



BENCHMARKING CSR IN CHINA

Spring 2011

White Paper Topline Report

INTRODUCTION

This Topline Report is part of an ongoing study by marketing consultancy R3, to identify which companies are most respected for their Corporate Social Responsibility (CSR) by Chinese consumers.

For this Wave Nine Report, we have captured more than twenty initiatives from top local and multinational brands. Donation and Children Care still dominated CSR events, putting out increasingly more online campaigns.

Our Research covered 1,565 people in ten cities and was conducted through a combination of in-person and online interviews in the first two weeks of March, 2011.

Telecom giant China Mobile led the way in “CSR Perception” with 20% “Consumer Awareness”, followed by Haier, with 14.6%.

Eight of the top ten CSR companies are local companies, and Coca Cola and Nokia were the only two global brands.

THIS SEASON'S CHINA CSR TRENDS

As China reveals its twelfth five-year economic plan, the rising emphasis on sustainable growth with balanced environment and social development pushes companies in China to the frontline of CSR.

Higher standards of environmental regulation are put into place, accompanied by the goal to reduce 17% of carbon emission by 2015. Incentives like tax credits are also being implemented to encourage companies to take green initiatives.

The focus on environmental protection is widely resonating in Chinese society, as Wave Nine En-Spire CSR study reveals that the “responsible and green product” label has a growing weight in consumers’ minds. However, Chinese CSR practice is still at the initial stage.

According to the CSR Blue Book written by the Research Center for CSR of Social Science, 72% of top 100 series enterprises (top 100 SOEs, top 100 private enterprises, top 100 foreign-invested enterprises) are still onlookers with under-developed CSR policy, while SOEs are the top performers.

Meanwhile, the study also indicates that foreign-invested enterprises are lagging SOEs in the area of CSR performance disclosure in China.

To boost CSR development in China and encourage corporations to document their own CSR practices, the Academy of Social Science issued the first version of China CSR Report Guide in 2009, followed by a more broad and in-depth version in 2010. According to the guide, all SOEs are required to complete CSR report by 2013.

LEADING COMPANY HIGHLIGHTS

Coca-Cola

To support the sustainable development plan in China, Coca-Cola launched its “Live Positively” campaign in April 2010, in coordination with its three bottling partners in the country: Swire Beverages Ltd, COFCO Coca-Cola Beverages Ltd, and Coca-Cola China



Industries Limited, as well as an individual bottler, Zhuhai Coca-Cola Beverage Co Ltd. The campaign covers programs in seven areas, including beverage benefits, healthy living, water stewardship, sustainable packaging, climate, community and the workplace. As part of the campaign, Coca-Cola made a special effort to increase product quality for Chinese consumers by creating products that cater to consumer’s tastes and invested in water recovery and treatment equipment to improve water consumption efficiency; both factors were recognized by Wave Nine En-Spire CSR study to have a positive correlation with consumers’ brand impression and purchase intent. The contribution to an education program has also been planned by Coca-Cola, and the company estimates an overall investment of over US\$30m to the program by 2012.

Meanwhile, Coca-Cola is utilizing the campaign’s digital presence and China’s powerful social network websites- a trendy way to remain eco-friendly. In December 2010, the company kicked off its online event – Micro action, Macro force. In setting up event homepages on Renren, Kaixin001 and Sina Weibo, and calling

consumers to write down the little efforts about protecting environment and live positively, the event has attracted over 280,000 participants by far. Coca-Cola further strengthened its interaction with Chinese netizens by launching the Earth Hour Project last quarter on March 26th, 2011, advocating the need for environmental protection and energy saving. The project generated attention from over 3.8 million participants. Notably, the “green” and “digital” combo has performed well in CSR practices.

