still on top, the cinema industry remains very competitive. China Film Cinema, affiliated with China Film Group Corporation and ranked second, and Shanghai Lianhe Cinema Line, affiliated with Shanghai Film Group Co. Ltd. and ranked third, are facing declines in market shares (from levels previously greater than 10%). By the first half of 2014, the market shares for theater chains ranked second to fifth dropped to 7% to 8%.

Wanda Cinema is also building several theme parks in China.

### The Benefits of Scale

Along with Wanda Cinema Line, Shanghai Film Co. Ltd. ("Shanghai Film") and Guangzhou Jinyi Cinemas Co. Ltd. ("Jinyi Cinemas") also submitted applications for listing. Shanghai Lianhe Cinema Line is affiliated with Shanghai Film Group Co. Ltd, whereas Jinyi Zhujiang Cinema is affiliated with Jinyi Cinemas.

Wanda Cinema Line adopted a self-supporting model, while individual cinemas of Shanghai Lianhe Cinema Line adopted a model centered on franchisees with a small portion of self-operated cinemas. Jinyi Cinemas has opted for a self-operation model with some franchisees. In 2013, Shanghai Lianhe Cinema Line had only 28 self-operated theaters among its total of 228, while Jinyi Cinemas had 110 among its 171 total.

In terms of annual box-office earnings per single screen in 2013, Wanda reached $405,000 per screen, which was much higher than that of Shanghai Lianhe $246,000 per screen) and Jinyi Cinemas

(Table 1)

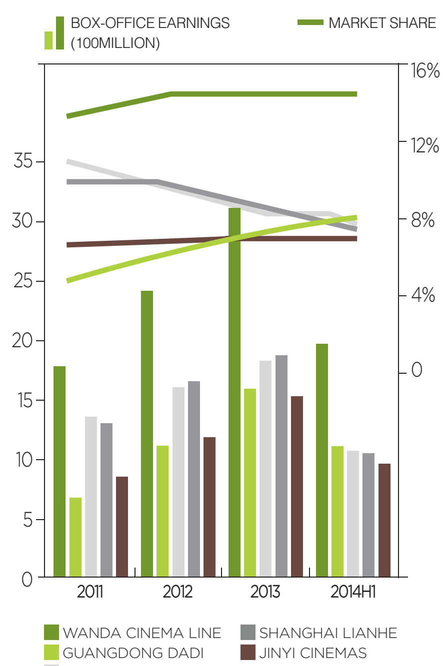
**OPERATING DATA COMPARISON FOR THE TOP THREE CINEMA LINES**

| | Number of cinemas | Number of screens | Average number of screens per cinema | Total box-office earnings (100million yuan) | Box-office earning per screen (10,000 yuan/screen ) |
|---|---|---|---|---|---|
| Wanda Cinema Line | 142 | 1,247 | 8.78 | 31.61 | 253.53 |
| Shanghai Lianhe | 228 | 1,223 | 5.36 | 18.83 | 153.93 |
| Jinyi Cinemas | 171 | 960 | 5.61 | 15.41 | 160.56 |

DATA SOURCE RELEVANT PROSPECTUS AND WEBSITE

(Figure 2)

**BOX-OFFICE EARNINGS AND MARKET SHARES FOR THE TOP FIVE CINEMA LINES**



***The Wanda Group decided to operate cinema lines by itself instead of renting to third parties.***

($257,000 per screen). (Table 1)

This gap was closely related to their percentage of self-operated theaters. Shanghai Lianhe Cinema Line is based in Shanghai, while Jinyi Cinemas calls Guangdong home. Wanda could not compete with Jinyi Cinemas in Guangdong, or with Lianhe Cinema Line in Shanghai. But Wanda Plaza has bases in the heart of many second- and third-tier cities in China. Therefore, Wanda Cinema Line could expand its market in those cities. Meanwhile, Jinyi Cinemas and Lianhe Cinema Line did not have as many advantages in location selection as Wanda Cinema Line did when expanding into other provinces. In terms of potential box-office earnings, cinemas located in the heart of second-tier cities are not inferior to those in the non-core areas of first-tier cities. Hence, Wanda's average earnings per screen are high. In addition, many cinemas with low box-office earnings joined Jinyi Cinemas and Lianhe Cinema Lines, which led to lower average earnings per screen.

Such gaps in earnings per screen also reflect the fact that the overall attendance rate for Wanda Cinema Line was higher than that for Jinyi Cinemas or Lianhe Cinema Line. Wanda cinemas are located in commercial properties with more traffic.

A cinema can set up more halls without worrying about attendance rates only when it is situated in an area with high traffic. Although Wanda Cinema Line had fewer cinemas (142 cinemas by the end of 2013), it had the most screens (1,247 screens), i.e., each cinema had 8.78 screens on average, which was much higher than Shanghai Lianhe Cinema Line (5.36 screens/cinema) or Jinyi Cinemas (5.61 screens/cinema).

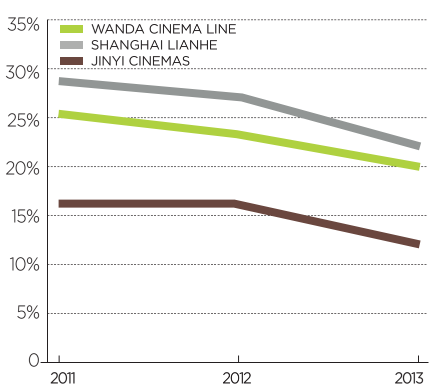
Based on Wanda Plaza, Wanda Cinema Line spread out to the heart of many big cities in China, fully exerting its strengths from scale. At the same time, it had larger cinemas with more screens in the core properties, which promoted economically efficient operations.

### Subsidiary Businesses

In 2013, there were 45 cinema lines in China, with 3,849 cinemas and 18,200 screens in total. These numbers are still increasing rapidly. In 2013 alone, 5,077 screens were added in China, representing 13.9 new screens per day on average.

Such fierce competition led to increased rental costs for various cinemas, but ticket prices declined slightly, thus squeezing gross profit rates for the entire cinema line industry. The gross profit rate for Wanda Cinema Line declined from 25.49% in 2011 to 20.26% in 2013. Likewise, the gross profit rate for Shanghai Film dropped from 29.15% to 22.52%, and Jinyi Cinemas' dropped from 16.27% to 12.21%. (Figure 3)

(Figure 3) **COMPARISON OF FORMER GROSS PROFIT RATE FOR FILM SCREENINGS**




Based on competitive comparisons, the gross profit rate for film screenings by Jinyi Cinemas was much lower than that for Wanda Cinema Line; this was because the average attendance rate and earnings per screen for Jinyi Cinemas were much lower. The average attendance rate and earnings per screen for Lianhe Cinema Line, affiliated with Shanghai Film, were also much lower than those for Wanda Cinema Line. However, the gross profit rate for Shanghai Film was higher than that for Wanda Cinema Line. Since most cinemas of Lianhe Cinema Line are franchised, Shanghai Film could get 7% of its box-office earnings without any additional costs for operating the cinemas, thus increasing its gross profit rate.

Although film screenings are the largest source of income in the operating model of theater chains, screening is not the most profitable business. Taking Wanda as an example, its gross profit rate for film screenings was only 20%-25%. On the other hand its gross profit rate for sales of popcorn, drinks and other products was about 70%, while its gross profit rate for advertising services was above 95%.

Although the primary business of Wanda Cinema Line faced a shrinking gross profit rate due to fierce competition, its gross profit rate for sales of other products increased steadily. Its gross profit rate for advertising services was basically stable. Sales of other products and advertising service effectively made up for the decline in the profitability of film screenings.

