



Summary Business Plan Prepared for:
mai Bangkok Business Challenge® @ Sasin 2008

December 2007

Team Members:
Nida Kamal
Carrie Chan
Rachel Williamson
Ryan Blask

*This document contains confidential & proprietary Information
belonging exclusively to Peekaboo Intimates, LLC*

Business Overview

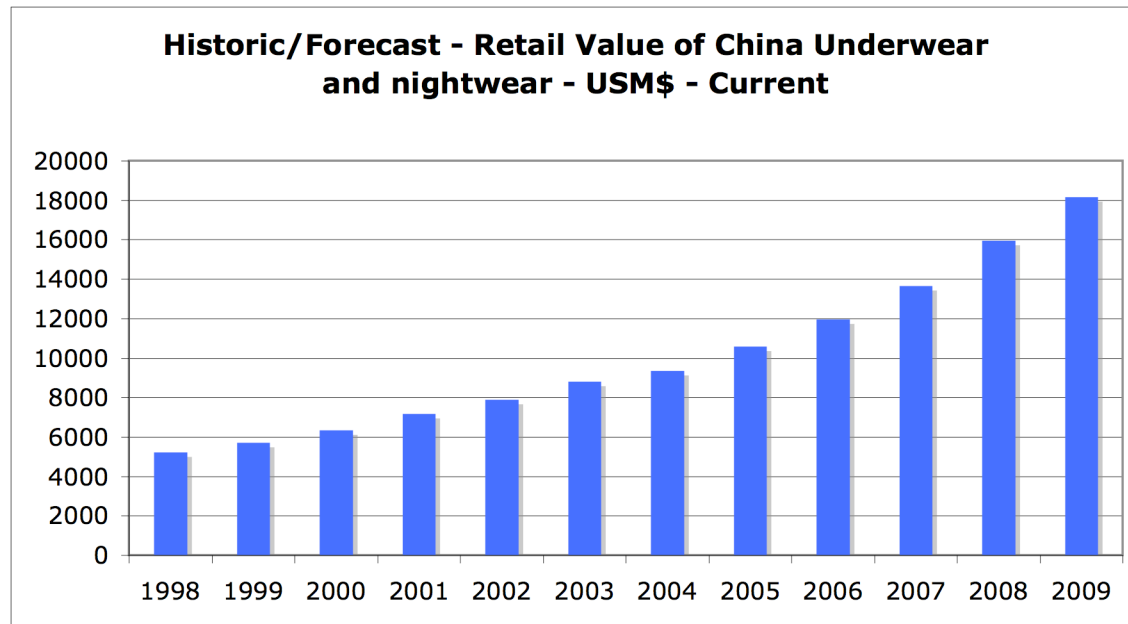
Peekaboo Intimates (“Peekaboo” or “the Brand”) is a new brand of women’s intimates’ apparel to be marketed and sold in major Chinese urban areas. Through strategic marketing and understanding of the consumer, Peekaboo will establish an iconic brand of intimates apparel in the currently underserved, Chinese intimates apparel market. Peekaboo’s products have a Western look and style, but are specially designed for the proportions of Chinese women. Peekaboo’s primary products will be bras and underwear with loungewear, hosiery, and lingerie as possible future product extensions. Given Peekaboo’s quality, comfort, and modern designs, its products will be highly-differentiated from intimates products currently available in the Chinese marketplace. Our target consumer is the urban, professional Chinese woman with growing disposable income. The growing demand of this market segment coupled with strategic marketing, distribution and operations creates an exciting and lucrative investment opportunity.

Market Opportunity

The Chinese consumer cannot be ignored. Last year, Mainland China became the third largest retail apparel market in the world following the United States and Japan, respectively with sales rising 13.6% over 2007..¹ Compare this to the U.S. retail market which has grown less than 5% annually in recent years.² Chinese consumers are taking notice of Western trends, and are eagerly buying fashions as many Western retailers set-up shop in large urban centers throughout the country. As Western fashions penetrate the Chinese markets, there is a need for new types of intimates to wear with these clothes. Low-rise jeans, fitted shirts, and plunging necklines all require specific types of intimates.