Kappa

“Kappa 1200 Go to School” charity campaign is Kappa China’s staple event in partnership with MusicRadio, China Children, and Teenager’s Fund since 2006, with the intention to invest in children’s futures. Following its success of previous



years, the 2010 campaign launched in October with the slogan “Change their Destiny”, and a theme song by campaign ambassador, Han Geng. By leveraging MusicRadio’s extensive media network and music stars, the campaign established a streak of events across major cities in China to encourage “one-on-one” donation

through the “Kappa Charity Golf Match” featuring Qi Qin and Yu Quan, multiple stations of “Street Concert of Love” starring a number of singers, and the activity “One day Store keeper” with a theme of “Loving Care”. During the course of the campaign it generated enormous media coverage via major newspaper, radio station, digital media, and TV channels, resulting in a massive response from individuals, celebrities, and corporations in China. The long-term prospect Kappa has built into this campaign and the lasting impact it’s branded in consumers’ hearts are keys to Kappa’s success.

P&G

P&G China has been a role model for 15 years in devoting its efforts to help and nurture children through its flagship philanthropy project, “Hope School”. Since the formation of its long-term partnership with China Youth Development Foundation (CYDF)



in 1996, P&G's has been active in 28 provinces in China. The company has built 200 hope schools in rural areas that has served more than 150,000 children, and raised a total of US\$9.4m for the project. P&G's impressive track record is credited by its “innovation and creativity” charitable model, which unites its employee, corporate partner, charitable partner, and consumers to collaboratively contribute to the project plan. The strategy has been very successful, resulting in 325 million Chinese consumers making donations or volunteering. In 2005, the company officially set its global CSR strategy toward the development of “Live, Learn & Thrive” for children ages thirteen and under; the proven results in China clearly serve as a critical push for this strategic alignment.

In China, Project Hope has been in the spotlight since 1989 for its series of TV campaigns, charity concerts, and CYDF's powerful national network that enabled Project Hope to thrive as a mature brand. As a result, P&G's lasting association with the project improved the company's standing within Chinese society. While P&G dedicates whole-heartedly to “Hope School”, the company complements the project with other community work for children as well. In December 2010 and January 2011, P&G held its “Campus Interesting Game” for migrant children and Crest's “Love Teeth” event to care for children's oral health. Recently, P&G president of greater China region's wife, Hannah Stevenson, visited P&G Huangpu Factory Hope School to share life with the children.

China Mobile

China Mobile CSR activities focus on the ongoing global issues of children with AIDS, orphans, and youth education. After three years of cooperation with China Women Rights Association, China Child, and Teenager's Fund in the



"12.1 Love Foundation" (a program to address the need of AIDS orphans), China Mobile and its partners, launched the forum of China Mobile Rights of the Children Care Action in Beijing

on Nov. 27th, 2010. The two-day event discussed experiences of various parties along the path and children representatives expressed their thoughts about their future prospects. The foundation assisted more than 12,931 orphans since its establishment in 2007.

China Mobile also didn't forget its loyal young supporters. The company co-founded the "Mobile Market Youth Entrepreneurial Program" with Central Committee of the Communist Youth League in July 2010, with the first phase completing in a year, three phases in total. The initial phase covers more than 3000 secondary and post-secondary schools, offering over one million entrepreneurship opportunities in the forms of competition, training, online participation. China Mobile is promoting this program by utilizing its 540 million customer base, brand reputation, and a mixture of digital media.

China Mobile's contribution to CSR initiatives undoubtedly gained positive feedback from the general public. Wave Nine En-Spire result shows that China Mobile not only scored the highest in CSR Awareness by consumers, but also experienced the largest jump from Wave Six to Wave Nine period due to its ongoing efforts.