Since the income from film screenings accounted for about 80% of Wanda Cinema Line's total income, the slight decline in gross profit rate for film screenings resulted in a significant fall in its gross profit percentage. From 2011 to the first half of 2014, the gross profit percentage of Wanda Cinema Line for film screenings continued to drop from 56.42% to 44.71%; in contrast, the gross profit percentage for sales of popcorn and other products rose from 17.17% to 24.72%. Its gross profit percentage for advertising services also increased from 26.4% to 30.57%.

Based on these trends, the future development pattern for Wanda Cinema Line may be that it will increasingly obtain profits from product sales and advertising services instead of film screenings. This will only increase as it continues to expand the scale of its cinema lines.

# FLIGHTS OF FANCY

Globally, drones are being put to commercial use. Indian skies could also see more of these flying machines if some startups crack the cost and tech barriers.

**By Vishal Krishna**

*"I spent months in NAL trying to build drone composites and electronics."*
*—Pritam Ashutosh Sahu, Edall Systems*

If you happen to be near a military base or reserve police facility, you might spot a flying object. Chances are, it is a drone being tested to ascertain if it can carry cameras, thermal sensors and image processors at a height of, say, 656 feet for commercial use. While commercial use may not be far off, testers believe that retail home delivery is still a tall order as the aerial vehicles cannot pinpoint addresses. For that matter, even army drones lack the ability to consistently hit targets. That said, the flying objects are a reality one has to come to terms with. According to aerospace research firm Teal Group, the size of the drone business globally is $89 billion. China has over 900 drone manufacturing companies, some of which can also add hardware to a drone. In the US, there are more than 200 drone companies manufacturing hardware, with over two dozen that can add services to complement the hardware. India is doing its bit too. There are several pilot programs that are on currently, but none of them has perfected a business model as yet. After all, it is no simple business and a lot more than a hobby, involving a semi-professional kit with cameras.

### Waiting To Take Off

Of the six drone startups in India that *Businessworld* spoke to, Chennai-based Aira Futuristics has already closed shop, while the rest are waiting to see an uptick in their fortunes. Pritam Ashutosh Sahu was a student of aeronautical engineering at Anna University in Chennai in 2008 when he got interested in drones. A professor helped him secure an internship with the National Aerospace Laboratories (NAL) Bangalore in his second year. "After that, I hardly attended college. I spent months in NAL trying to build drone composites and electronics," said Sahu, co-founder of Edall Systems in Bangalore. By the third year, Sahu and some of his classmates were interning full-time at NAL. Together, they built a drone with a wingspan of 10 feet, powered by a 3-watt brushless motor. Impressed, the college awarded them first place in the college academic list. And Sahu was hired by NAL on a contract basis to work on aeronautical systems.

In 2011, the entrepreneurial bug bit him, and he floated the idea for Edall Systems. It started off as a course provider and training ground for young engineers keen to learn how to build drones and other flying machines. "When we started, I wanted to share my experience at NAL with other students, so we tied up with several colleges," said Sahu. The idea was to use the money from teaching to develop drone services. The company imports drones from China and adds additional hardware such as a camera, which can communicate with a command center. While its business model is still sketchy—primarily an annual maintenance and service model, where analysis of the photographs taken will be a pay-as-you-go service—the company is banking on sup-


## FEATURES OF A $3,200 DRONE

- 3 watt brushless motor
- Radio frequency modules
- Communication chips
- Image-recognition chips (not payload*)
- Infra-red chips (not payload)
- GPS module
- 4G LTE to process data (optional)
- Camera
- Laptop for remote monitoring of drone

*Payload is any other component other than flying component

port from civil organizations and the police. So far, the founders have invested around $48,000 in the business. These drones cost less than $8,000 apiece and are available on a pre-order basis.

### All About the Platform

Singapore-based 21-year-old Pulkit Jaiswal, along with partner engineer Mark Yong, boasts of being able to deliver enterprise-grade drones. "We build a platform on top of the drone and add services. The hardware is commoditized," said Jaiswal, co-founder of Garuda Robotics. Their drones are currently used to monitor large fields of solar installations. "The drones fly across cells daily and are able to use their cameras to detect any damage and the rate of damage to these panels," said Jaiswal, who dropped out of an Ivy League college in the US to design such systems. According to him, it is the platform that is important—one where services can be added on top of the software for any company or business. He said his drones—priced at over $64,000 each—can work on any new-generation network such as long-term evolution (LTE) and transfer data to a tablet or a smartphone. Garuda's business model is unique—clients pay for the software and the data processing. It ships the entire drone to customers along with the battery and the charging stations. It then integrates the platform onto the drone with the help of a tablet or other device. The company is now in talks with mining and oil and gas companies. Jaiswal and Yong have managed to raise $1 million in angel funding. While their business is flourishing in Singapore, Jaiswal rules out drone services in India for the moment, citing the regulations that protect civilian airspace. Today, all drones need permission from the civil aviation ministry, except those that fly under 1,640 feet; the latter can be used without

## BUSINESS MODEL 1

- Assemble hobby drone to mount camera
- Cost: $800 to $3,200
- Endurance: 20 minutes and up to 492 feet
- Sell hardware and process images
- 3-watt brushless motor
- Annual contracts or drones leased for camera shoots
- Potential: The business can be commoditized faster

*"When we started, I wanted to share my experience at NAL with other students." —Pritam Ashutosh Sahu, Edall Systems*

any permission to monitor sites and buildings. He, however, admits that an opportunity does exist.

### Running Into Turbulence

Globally, players are pondering the various functions that drones can serve. EasyJet in the UK is mulling the possibility of using drones to inspect flights before takeoff; French auto major Renault has built a concept called the Kwid, a drone assistant to cars that will help navigate through crowded streets and warn of potential threats. Wildlife protection agencies and farmers in the US are using drones to monitor large tracts of land without having to deploy manpower. A German startup called Skysense Hangar is devising applications to remotely charge drone batteries while in flight.

In the US, many a startup is using avionics. A startup named DroneDeploy—which uses drones to photograph large tracts of land and wildlife in the US—raised $2million. Its drones can be controlled with a browser-based application.

## BUSINESS MODEL 2

- Assemble full drone based on government and military specifications
- Mount high resolution video camera
- Cost of drone: $80,000
- Endurance: 5 hours and 3,280 ft.
- Remote battery charging
- Data processing of images
- Use of drone to identify damage
- Use of drone for security and rescue
- Integrate with tablets, laptops and servers
- Reduce human intervention
- Heavier batteries
- Run on 170-watt brushless electric motors or gasoline
- Use: security, reconnaissance and citizen monitoring
- Annual maintenance contracts and predictive maintenance services
- Potential: Dependent on government orders and procurement policies; low-risk because government needs drones for patrols
- Payload: 33 lbs.

One company that is striving to take drones commercial in India is ideaForge—started by five graduates from IIT Bombay in 2008. It has started several pilots for forest departments and the police forces of some states. Co-founder Ankit Mehta believes their drones are state of the art because they are built from scratch and built to last. "We manufacture our own drones with applications specific to India," he said. Mehta added that ideaForge's drones do not have semi-professional assembly kits. "We have serious data logging, image recognition and GPS sensors going into our drones," he says. These drones—meant for government and semi-government agencies—are made to order and have a waiting period of three to four months. "We focus on the imagery part of the business; our system can detect humans from [3,000 yards]," he added.

The journey so far has been far from easy for the founders of ideaForge . In the past three years, they have given 300 demonstrations and yet corporates and government bodies do not see any use for their drones. "The problem is the cost; these drones cost a minimum of [$40,000]. The cost-benefit is what companies have not been able to determine when they use drones," said Mehta. His team is, however, determined to survive the dry phase after having put each of the drones through a thousand hours of flying to test for battery life, communication range and wind resistance. The algorithms and services built into their products are what set them apart. They provide the entire hardware and maintenance of the software to the client on an annual basis.