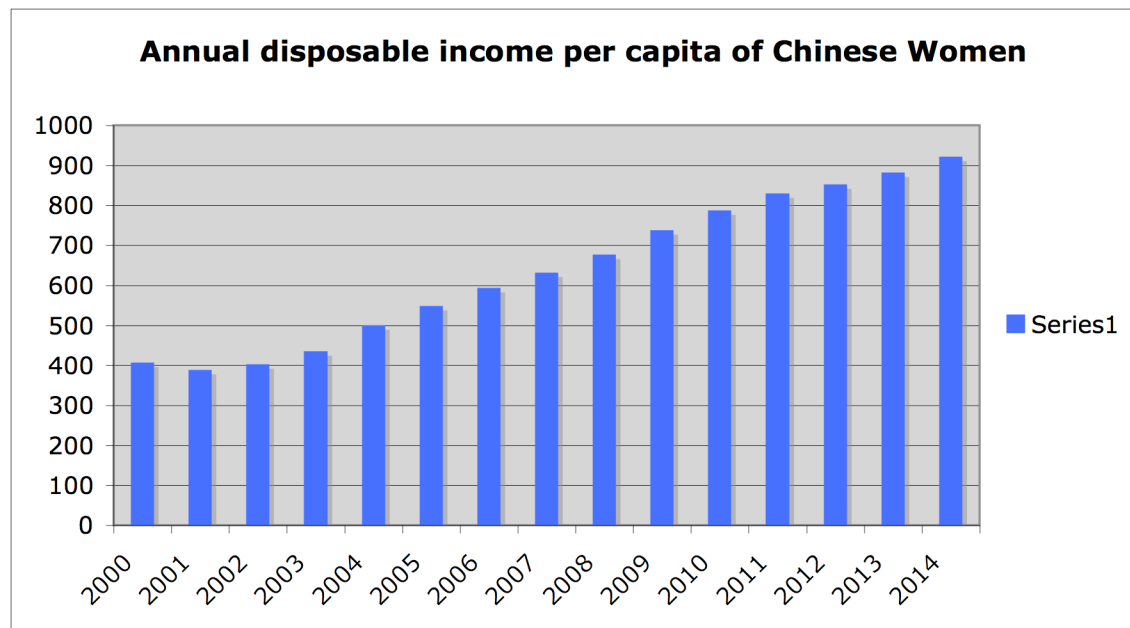
The fashionable and quality conscious Chinese woman with increasing disposable income has extremely limited options for the modern intimates products that they desire. Peekaboo management’s market research, these women demand a higher quality product than what is available in the current market with one in three women stating that they are highly dissatisfied with their intimates options currently available to them. Additionally, the intimates market in China remains undeveloped from a branding and marketing perspective with brands not paying close attention to the evolving modern identity of Chinese women and using dated neither merchandising techniques that are neither aligned with women’s purchasing behaviors nor shopping behaviors. As demonstrated in the charts on the following page, the historical and forecasted growth in the Chinese intimates market combined with the historical and forecasted growth of the disposable income of Chinese women results in positive demand potential for Peekaboo intimates.

As of 2006, the Chinese intimates industry was a \$12.0B market and is projected to grow to \$18.2B by 2009.



Global Market Information Database By Euromonitor International

Disposable income is on the rise; as of 2005 Chinese women had a per capita disposable income of \$598.6 and is project to grow to \$928.5 by 2014.