Mengniu



As a ten-year veteran who faithfully dedicates to China's environmental protection initiatives, Mengniu treats balanced development of the society, corporation, and eco-system as its primary goal. In April 2010, Mengniu launched its new round of green initiatives themed "Eco-action, Help China". The campaign took the form of a touring exhibition to showcase the corporation's recent green-tech developments and engage consumers in various activities. Meanwhile, Mengniu set up a "Carbon Test" on its official campaign website to encourage people to track their own carbon footprints and Mengniu made a promotional effort to market the campaign. Later in the year, Mengniu extended the program by initiating the "Recycle Package, More Environmental Protection" event. Consumers could exchange a milk coupon for five packages of room-temperature milk at select Wal-Mart stores in five major cities. Recently, Mengniu participated in World Wide Fund for Nature's Earth Hour Project by creating the theme "Make a Change for the Earth", and creatively combined the package recycling program with "Light off for Earth Hour" to maximize impact. Unsurprisingly, Mengniu's enduring efforts in green initiatives have earned respect and support from Chinese consumers, and were reflected positively in the Wave Nine En-Spire CSR awareness result. The fact that Chinese consumers increasingly associate "responsible and green product" with a positive brand impression that results in more purchases, proves the effectiveness of Mengniu's CSR strategy.

Li-Ning



As the leading Chinese sports brand, Li-Ning fulfills its social obligation through its ongoing support of China's sports development and years of involvement in different philanthropic projects. Apart from contributing to the founding of China Sports Foundation in 1994,

Li-Ning has made monetary and material donations to natural disaster and fundraising events, such as Sichuan Earthquake, and the 1998 floods. In the meantime, the company's public image is tightly intertwined with the gesture of its chairman, former Olympic Champion Li Ning, who founded Li Ning Foundation in 2006 with his family members. Earlier this year in February, Li Ning Foundation donated US\$50,000 in scholarships to 50 students of "Sail Class" at a junior middle school in Lingyun County. Last quarter, Li-Ning Sports Park, costing US\$15.44m, was opened to the public in Guangxi Naning. It is the biggest national public sports park invested by Li-Ning foundation for public sports and leisure.

Yili

Yili won consumers' attention by adopting an "event marketing" strategy and integrating multiple eye-catching tactics: brand upgrade, promoting via Weibo (micro-blog), and advocating the idea of "Green Society". The dairy giant started off by calling for a press conference in December 2010 to announce its strategic partnership with Walt Disney Company, along with presenting its new logo and brand declaration: "Nourish Vital Force". During the event, Yili explained that the change was made for consumers, and was to help consumers lead a healthier lifestyle by creating a "Green Society" online. Everyone was invited to participate in the online event by broadcasting their "change", with a chance to win a reward. This online activity captured the New Year rush, and was heated by the endorsements of sought-after stars like Leehom Wang, Jay Chou, and Ariel Lin, who all generated more "buzz" for the campaign. Within ten days, Yili Green Society Weibo attracted thousands of followers, and its development was widely covered by Chinese web portals. During the last three months, Yili organized company field trip to support the "Tree Planting Day" on March 12th, and triggered a new round of discussion in April on "Green Society" Weibo about making a difference for the "World Earth Day"; both events attracted the attention of many Chinese netizens. The company's green initiatives would not be such an influential event if not for the vital catalyst - brand upgrading. Although such a strategy certainly didn't fall into the traditional category, Yili's creativity successfully gained consumers' acknowledgement, resulting in its top ten ranking in CSR awareness.



RESEARCH METHODOLOGY

The study, called “En Spire” looks at three critical factors affecting Brand Perception on CSR

- Awareness – is this brand considered respected in its CSR?
- Theme – which themes performed well?
- Brand Impression and Purchase Intent – will consumers have a better impression about this brand from its CSR performance? Will consumers prefer to buy products from companies with high CSR performance?

The research was conducted every three months across ten cities in China with a target audience of 15-40 years old.