In 2008, Mehta and the other co-founders raised $250,000 as debt from the government-run Technology Development Board. They are now in the process of raising $3.84 million more.

## BUSINESS MODEL 3

- Import drone with hardware including video camera
- Build software applications
- Endurance: 5 hours and 1,640 ft. (regulated)
- Integrate with smart devices for data processing
- Use apps to control drone
- Build applications for corporate requirements
- Cost: $80,000
- Use data collected on field for analytics
- Reduce man hours on field
- Used on production sites
- High-end cameras used
- Heavier batteries
- Run on 170-watt brushless motors or on gasoline
- Potential: Dependent on corporate business-sharing model, high risk if businesses do not see potential
- Payload: 11-110 lbs

### Sky's The Limit

Indian drone startups suffer from hardware and software complications as well as the lack of meaningful business execution. Cameras and image recognition are key areas of concern for them. For higher-resolution pictures taken from a great distance, the cameras require a larger lens, a bigger motor, battery and sensors, making the drone more expensive. The payload or the weight other than core flying functions of the drone should not be more than 4.4 lbs. for a 2-ft. covert drone used in police operations or for corporate surveillance. Add sensors and services, and the payload makes the drone unviable.

However, the good thing is that image processing technology is fast catching up. Google-backed Skycatch has raised $13 million in order to bring high-resolution images to its clients. StitchCAM, another startup in the US, has created a sensor that can deliver high-resolution pictures from drone cameras.

Working along similar lines are four Mumbai college graduates who started AirPix—it aims to resolve the problem of poor image resolution from drones. "Our product is not yet commercial as we are working on image sensors that can take pictures of a gradient and make 3D models," said Aniket Tatipamula, co-founder of AirPix. He said the company, in association with a windmill farm, has managed to demonstrate how the blades of a windmill can be monitored using photographs sent by a drone. The company plans to create a business model around photography analysis, 3D modeling and annual maintenance contracts.

There are other serious players in this business working with the Defence Research and Development Organisation and the army on a regular basis. Tata Group's Aurora Integrated Systems has been making drones for eight years now. It has two unmanned aerial vehicles that are already in commercial deployment. The company did not comment for this arti.

According to Gartner Research, there is an enormous opportunity for semicon–ductor players such as Aeroflex, Xilinx, STMicroelectronics and Freescale (chipmakers) once restrictions on commercial drones are lifted.

So the next time you jump a traffic light, you may have a drone following you taking close-up pictures. We are, however, still a long way from drone retail delivery as the telemetry depends on the GPS signals received, and the drones are not a 100% accurate in identifying specific houses. It is also far-fetched as no drone under six feet can travel four to five miles from the warehouse to deliver the product. Even if it were to become possible in the future, the question remains: Can we trust the technology or the people behind the technology? Drone companies would like to believe that we should, but right now they continue to struggle to crack the technology and business model conundrums.

# YOUNG, AFFLUENT AND LIVING IT UP

The center of gravity in the luxe landscape has shifted. The under-40s now rule, forcing companies to sit up and take notice.

**By Smita Tripathi**

***"China was at this point 15 years ago, but clearly the next big market is India." —Sanjay Kapoor, Genesis Luxury***

Last May, for their 10th wedding anniversary, Anurag Singh, an investment banker with a leading financial house in Mumbai, bought his wife, Somya, a Judith Lieber clutch for a little over $1,600. She, in turn, gifted him a Louis Vuitton laptop bag, costing another $1,600 or so. They celebrated their anniversary at the Ritz Carlton, Langkawi.

Recently, for his parents' 40th anniversary, 33-year-old Aditya Jain, a senior management executive with a multinational tech firm, booked a luxury cruise to Alaska at a cost of over $16,000.

For Teacher's Day, Riddhima Mehta, a class XII student at a leading public school in Delhi, had her mother buy her a Rohit Bal saree for $720. It was the first time she was going to wear a saree to school and it had to be special.

Meet a whole new set of luxury consumers—young, upwardly mobile and aspirational. While some rake in profits from business, others draw astronomical salaries and even bigger bonuses. Still others have their parents to thank. Either way, they all spend lavishly on luxury.

The Indian luxury market grew at a healthy 30%, to $8.5 billion in 2013. It is projected to close 2016 at $14 billion, according to the KPMG-Assocham India Luxury Summit 2014 report.

This growth is largely driven by a subtle—yet significant—change in the Indian luxury landscape. While a few years ago, the average age of a luxury consumer was above 50, today nearly 50% of luxury consumers in the country are below 40, according to KPMG India's internal analysis.


**Wooing the Young**

Whether it is luxury malls, automobile companies or hospitality chains, each of them is tweaking its marketing strategy to focus on the youth. Take Audi, for instance. India is its youngest market, with the average age of an Audi buyer being 30-35, while globally the average is 43-45. To connect with the youth, Audi has ventured into new areas, using music and brand channels like Audi YouTube and the Audi magazine. It's also very active on social media, with over 3.6 million fans on Facebook.

"Customer drive events like Ice Drive, Women's Power Drive, Q Drive and the Sports Car Experience have helped us create a strong connect with our younger brand enthusiasts," said Joe King, head of Audi India. When the Intercontinental Hotel Group (IHG), which has brands like Holiday Inn and Crowne Plaza, did a study on the next decade of consumers, it found that it would have to cater to a younger breed of "laptop and latte" workers. "To cater to these emerging sets of travelers who want consistent and innovative service, IHG's Crowne Plaza brand is testing a series of new market-specific services and features ranging from in-room technology that ensures guests are always connected, to breakfast options available in easy 'grab and go' packaging," said Gopal Rao, regional vice-president, Sales and Marketing, IHG South West Asia.

> ***"There is a lot of desire to attract consumers at an early age. Get them involved with the brand and then watch them grow."***
> ***—Rajat Wahi, KPMG***

To attract younger customers, Vivanta By Taj is conducting a series of "experiences," ranging from art and installation projects to music. It also started music talent contests—especially for women performers—called Divas of Rock, for which it forged partnerships with Blue Frog and Sony Music.

DLF Emporio, Delhi's only luxury mall, is very active on social media, with over 32,000 followers on Facebook and several thousand on Pinterest and Instagram. Its Treasury of Trousseau event targets young brides and grooms. It also has its annual

> ***"These consumers are typically from the upper middle class, looking to ascend the consumption ladder."***
> ***—A KPMG-Assocham report***

design awards where it gets entries from several design colleges. The jury selects the best, and the designer gets to sell his/her designs at the Emporio pop-up shop for a year and intern with a top designer.

Emporio is also launching a new app (for iPhone and Android) to provide information on offers, promotions and the latest collections of all brands under its roof.

### Have Money, Will Buy

India is a young country, with two-thirds of the population below the age of 25. Also, several professionals and entrepreneurs earn between $64,000 and $96,000 per year. "These are early adopters and have higher awareness and exposure levels to a globalized world—they are emerging as key drivers of the luxury market in India," said P. Rashmi Upadhya, associate director, Strategy, PwC India.

Moreover, there is a cultural shift. While previous generations saved, today's youth wants to indulge without worrying too much about the future. Evidently, India's household savings rate has fallen from a peak of nearly 37% to under 30% today. Sanjay Kapoor, managing director of Genesis Luxury, which brought brands such as Giorgio Armani, Jimmy Choo and Bottega Veneta to India, said: "Brands are recognizing this phenomenon and, hence, there is great excitement to enter India and capture this young audience. China was at this point 15 years ago, but clearly the next big market is India."

The young are also more self-assured. Dinaz Madhukar, senior vice-president of DLF Emporio explained: "The youth of today knows exactly what it wants. It's not just parents' money. People are buying from their own money. They are millionaires in their own right."