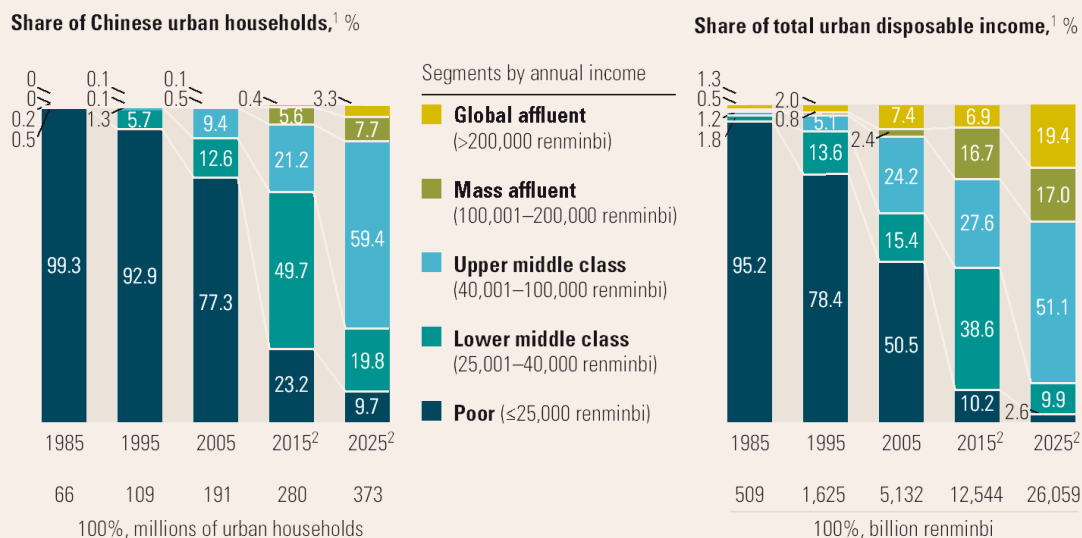


Global Market Information Database By Euromonitor International

As shown in the below charts, the middle class represented 22% of urban households in 2005 and is projected to grow to 71% of urban households in 2015. Furthermore, urban, middle-class women's disposable income was \$131.9 billion in 2005 and is expected to grow to \$1.1 trillion in 2015.

Growth in Chinese middle-class urban households and their disposable income⁵

Spending power is on the rise



¹ Some figures do not sum to 100%, because of rounding; disposable income = after-tax income, including savings; real renminbi, base year = 2000; 1 renminbi = \$0.12.

² Base case forecast, Q1 2006.

Source: National Bureau of Statistics of China; McKinsey Global Institute analysis

The geographic market for Peekaboo is cities whose markets are developed enough to make selling medium-priced, quality intimates a profitable endeavor and, have high-quality production facilities nearby. Shanghai, Beijing, Guangzhou, and Shenzhen are the four largest Chinese cities and possess the parameters discussed

previously. Therefore, our market potential analysis focuses on these cities and their surrounding metropolitan areas.