EN-SPIRE BENCHMARKING SCHEDULE			
WAVE	START FIELDWORK	END FIELDWORK	PRESENT TO SUBSCRIBERS FROM
Wave 1	15-Oct-08	15-Nov-08	1-Feb-09
Wave 2	16-May-09	31-May-09	15-Jul-09
Wave 3	1-Sep-09	15-Sep-09	1-Nov-09
Wave 4	1-Dec-09	15-Dec-09	1-Feb-10
Wave 5	1-Mar-10	15-Mar-10	5-May-10
Wave 6	15-Jun-10	30-Jun-10	1-Aug-10
Wave 7	15-Sep-10	30-Sep-10	1-Nov-10
Wave 8	1-Dec-10	15-Dec-10	15-Feb-11
Wave 9	1-Mar-11	15-Mar-11	10-May-11
Wave 10	1-Jun-11	15-Jun-11	1-Aug-11
Wave 11	1-Sep-11	15-Sep-11	1-Nov-11
Wave 12	1-Dec-11	15-Dec-11	1-Feb-12

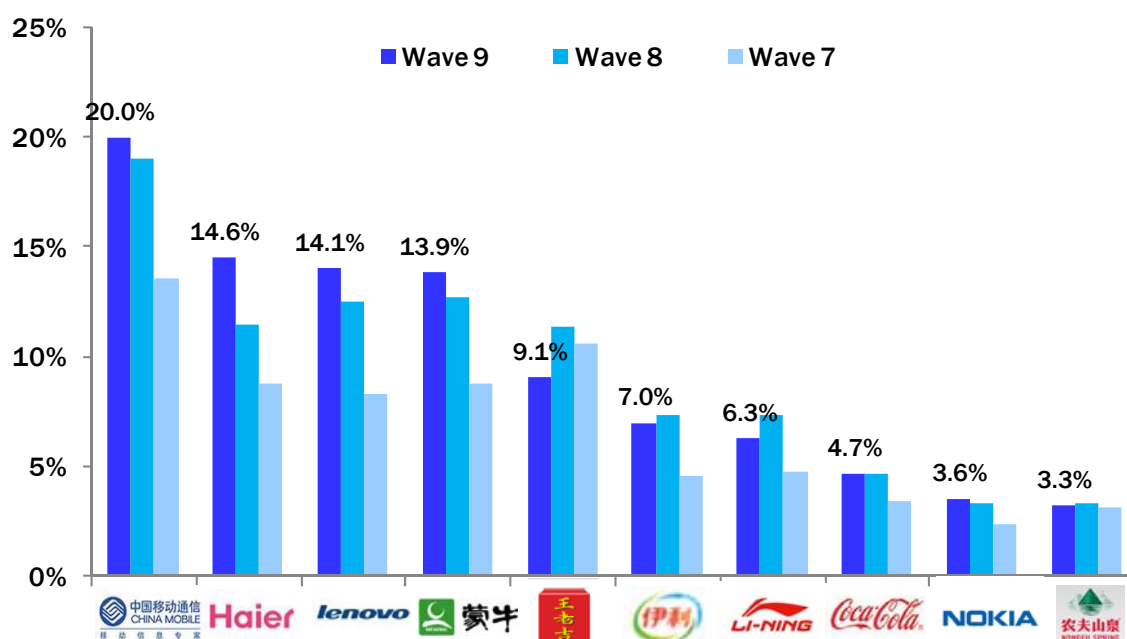
RESEARCH EXECUTIVE SUMMARY

Local Companies Dominate CSR Perception

Corresponding with the discussion on CSR trends in China CSR, the study indicated that local companies outperformed foreign-invested enterprises in CSR perception among Chinese consumers due to a lack of foreign companies' performance disclosure. Only the beverage titan Coca-Cola and the world's leading mobile phone supplier Nokia placed in the Top 10, ranking eighth and ninth respectively. Among the domestic companies, China Mobile consistently occupied first place with 20% of respondents' recognition, while Haier, Lenovo, and Mengniu fought for second place with marginal differences between them.