The KPMG-Assocham report also states: "In recent times, rising income levels and aspirations have led to a growing segment of potential luxury buyers beyond traditional luxury shoppers. These consumers are typically from the upper middle class, looking to ascend the 'consumption ladder.' An increasing proportion of luxury demand is likely to come from this segment, which belongs to a larger group likely to experience the highest income increase in India."

To tap this segment, companies are doing everything possible—from introducing products specific to Indian youth such as Canali's Nawab jacket, to promoting entry-level offerings.

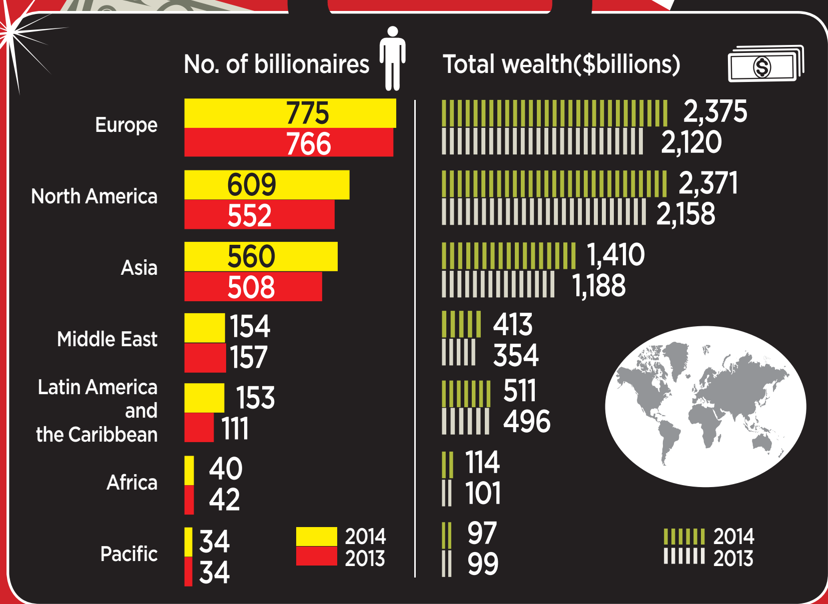
Take, for instance, the iPad and iPhone cases that nearly all luxury brands offer with their logos embossed. These are typically priced below $240 and hence accessible to a large number of young customers for whom the iPad and the iPhone are anyway an extension of themselves. Offered Rajat Wahi, partner, Management Consulting, KPMG: "There is a lot of desire to attract consumers at an early age. Get them involved with the brand and then watch them grow." Entry-level products like eyewear, ties and belts ensure that the brand experience is enjoyed by a larger audience. "The experimentation begins across these products and loyalty builds. This happens even as career growth is achieved by the young," said Abhay Gupta, founder of Luxury Connect, an agency that trains staff for luxury companies.

### Celebrating Life

According to the Kotak Wealth Management Top of the Pyramid 2014 report, younger, self-made ultra-high-net-worth individuals (HNI) are more inclined to celebrate personal occasions and success. "Ultra HNIs, especially young entrepreneurs, show more interest in creating an unforgettable experience to celebrate their success or to establish their identity. For example, a Delhi-based ultra HNI recently booked a trip to the North Pole to celebrate his fortieth birthday," said the report.

Also, while Delhi and Mumbai continue to be the biggest markets, a large number of consumers of luxury live in the non-metros. This is not surprising considering 45% of the 117,000 ultra-high-net-worth households (those having a minimum net worth of $400,000, mapped over 10 years) are in the non-metros, according to the Kotak report.

The youth have always aimed high. With increasing incomes and easy availability of luxury, they are making their dreams come true.




## Continental Shift

While Latin America and the Caribbean have had the highest increase in the number of billionaires in 2014, Asia recorded the biggest jump in total wealth of billionaires

# PLANET MONEY

Though Europe has the largest number of billionaires, Asia saw the sharpest increase in the wealth of the uber rich in 2013-14. Eleven of the top 20 cities with the highest concentration of billionaires are in Asia.

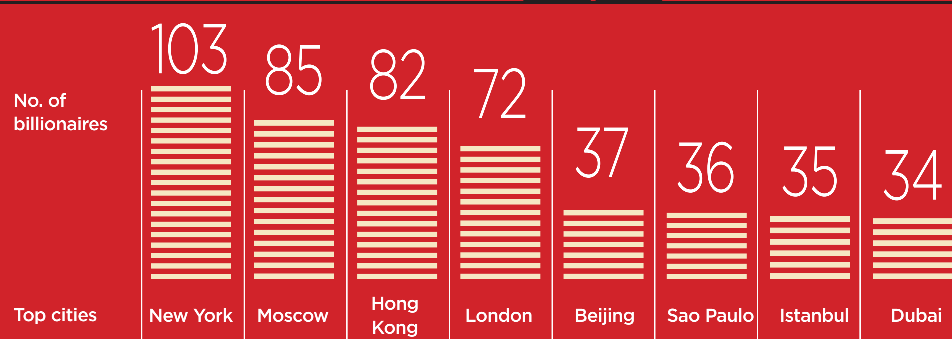
**Compiled by Smita Tripathi; Graphic by Prashant Chaudhary**

35%

of the world's billionaires do not have a bachelor's degree; some are even high school dropouts

## Hangouts of the wealthy

Thirty-four percent of the world's billionaires are based in 20 top cities

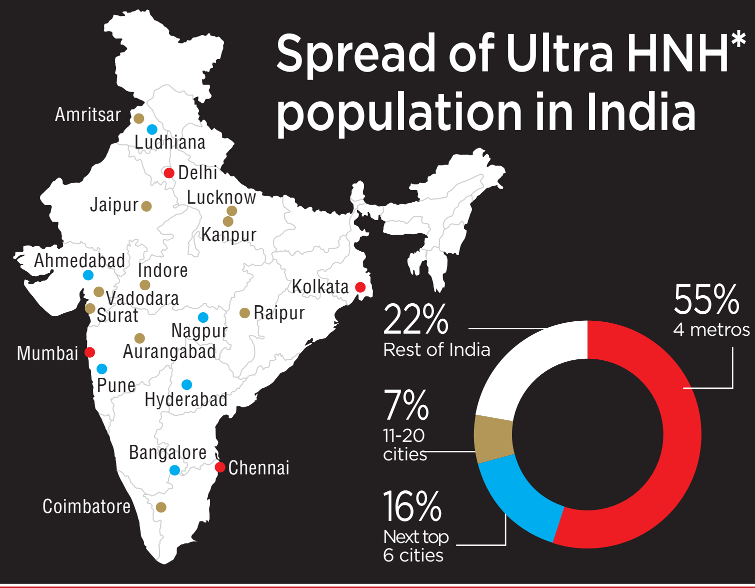


Interactive page

# The ways of the rich

The super wealthy in India are concentrated in metros, spend the most on jewelery and believe strongly in equity.