Existing and Projected Market Revenue Potential

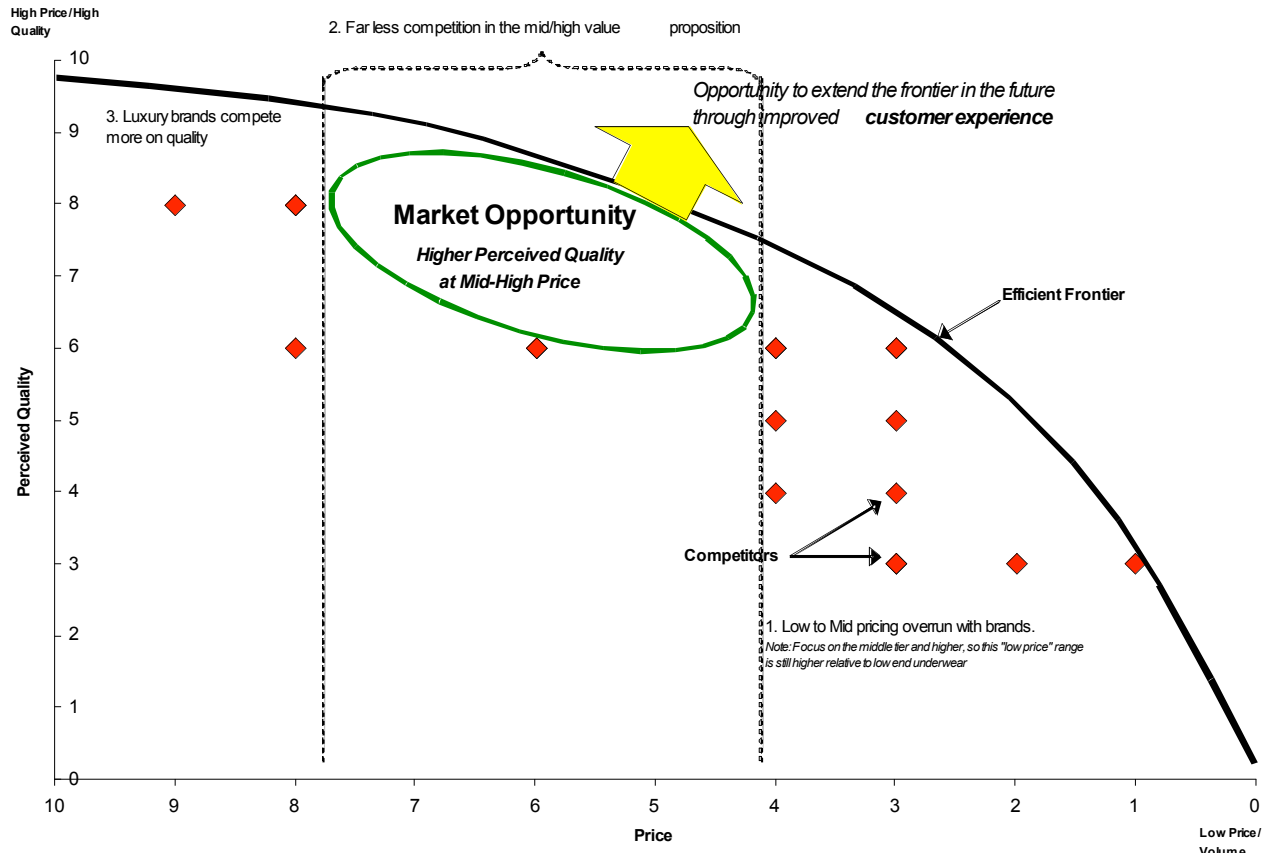
The below chart demonstrates that Peekaboo's defined target market of middle class women ages 19-45 living in Shanghai, Beijing, and Guangzho was comprised of 2.4 million women in 2006 and is expected to grow to 19.4 million in 2015 due to growth of the urban, middle class population of 49%⁴. The middle class emergence will allow Peekaboo's market revenue potential to grow from \$372.5 million in 2007 to \$1.0 billion in 2015 in these four cities alone.

(\$ and numbers in millions)									
Actual 2005	Population	Women / Population*	% of Middle-Class Urban Households	% of Women Ages 19-45	Target Customers	Annual Number of Panties Demanded at 5/year	Annual Number of Bras Demand at 2/year	Panties at purchase price of \$10	Bras at purchase price of \$30
Shanghai	15.0	51%	22%	56%	0.9	4.7	1.9	\$46.7	\$56.0
Beijing	11.1	49%	22%	56%	0.7	3.3	1.3	\$33.1	\$39.8
Guangzhou	7.6	50%	22%	56%	0.5	2.3	0.9	\$23.1	\$27.8
Shenzhen	8.8	50%	22%	56%	0.5	2.7	1.1	\$26.8	\$32.2
Total	42.5				2.6	13.0	5.2	\$64.9	\$207.6
Total Market Revenue Potential as of 2007									\$272.5
Forecasted 2015	Population	Women / Population*	% of Middle-Class Urban Households	% of Women Ages 19-45	Target Customers	Annual Number of Panties Demanded at 5/year	Annual Number of Bras Demand at 2/year	Panties at purchase price of \$10	Bras at purchase price of \$30
Shanghai	17.2	51%	71%	56%	3.5	17.3	6.9	\$172.8	\$207.4
Beijing	12.8	49%	71%	56%	2.5	12.3	4.9	\$123.3	\$147.9
Guangzhou	8.9	50%	71%	56%	1.7	8.7	3.5	\$87.5	\$105.0
Shenzhen	10.4	50%	71%	56%	2.0	10.2	4.1	\$102.2	\$122.7
Total	49.3				9.7	48.6	19.4	\$242.9	\$777.3
Total Market Revenue Potential in 2015									\$1,020.2