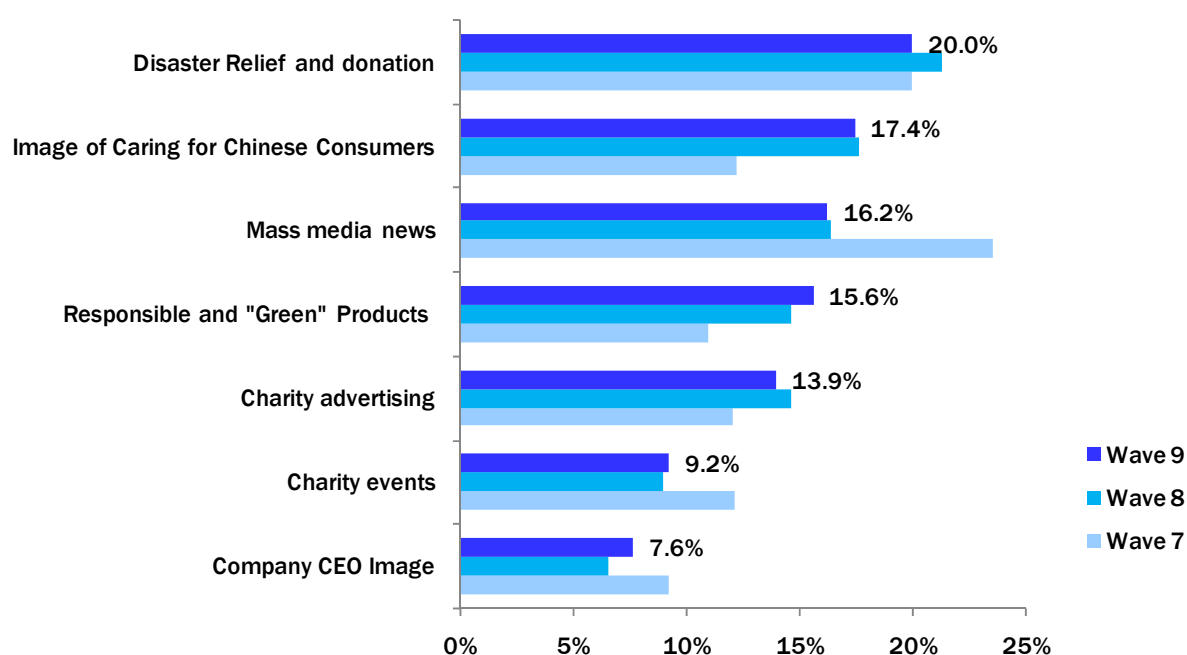
Top 10 Companies in CSR Perception:

- | | |
|-----------------|-------------------|
| 1. China Mobile | 2. Haier |
| 3. Lenovo | 4. Mengniu |
| 5. Wanglaoji | 6. Yili |
| 7. Li-Ning | 8. Coca-Cola |
| 9. Nokia | 10. Nongfu Spring |