## Spread of Ultra HNH* population in India



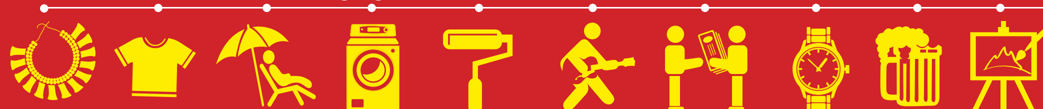

## Growth of ultra HNHs in India

117,000 with total net worth of $1.66 trillion in 2013-14

100,900 with total net worth of $1.37 trillion in 2012-13

## India's Ultra HNI Spending**

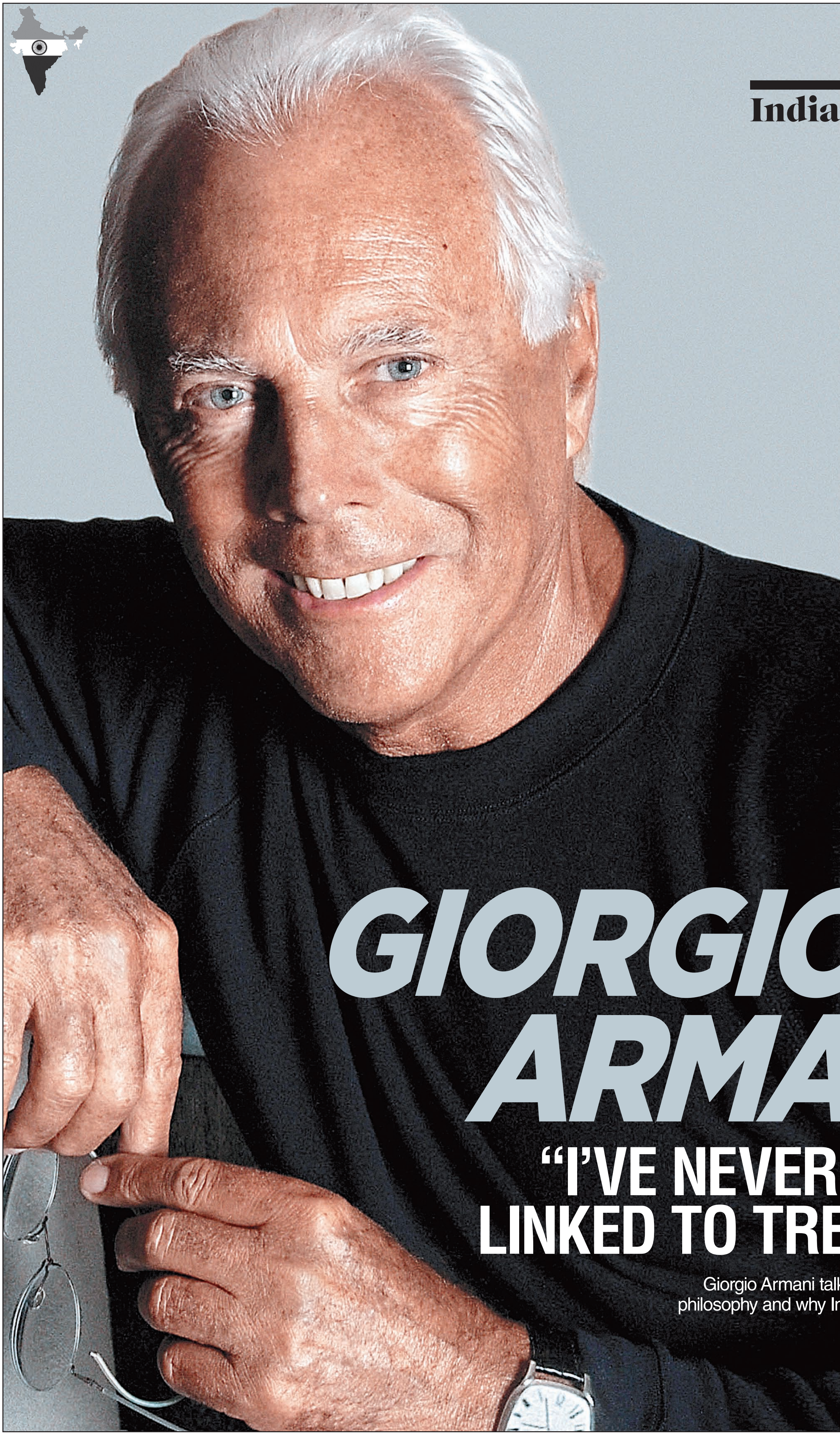
| | |
|---|---|
| 16% | Jewellery |
| 15% | Apparel and accessories |
| 14% | Holidays |
| 13% | Electronic gadgets |
| 12% | Home decor |
| 9% | Events |
| 6% | Philanthropy |
| 5% | Luxury watches |
| 5% | Liquor |
| 4% | Art |
| 1% | Others |



**Source:** Top of the Pyramid 2014, Kotak wealth management

| Top cities | Paris | Singapore | Mumbai | Tokyo | Los Angeles | Shenzhen | Geneva | Mexico City | Shanghai | Taipei | Madrid | Riyadh |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| No. of billionaires | 33 | 32 | 28 | 26 | 25 | 25 | 23 | 21 | 21 | 21 | 21 | 20 |

* An ultra high net worth household (HNH) is one that has a minimum net worth of $4 million, mapped over 10 years
** HNI: High net worth individual.



# GIORGIO ARMANI

## "I'VE NEVER BEEN LINKED TO TRENDS"

Giorgio Armani talks about his design philosophy and why India is so important

**By Smita Tripathi**

Giorgio Armani, president and CEO of the Armani Group and sole shareholder of Giorgio Armani S.p.A., stands as one of the few independent fashion icons today. At 80, he has a world of experience in fashion, having started as a merchandiser at well-known Milan department store La Rinascente.

He went on to work as a fashion designer for Nino Cerruti and then as a freelance designer for various companies before setting up his own label in 1975.

In 2008, he was conferred with the Légion d'Honneur. Before that, in 2000, New York's Guggenheim Museum celebrated Armani's social and cultural influence with an exhibition that has since been seen at the Guggenheim Bilbao, London's Royal Academy of Arts, Berlin's Neue Nationalgalerie, Rome's Terme di Diocleziano, Tokyo's Mori Arts Museum and Shanghai's Shanghai Art Museum

The fashion icon recently took part in a free-wheeling conversation with BW|Businessworld. Some excerpts:

**Do you think the Indian luxury market has potential?**

I would say so. India fascinates me. It is an amazing and vibrant country that is still going through a period of great change. In recent years, we have seen a growing interest in fashion, especially from Indian women who are constantly looking for more sophisticated and exclusive clothing and accessories. They have shown themselves to be very receptive to the Armani Group's sense of style.

**Today you have four Emporio Armani stores in India and one Giorgio Armani store. What are your future plans for India?**

We have been present in India for six years with the Giorgio Armani, Emporio Armani and Armani Jeans collections. It's a complex market that is constantly evolving. The intention is to develop the presence of our brand in the country through a thorough understanding of consumer and market dynamics.


***"Emerging markets, including India, are bustling, demanding, dynamic and constantly being redefined."***

We started with the project to create the interiors of the residences and common areas of the World Towers in Mumbai in 2012. We then expanded our presence in the area with Armani Casa, thus offering Indian customers a more complete view of the Armani lifestyle.

**How important are emerging markets like India for Brand Armani? How much revenue can these markets contribute to the company in the next few years?**

Emerging markets have experienced a growing desire for luxury in recent years. The desire for sophisticated and exclusive goods has increased, and this undoubtedly represents an important opportunity for investment.

**You have always been a trendsetter, whether it is designing bomber jackets or dressing up stars for the red carpet. Have there been any defining luxury fashion trends in the last four to five years? What will be the upcoming trends in luxury according to you?**

Personally, I have never been linked to passing trends. Rather, I have always preferred to create a timeless style that is elegant and sophisticated, and based on the principles of quality, comfort, functionality and excellence in design.

This is the philosophy that I apply to everything I do—from my fashion collections to interior design.

**What are the differences in the markets that Armani operates in? Isn't the demand of the luxury consumer in, say, Europe different from America and the Middle East, for instance? How is the Indian customer different?**

The markets are undoubtedly different. The European market, for instance, is more settled, and therefore more rigid, while the American market is free from constraints and, hence, extremely receptive to new things.

Emerging markets, including India, are bustling, demanding, dynamic and constantly being redefined, though they are united by a growing desire for luxury goods.

**Are your clothes customized according to the country you operate in? Are there any Indian inspirations in your designs or have you tried to customize the collection to meet Indian tastes?**

The underlying style and point of view of what I offer is unique and does not change based on the country.