Competitive Analysis

The \$12.0B intimate apparel market in China is categorized as fragmented and undifferentiated. Thus, Peekaboo will face many competitors in the industry. According to Deloitte Consulting's retail practice, until recently there were basically two types of apparel sold in China: (1) low priced, basic apparel sold under local brand names offered in Chinese department stores, foreign hyper markets, or small shops and (2) luxury brands sold in either franchised boutiques or upscale department stores. There has been and continues to be a lack of mid-priced, quality apparel products available. Through market observations and conversations with Chinese women, Peekaboo has found that this lack of middle segment is especially true in the intimates industry. Given the projected growth in the urban, middle-class woman's disposable income, coupled with the lack of mid-priced, quality intimates products available, a gap in the intimates market exists on which Peekaboo can capitalize. Peekaboo's competitive strategy is to offer "better" quality products, at a slightly premium price in order to be perceived as valuable and desirable to a "different" consumer willing to invest in quality. Capturing and protecting the currently underserved mid/high market niche, will require differentiation, brand-recognition and consumer education. The luxury brands will be reluctant to come down market, and given our quality advantage, mid-market brands will have challenges competing in our space in the long-term.

Competitive Positioning



What about Victoria's Secret and other International Intimates companies?

The majority of intimates retailers continue to view China as a production source as opposed to a retail market. This is likely due to the fact that with the exception of Victoria's Secret (\$5.1 billion 2006 in revenue), the majority of intimates brands are relatively small scale companies who lack sufficient financial and human capital resources to access a large and diverse market such as China (Maidenform, 2006 revenues of \$417 million and Warnaco intimates division, 2006 revenues of \$647 million)

A McKinsey survey of Chinese consumers underscores the difficulty multinational retailers may face in applying to China their tried-and-true formulas for differentiating products and brands and suggests that they should adopt new approaches in areas such as in-store sales and advertising. This creates challenges and expense for major multi-national intimates brands as the strategy both requires understanding of the market and modification of the brand or new brand development for entry. Additionally, Mc Kinsey reports that Chinese consumers of apparel do not appear to place a premium on foreign brands. Only one-quarter of the respondents say that such brands offer better value than local ones do, for instance, and only 11 percent report frequently trying on foreign offerings.⁴

Limited Brands Inc, the parent company of Victoria's Secret, made its first international acquisition in years when it acquired Canadian lingerie retailer LaSenza for \$628M in November 2006. LaSenza's store formats and branding strategies in China are identical to their Western stores and little attempt has been made to best position this brand to the unique, Chinese, female consumer. An article discussing this acquisition commented that Limited Inc is cautious on international expansion. Furthermore, an industry insider stated that Victoria's Secret does not have plans to expand rapidly China as it is focusing on its core competencies and updating Victoria Secret stores in its current geographic markets.

Maidenform's product is considered value/price and is primarily sold through mid to lower-end department stores such as Macy's and JC Penney. Maidenform's 2006 10-k stated that international growth has been primarily experienced in Russia, Ireland, Belgium and Netherlands. Their international growth is also focused on the United Kingdom and Canada.

Brands such as Triumph (Germany) and Wacoal (Japan) are available in the Chinese market. While both of these brands have strong name recognition amongst consumers they continue to use dated merchandising techniques, limited selection and have not appropriately educated the market. According to Leo Burnette, Shanghai data, only spent \$56 thousand and \$18 thousand in media spending to promote the brand

Therefore, a significant opportunity exists for a new brand that understands the consumer, her needs and how to reach her.