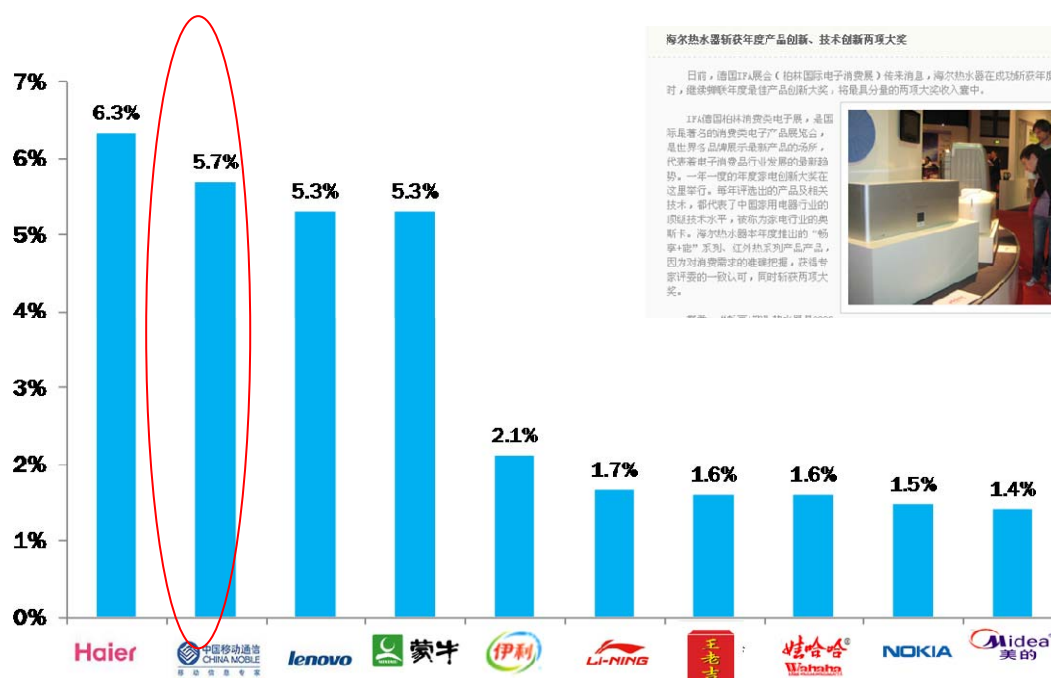
Themes of CSR

As a country that suffers year-round natural disasters, China's people are inclined to judge a company's CSR initiatives by its engagement in disaster relief and donation, which weighs 20% in consumers' perceptions. In addition, "Image of Caring for Chinese Consumers" was also considered by respondents as an important aspect, with a 17.4% weight. Interestingly in the past, Chinese consumers didn't particularly favor companies with a "responsible and green product" image; but in recent years that factor has become more and more popular. One can say this trend was triggered by the increasing emphasis on environmental protection by China's public policy and lawmakers.



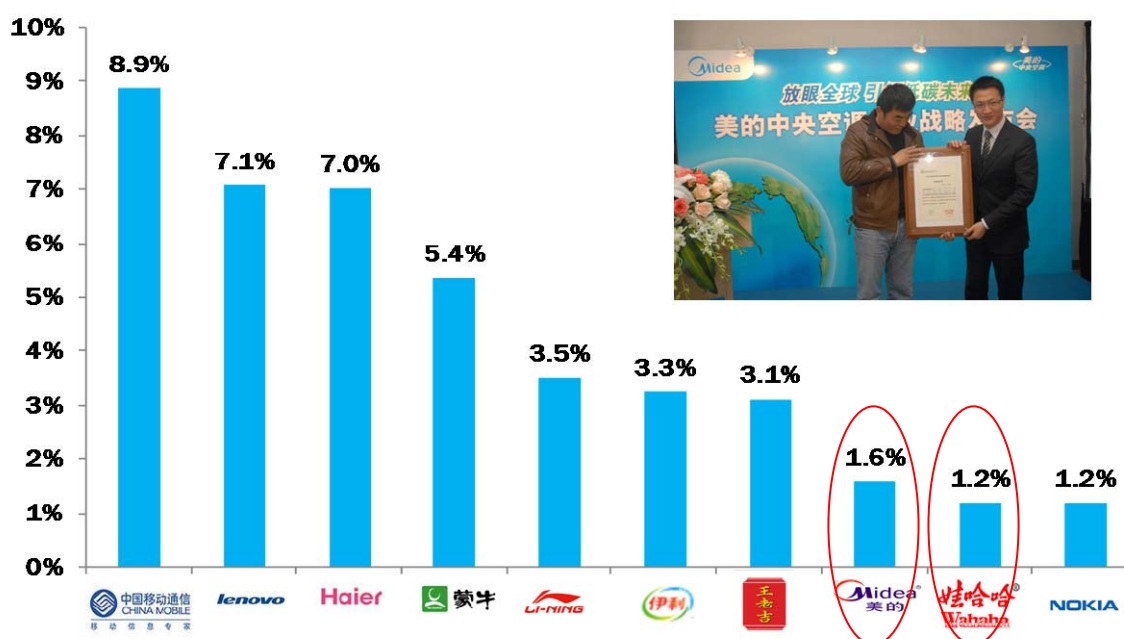
Top 10 Brands – Responsible and Green Products