The Armani Group offers a rich and varied product offering, and consumers in every country have the possibility of finding out what they like the most. In the Giorgio Armani fall/winter 2014-15 collection, there [were] Indian inspirations. I have created a series of T-shirts made of wool/mohair yarn, whose colors are inspired by the exoticism of India.

# LION AIR: THE KING OF THE SKIES

Many predicted that Lion Air, starting with a single aircraft, wouldn't make it off the ground as a business. Yet, founder Rusdi Kirana learned quickly and developed the carrier into Indonesia's most successful. Now he is expanding within the region, buying bigger and better planes, as he prepares to take on the ASEAN Open Skies policy.

**By Muhamad Al Azhari & Dion Bisara**

**PROFILE**

**RUSDI KIRANA**

- Sold typewriters as a teenager, earning $10 a month.
- Along with his brother, named by Forbes Magazine as no. 16 of 50 richest in Indonesia with a $1.7 billion net worth.

SYNDICATION/GLOBE ASIA

Rusdi Kirana, the chief executive at Lion Group and the founder of Lion Air, is a legend in Indonesian aviation industry, known as a game-changer. After successfully reshaping the landscape of Indonesia's airline industry with Lion Air, Rusdi has never let himself rest, setting his sights on further expansion of his business beyond airlines.

Rusdi started Lion Air as a one-plane airline in 2000 and since then has navigated his way to overtake the domination of flag bearer Garuda Indonesia as the largest operator by passenger volume in the archipelago.

Lion Air was successful in gaining momentum after the impact of the 1998 Asian financial crisis, when people still needed to fly but only at an affordable price amid the slower economic conditions. Lion overtook Garuda in 2005 and has never looked back.

The businessman, who ran a travel agency business for 13 years before tapping into the airline business, ranked 42nd in GlobeAsia's richest 150 Indonesians list published in June last year with an estimated net worth of $900 million.

Some believe Lion Group, the strongest rival of Malaysia's AirAsia in the Southeast Asian region, is likely to benefit from the crash of AirAsia's flight QZ 8501 flight in which all 162 passengers and crew died, even though it will share in the suffering from the multiplier impacts of the crash on the overall aviation industry.

The crash has prompted Indonesian authorities to crack down on low-fare tickets, in which Lion is a big player, while analysts said the crash also could potentially deter travelers from flying, having witnessed the horror of the disaster through the headlines in the media.

### Infrastructure First

In an interview before the AirAsia crash, Rusdi pointed out that cities as big as Jakarta must have more than one major airport. "Paris has four, London and Moscow also have more than one," Rusdi told GlobeAsia last year in Toulouse, France.

For that reason, the businessman who is famous for his airline's slogan "We make people fly" is now aiming to expand his business into airport management and has set his sights on raising about $790 million by selling a 30% share in PT Lion Mentari Airlines, which operates Lion Air, through an initial public offering in 2016.

This is no small plan for Lion Group and Indonesia. Rusdi, whose Lion Group has secured permission and won a legal challenge to operate and expand Jakarta's small Halim Perdanakusuma Airport, plans to pour $38 million into expanding the East Jakarta facility, which earlier catered mainly to the needs of the military.

The investment is expected to expand Halim's passenger capacity from the current 1.9 million to 12 million passengers per year. The expansion would serve to help reduce the problems of over-capacity, both in terms of passenger terminal throughput and aircraft slots, at Indonesia's busiest airport, Soekarno-Hatta. The Tangerang, Banten facility now handles 62 million passengers per year—three times its original design capacity.

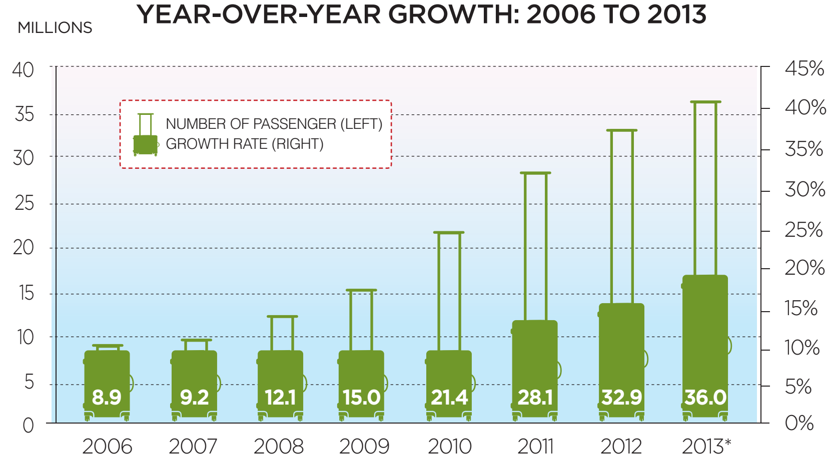
It took the Supreme Court to order a cooperative owned by the Air Force and state airport operator Angkasa Pura II to hand over the management of Halim to Lion's Angkasa Transportindo Selaras after a series of legal challenges and controversy over whether a private company should be able to take on the management of an airport in the country. Lion Group controls 80% of shares in Angkasa Transportindo.

His voice rising with emotion, Rusdi said Lion "never had the intention" to control Halim. He explained that Angkasa Transportindo will have only 16 years left to operate Halim out of the 25-year lease it secured in 2006. "It doesn't matter," he said, adding that he wanted to develop Halim to cater for international air shows.

"I am sad, why Indonesia, which has a larger aviation market, doesn't have international exhibitions. Why are air shows held in Malaysia and Singapore?" he asked. To support his plan, a convention center and star-rated hotel will be built at Halim, as well as improved access to the airport through Cawang, one of the city's main interchanges that connect to the airport.

Rusdi's plan for Halim has been delayed for about eight years, even though Angkasa Transportindo secured permits to manage the airport in 2006. He said Lion has paid the lease fee, and a law issued in 2011 stated that the private sector could operate airports. Angkasa Transportindo has several times asked for its rights to be acknowledged, only to be met by legal challenges

LION AIR GROUP ANNUAL PASSENGER TRAFFIC AND YEAR-OVER-YEAR GROWTH: 2006 TO 2013




Note: * 2013 figure is a Lion Group estimate and only includes Indonesian subsidiaries
Source: CAPA - Centre for Aviation using data from Indonesia Ministry of Transport, Indonesia National Air Carriers Association and Lion Air

## LION'S PRIDE


| IATA CODE | AIRCRAFT TYPE | SEATS | TOTAL AIRCRAFT | TOTAL ROUTES | TOTAL DISTRICTS | TOTAL FLIGHTS |
|---|---|---|---|---|---|---|
| LION AIR | B737-800 | 189 | 30 | 123 | 36 | 594 |
| | B737-900 | 205 | 12 | | | |
| | B737-900B | 213 | 10 | | | |
| | B737-900G | 215 | 45 | | | |
| | B747-400 | 512 | 2 | | | |
| WINGS AIR | ATR | 72 | 25 | 75 | 66 | 206 |
| BATIK AIR | Airbus A321 | 162 | 6 | 27 | 15 | 88 |
| | B737-800 | 180 | 6 | | | |
| | B737-900ER | 180 | 6 | | | |
| MALINDO AIR | ATR | 72 | 11 | 66 | 29 | 153 |
| | B737-800 | 162 | 1 | | | |
| | B737-900ER | 180 | 6 | | | |
| THAI LION AIR | B737-900ER | 215 | 6 | 16 | 8 | 56 |
| BIZJET | Hawker 900 | | 2 | | | |

Source: Lion Air data 3-9 January 2015 period

from Angkasa Pura II.

In the most recent development, the Air Force is reported to have given the green light for the upgrade, paving the way for Lion Group to develop the airport. Air Force spokesman Hadi Tjahjanto said the three parties have met and decided to seek a win-win solution: to let Lion Group become the investor and developer of the airport, while Angkasa Pura II remains the operator.