The Peekaboo Opportunity

Through Peekaboo management's market observations, interviews of over 200 women, and discussions with industry experts, we have identified that while the Chinese intimates market is growing, it is not fully developed, thus creating space for a brand like Peekaboo to enter the market in early stages and build an iconic brand presence. We have identified the following primary areas where the Chinese intimates market is lacking and therefore an opportunity exists for Peekaboo to be superiorly positioned:

Product

The majority of the domestic brands sell intimates products that are of low-quality, uncomfortable, unflattering, and undifferentiated. While select international brands such as Triumph and Wacoal have entered the market, there is a lack of options in the mid-priced, quality intimates brands for the burgeoning middle class of Chinese woman. Furthermore, the products provided by these international brands are designed for Western women's bodies; therefore, the size of the cups and chest are not appropriate for Chinese women's bodies resulting in poor fitting bras.

Merchandising

Currently bras and panties are primarily marketed in matching sets with ornate patterns. We have observed that Chinese women, similar to American women, tend to mix and match their bras and panties as opposed to exclusively wearing matching sets. Therefore, the product mix and merchandising is not best aligned with consumers shopping and wearing behaviors. Additionally, the current shopping experience lacks intimacy and excitement. Displays have fluorescent lighting and fitting rooms are cramped. The shopping spaces are rarely atmospheres where one wants to linger to explore the product and enjoy the experience.

Brand

During 2006, a total of \$2.9 million in media advertising was spent by intimates companies in all of China. The largest spender was Aimer, a Chinese brand, at \$1.5 million and according to industry sources they are doing well despite their dated merchandising tactics and product assortment. The Chinese consumer relies on the internet, celebrities, and brand advertising to teach them which products to buy, how to wear and what to use. With such limited dollars being allocated toward advertising, there is an opportunity to create a significant buzz and change the way China thinks about underwear.

Business Strategy

Product Development

The Peekaboo management team visits the China market frequently to work with our distributor partnerships, conduct market research and most importantly connect with the consumer and gain greater understanding of the market. Extensive field research and online surveys have been conducted through market surveys on Chinese women's intimates purchasing behaviors. Findings from clearly showed demand for higher quality product with a Western design. Peekaboo's surveys also showed that Chinese women identified foreign brands as premium products and our dissatisfied with products currently available to them.

The team distributed an RFP and met with market research firms in China in the Fall of 2007 to select a market research firm to conduct focus groups and interviews that will be helpful in refining the product mix and brand positioning. Peekaboo selected ARK, a firm recommended by Leo Burnette, Shanghai.

Peekaboo has formed relationships with retail and intimates industry professionals both in the U.S. and China. Peekaboo is working with a Chinese-American based designer in New York City. The team regularly attends intimates apparel trade shows in New York and Las Vegas to meet with potential private label partners and follow emerging trends. Private label manufacturers currently produce in China and export for sale in North America and Europe. Through partnering with experienced private label manufacturers, quality and inventory risks are

mitigated and costs are kept variable as opposed to the large capital investments that would be required for Peekaboo to establish a manufacturing presence.

Marketing

Peekaboos marketing strategy will focus on positioning the brand as a fashionable, high-quality intimates product with a playful side for the modern, Chinese woman. Consumer education will be an essential part of the marketing strategy to assure that the woman fully understands the value of the product benefits. For example, Peekaboo will demonstrate the benefits of comfortable underwear, the appeal of a better shaped or enhanced bust-line and the importance of not showing undergarments lines through introducing seamless bras and underwear made with high quality cotton, silk, and microfiber. Since many Chinese consumers are learning the benefits of better, higher quality, Western products, they tend to rely on their brand to teach them how to use and why it's better. This example is evident in many Chinese beauty magazines such as Rayli or Vogue where many pages show step by step instructions on how to use cosmetics or dress certain ways.