With respect to performance in producing responsible and green products, local companies almost swept the entire Top 10 seats if not for Nokia squeezing in as the ninth brand. In addition, for the first time Wahaha and Midea appeared in the ranking. What's notable is that the top four companies: Haier, China Mobile, Lenovo, and Mengniu, placed significantly ahead of the companies that ranked below them. The result is a tier structure in the bar graph in terms of the companies' green efforts in China.



Top 10 Brands – Image of Caring for Chinese Consumers

Significant differences in culture, lifestyle, and preference all contribute to Chinese people’s interest in the “Image of Caring for Chinese Consumers”. While China Mobile claimed the title again in this single category with 8.9% of support, other local companies Midea and Wahaha, who were previously excluded from CSR Perception top 10 ranking due to low recognition, also made their way into the single category for the second time with 1.6% and 1.2% of the respondents’ votes respectively. Nokia, again, was left to play solo as the only foreign-invested company; however, Nokia slid it to No. 10, implying that foreign-invested companies still have some ways to go in Chinese consumers’ impressions of their CSR commitment.



TOPLINE LEARNINGS

So what can we learn from the leaders in this wave of analysis? There are a number of key trends that stand out:

- **Think Long Term** – the best CSR initiatives are ones that reflect the long term vision of the company and its role in China. Some examples of this include Kappa, Coca Cola and Mengniu. When planning your CSR activity, you need to go beyond the tactical events and think of ideas that will live long in the memory of the consumers.
- **Link to Public Policy** – the Chinese government has made some important commitments within each of their Five Year Plans with regards to community outreach, closing the digital divide, and building greater racial harmony. Companies who develop plans that reflect and enhance these initiatives, such as Lenovo's 1,000 County Drive, Unilever's Rainbow plan, Li Ning's Sail class project, will all produce better results.
- **Digital Makes the Difference** – with 480m online netizens, socializing your CSR activities is completely essential. Coca-Cola has done this particularly well with Sina Weibo, Live Positively Weibo, and so has Yili's Green Society Sina Weibo. Some of the best marketers have managed lead Digital Agency Reviews to identify their best partners, as the range of agencies in this space has changed quite significantly in the last two years.
- **Invest in Measurement** – a CSR campaign that is not measured will always be one with limited success. You must set KPI's in advance and invest in the tools to track them. The best companies are measuring not only to recall of their activities, but also modify their Brand Images, Stakeholder Images, and Sources of Knowledge. R3's quarterly CSR Benchmarking Tool is one such option for measuring.

ABOUT R3

R3 is a Beijing based independent marketing consultancy whose aim is to improve the efficiency and effectiveness of marketers and their agencies. Founded in 2002, its clients include Coca-Cola, VISA, Johnson & Johnson, adidas, Yili and Lenovo. For more information, visit www.rthree.com or write to sunny@rthree.com - +8610 5900 4733

ABOUT R3'S CSR BENCHMARKING REPORT

This report is the Topline of a deeper Subscriber Only Report from R3 on CSR. Published every season, the R3 CSR Benchmarking Report covers not only the CSR activities of the previous three months, but more indepth analysis of Consumer Feedback about them.

Every three months R3 connects with 1,500 consumers from ten cities to better understand the consumers' usages of and attitudes towards brands, celebrities, media and CSR. Our CSR Benchmarking Report tries to address the "Cause and Effect" of marketing activities – covering more than 40 companies and their activities regarding Corporate Social Responsibility in China, combined with the Consumer "Effect" of those activities in terms of in-depth research.

The Full Report covers 20+ pages of Competitive Materials, Analysis and Research Results, and is valued at 68,000 RMB per Wave. For more information, write to bella@rthree.com