"There will be further discussions about the scheme of cooperation between Lion and Angkasa Pura II, with acknowledgement from the Air Force. The Air Force has stressed to both companies that the airport will remain the base for the military aircraft that serve the nation's defense and security," Hadi said in January.

Discussions are expected to conclude soon and construction is expected to start in July. Rusdi was not immediately available to comment on the apparent breakthrough.

### Bigger and Better

Lion is also eyeing a second airport development project at Lebak, an undeveloped part of Banten province south of Jakarta. Rusdi said the airport would take up to 13,600 acres of land—more than twice the size of Soekarno-Hatta International Airport, Indonesia's main international gateway. Lion Group plans to break ground on 1,500 acres of land it already owns next year.

The airport is designed to have the capacity for up to 50 million passengers per year, with four runways, including one that can handle the Airbus A380, the world's largest passenger jet. Under Lion's plan, the airport would include warehousing and facilities to create a wholesale and distribution center for Indonesia's small and medium enterprises (SME). The airport would link producers with prospective partners from all over the country without them having to leave the airport.

"Our SMEs' products are great but they have two main problems—packaging and distribution," said Rusdi.

An airport that was both a wholesale and distribution center would help small firms lower costs, he said. "We will also help them with marketing, [and] the place and facilities for selling their products in a profit-sharing scheme."

Rusdi said he had shared his vision for the airport with President Joko Widodo, who he said was excited by the plan because it was consistent with his program to reduce Indonesia's infrastructure costs.

The backing of the president was enough for Rusdi to announce—this time in Rome—his plan for a 2016 IPO. If it succeeds, the offering will be the largest IPO since Borneo Lumbung Energi & Metal's $43.32 million offering in October 2010, and would double the $35.72 million raised by national flag carrier Garuda Indonesia in 2011. "The IPO size will depend on the valuation of the company. But it would be roughly [$80 million]," said Rusdi. "We believe it would be one of the biggest IPOs in Indonesia."

Aviation expert Dudi Sudibyo also welcomed the plan for a new airport at Lebak. "Since the 2000s, our aviation industry has been booming but airport capacity has grown at a snail's pace," he said.

### Lion's Business Empire

Lion Group has now expanded beyond the airline sector. In its early days, many predicted that the fledgling airline wouldn't last long as its founders did not have a strong aviation background.

In Toulouse last year, speaking in front of executives of European plane maker Airbus, guests and journalists to celebrate the delivery of the first three A320 jetliners, Rusdi admitted he didn't know much about the airline business apart from selling tickets as a travel agent.

He and his brother were once tempted to sell the airline for $1 million in cash, but his wife told him not to accept the offer. Rusdi can be thankful for that advice.

Lion's low-cost carrier (LCC) service met strong demand from the public and the business started to grow, enabling him to expand the group's business into related businesses.

Lion Group now has five affiliated airlines under its umbrella. They include Wings Air, an airline that serves smaller cities, connecting them with Lion Air's hubs; Batik Air, the newly launched full-service arm of the group; and Malindo Air, a Malaysia-incorporated LCC with headquarters in Petaling Jaya. Malindo is a joint venture between National Aerospace and Defense Industries of Malaysia and Lion Air of Indonesia.

Then there is Thai Lion Mentari Co. Ltd., a Thailand-incorporated LCC, also a joint venture with a local partner. To round out the stable of carriers, Lion owns Lion Biz Jet, a private jet service targeting mainly corporate customers.

Outside airlines, Lion has Lion Hotel & Plaza in Manado, Rusdi's hometown; Batam Aero Technic, which provides maintenance, repair and overhaul services at a facility on Batam Island; and Lion Express, a cargo service company. The group also owns Angkasa Aviation Academy, formerly known as the Wings Flying School, which has its main campus at Penggung Airport in Cirebon in West Java.

**"With the A320neo … [w]e can bring tourists from Bangkok and introduce them to new tourism places in Indonesia."**
**—Rusdi Kirana,**
**CEO, Lion Group**

### Still Growing Bigger

Having five airlines under its wing, of which three operate outside Indonesia, means Lion Group has made huge orders for aircraft. It ordered 234 planes from Airbus worth $24 billion at list prices in 2013. Rusdi visited Toulouse in November last year to celebrate the delivery of the first three A320 aircraft, which were to be used by Batik Air. They were the first of an order placed in March 2013 for 234 units of A320.

In the same month last year Lion Group placed a $1 billion order for 40 turboprop airlines from French-Italian manufacturer ATR. The deal for the ATR 72-600 planes took Lion's total order for planes from the company to 100 units, making Lion the manufacturer's biggest client. ATR will start delivering the aircraft from 2017 through to 2019, adding to the existing 39 ATR aircraft currently in service with Lion.

In 2012, Lion placed a $22.4 billion order for 230 aircraft from US plane maker Boeing Co. In total, the Lion Group has 569 outstanding aircraft on order, mostly from the Boeing 737 and Airbus A320 families of aircraft, including a blending of the current generation as well as re-engined variants of older models.

Lion is one of the biggest customers of both the world's two major plane makers. According to its website, Lion flies to over 36 cities in Indonesia and operates up to 226 flights daily in Indonesia and other countries in Southeast Asia.

Rusdi told GlobeAsia that the next step is for Lion Group to open Jakarta-Guangzhou and Bali-Perth routes. The big jets like the A320neo that the group has ordered can support the expansion plan. "The A320neo can add to the flying time [capability of an aircraft] of about four to five hours to become six to seven hours, so a long-haul flight like Bali-Tokyo, Bali-Sydney or Jakarta-Shanghai is possible," said Rusdi.

Lion currently doesn't have routes of such scope. Meanwhile some of the Airbus models on order can be used to serve Thai Lion Air. "With the A320neo, we can fly Jakarta-Bangkok. We can bring tourists from Bangkok and introduce them to new tourism places in Indonesia," he said.

### Regeneration

Rusdi told GlobeAsia that he wanted to create ways for new leaders to take over management of the group. "I am planning to resign from my position as the group CEO and focus on assisting development of Lion's regional subsidiaries," he said, adding that Edward Sirait, Lion Group's general affairs director, is likely to head the group.

He gave no time frame for his resignation. But Rusdi has already handed over the reins of Lion Air itself, appointing Rudy Lumingkewas as CEO of Lion Mentari last year. Rudy, who joined Lion Air in 2001, is a nephew of the founding family. Rudy was previously general manager for sales and marketing at Lion Air.

The reasoning for the switch was that at the time Rusdi had decided to join the National Awakening Party (PKB), out of his respect for the late Abdurrahman Wahid, the founder of the party. He became PKB's vice chairman. The party secured 11.3 million votes from Indonesian voters or 9.04% of the total at the legislative elections last year. PKB supported President Joko Widodo's presidential race against rival Prabowo Subianto.


In the Asian market, AirAsia is still the king, but in Indonesia Lion Air and Garuda Indonesia remain the biggest players.

The local media once speculated that Rusdi was a candidate for the post of minister of transportation, but he was beaten out by Ignasius Jonan, former president director at state train operator Kereta Api Indonesia. Perhaps in compensation, on Jan. 19 he was appointed a member of the Presidential Advisory Council (Wantimpres).

### Lion vs. AirAsia

While Rusdi Kirana remains tight-lipped about the prospects of LLCs in the wake of the QZ 8501 crash, analysts expect new government policies will slow expansion of Lion's regional rival AirAsia, founded by Malaysian businessman Tony Fernandes.

In the Asian market, AirAsia is still the king, but in Indonesia Lion Air and Garuda Indonesia remain the biggest players. According to data from the Center for Aviation (CAPA), a Sydney-based aviation consultancy firm, Lion still dominates about 40% of Indonesia's domestic market for air travel, followed by Garuda with 20% and Indonesia AirAsia, the local affiliate of the Malaysian carrier, with 10%.