The Chinese consumer is likely not ready for racy ads on primetime television but are ready and willing to purchase less conservative styles of intimate's apparel. In marketing Peekaboo, acute awareness of cultural sensitivity will be necessary. Peekaboo has begun to collaborate with Leo Burnette, Shangahi to discuss brand building techniques and how to best target this unique and evolving consumer. With the 2008 Beijing Olympic games, growing disposable income, higher education, and greater awareness of brands and fashion, the Chinese consumer sense of self continues to evolve. Leo Burnette described a branding technique called, "China Cool." This has been successfully utilized with sports apparel and focuses on showing Chinese culture in a very modern light as opposed to imposing a Western image of modernity on Chinese people. Brand tactics such as this will be used to empower and emotionally speak to Peekaboo's target consumer market.

Location

As discussed previously, Peekaboo has identified four cities in China with a developed consumer economy and nearby manufacturing locations. Initially, Peekaboo will be sold in mid to high-end department stores, and will be displayed in promotional displays. Within one year of the brand's launch, the team will establish flagship stores in high-traffic/high-end shopping malls in both Shanghai and Beijing. The flagship stores will enable Peekaboo to better position itself and grow the brand. Eventually, Peekaboo would like to have several retail stores in Shanghai and add stores in Beijing, Shenzhen and Guangzho. Peekaboo's distributor has access to mid to high-end department stores in up to 20 Chinese cities that have sufficient demand for intimates products at Peekaboo's projected price points. After successful testing and launch in the four Tier-1 cities, Peekaboo plans to scale to these 20 cities in a five year time-frame.

Manufacturing

Peekaboo will have contractual relationships with several manufacturers to mitigate production risks and diversify the supply source. If one of the manufacturers emerges as superior in quality, service and relationship, an exclusive manufacturing contract will be entertained. The intent is to have a manufacturing facility located within close proximity of Shanghai, where Peekaboo's products will be initially sold and there is production expertise is abundant. Experienced manufacturers have advised against producing at locations in the interior of China due to lower quality standards.

Intimates brands as well as the products are trademarked. Underwear and especially bras are not easily replicatable as the "blue print" design of a bra is the key to production and fiercely guarded. This helps to mitigate the risk of counterfeit production. Furthermore, Chinese consumers view counterfeit brands as undesirable and the majority of counterfeit brands are sold to tourists or for export.

Distribution

In China, many retail brands work with distributors to secure prime retail space as opposed to working directly with the retailer. Therefore, working with a qualified distributor is key to the placement and promotion of the product. Patrick Mars, a women's apparel distributor in Beijing is on Peekaboo's advisory board. Mr. Mars's company, HTM International, has access to retail channels in up to 20 cities. Peekaboo plans to explore additional distribution relationships to gain access to additional stores.

Financials

As shown below, marketing costs will be the primary expense in order to launch the brand. With the exception of marketing and advertising costs, it is Peekaboo's goal to keep its cost structure entirely variable through contract manufacturing and distribution partnerships. Furthermore, Peekaboo will require minimal cap-ex due to these partnerships. The founding partners of Peekaboo will only be compensated with equity and Peekaboo will negotiate deferred equity compensation agreements with designers.

Year-1 Sources and Uses to Support Initial Launch

\$ in thousands

Sources		Uses	
Prize Money to date	\$10	Market Research - ARK	\$100
Management Equity Contribution	\$40	Test Market Costs (design, development and inventory for five test displays)	500
<u>Outside Capital</u>	<u>\$2,575</u>	Branding Development and Advertising – Leo Burnette, Shanghai	1,000
		Peekaboo Management and Employees	500
		Media Launch	300
		<u>Inventory Orders to Support Shanghai Launch</u>	<u>225</u>
Total Sources	\$2,625	Total Uses	\$2,625

The following pages show the following financial information:

Table 1. Preliminary capital plan and roll-out

Table 2. City and country roll-out

Table 3. Consolidated projected income statement

Table 4. Table of returns