"Lion Air's Rusdi is a very canny businessman, and Tony [Fernandes] will have his work cut out for him in Indonesia," said Shukor Yusof, an aviation analyst at Endau Analytics in Malaysia, as quoted by the Financial Times on its website in January.

"If [AirAsia] did get it right, it would be a significant leg up for them. But unlike Malaysia where they really have the territory to themselves, they are a distant number two in the domestic Indonesian market," said Timothy Ross, head of Asia transport research at Credit Suisse in Singapore, also quoted by the Financial Times in the same article.

In the region, Lion is not the biggest player in the LCC business but it is catching up quickly to expand into neighboring Asian countries with subsidiaries in Malaysia and Thailand already actively challenging the domination of AirAsia, the king of LCC.

Still, at home, Lion is not free from accidents and its operations are not without flaws. Some notable incidents include the Nov. 30 2004 crash of a McDonnell Douglas MD-82 in Solo, Central Java, claiming 25 lives.

On April 13, 2013, a Lion Air aircraft crashed into the sea just short of the runway at Bali's Ngurah Rai International Airport. Miraculously, none of the 108 persons on board at the time was killed. On Feb. 14, 2014, a Boeing 737-900ER from Balikpapan to Bali via Surabaya bounced four times on the runway at the East Java capital, causing major damage to the plane. There were 222 passengers and crew on board, and while there were no fatalities two passengers were seriously injured while three others suffered minor injuries.

A major slap to the airline's reputation came when the media headlined the arrest of at least three Lion Air pilots in 2012 for possession of crystal methamphetamine. It was found they had been using the drug since the year before. The narcotic, apart from making users high, also keeps them awake and alert, and industry analysts said the cases reflected Lion's tough treatment of its pilots.

Most recently, on Jan. 9 this year, the Ministry of Transportation froze a total of 53 routes flown by Lion Group airlines—35 for Lion Air and 18 for Wings Air—due to improper practices in obtaining flight permits. Lion Group was by far the largest culprit with the vast majority of the total of 61 routes frozen by the authorities.


SYNDICATION/EXAME

# IT CAME FIRST, BUT CAN IT LAST?

The webpage Beleza na Web (Beauty Web) accomplished the hardest thing: It persuaded Brazilian women to buy beauty products online. It became an established business, but now competitors are copying that formula.

**By Patricia Valle**

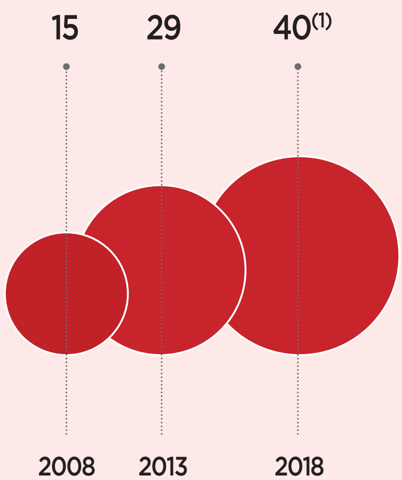
The beauty products market in Brazil is huge. In 2014, Brazilians—and especially Brazilian women—spent $92 billion on shampoos, makeup, and perfumes. Only American and Japanese spent more. For decades, a small group of companies took advantage of all this vanity to do quite well. They are: Boticário, the world's largest cosmetics franchise network, Natura and Avon—leaders in door-to-door sales—and the major drugstore chains.

This market has slowly changed in recent years. Large foreign brands entered the Brazilian market and companies have finally discovered an unknown territory: online sales. Five years ago Brazilians didn't do much online shopping but they spent $403 million in 2014. No one has enjoyed this new niche as much as the webpage Beauty Web, the leader in the sector.

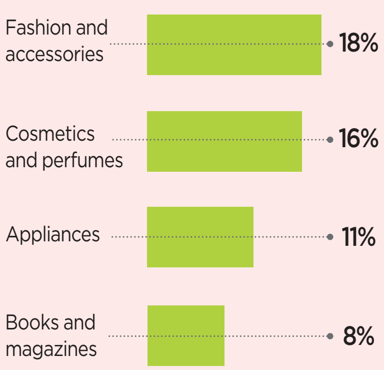
## BEAUTY WITH NO BUMPS

The Brazilian beauty market has doubled in five years, and online sales is one of the most promising niches

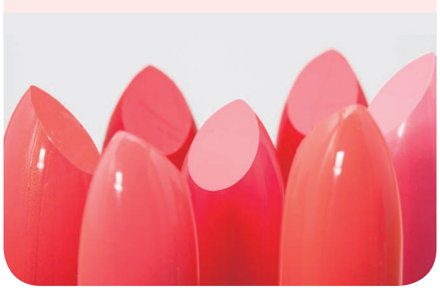
**Revenues of the Brazilian beauty market (in billion dollars)**




**Products with the largest online sales growth in 2014**




(1) Forecast | Sources: Euromonitor and Ebit



***Online sales of cosmetics in the United States accounts for 6% of the market and is led by giants like Amazon and Sephora***

Its founder, Alexandre Serodio, from São Paulo, has shared his life with shampoos and lotions since childhood. His father, Ademar Serodio, was CEO of Avon in Brazil in the 90s, when the company was the leader in cosmetics sales in the country. At 26, Alexandre was the sales director at Jafra, an American fragrances company. In 2006, he became a partner of a beauty parlor in Itaim, a neighborhood in southern São Paulo. In addition to assisting customers, the shop also used to sell professional products by phone and deliver them. That's when Serodio realized the gap in the online cosmetics market in the country. "The big companies of the industry ignored the e-commerce," he said.

He took the dynamics he learned at the beauty parlor to the Internet where professionals teach customers how to use the new products and, therefore, help to sell more expensive items than those the consumers are used to. On the Internet, customers could not touch, smell or test the products. To overcome the rejection factor, Serodio hired famous hair stylists and makeup artists to make videos on a YouTube channel; one of the stars is Celso Kamakura, President Dilma Rousseff's hair stylist. Because they trust the professionals, customers buy. Serodio has also invested in professional lines of famous brands such as L'Oreal and Clinique, which are not easily found in drugstores and


supermarkets. Today, the webpage has 2.5 million views a month and after growing 60% in 2014, earned about $31 million. The business got the attention of two investment funds, Tiger Global, an American partner with Brazilian online retailer Netshoes, and Kaszek, the Argentinean founder of online auction page Mercado Livre. "We do not want to be a niche business. Beleza na Web may profit over [$300 million] in five or ten years," said Hernán Kazah, from Kaszek.

***"We do not want to be a niche business. Beleza na Web may profit over [$300 million] in five or ten years." —Hernán Kazah, Kaszek***

### Online Sales Growing

The web page has grown without drawing attention for years. Cosmetics sales were growing rapidly, but online sales were so insignificant that large companies did not invest in this new niche. But things are changing. According to Euromonitor International, a consulting company, only 1.5% of cosmetics are sold online in Brazil whereas in the United States the share is already 6%, and the sector is led by giants like Amazon and cosmetics retailer Sephora. In Brazil, retailers and traditional manufacturers have increased their investment in virtual stores. In 2013, Magazine Luiza bought the website Época Cosméticos; Natura opened its online store in 2014; Ikezaki, which has seven stores in São Paulo, launched its online store in December; and Sephora bought Sack's, an online store from Rio, in 2010 and plans to start selling cosmetics on mobile apps this year. In response, Serodio plans to open a flagship store in São Paulo and increase the frequency of video lessons with famous makeup artists and hair stylists. He will face the typical challenge of entrepreneurs who discover a new market: They did the work of discovering the treasure map and their competitors only need to copy it.