

# Marketing to the New Chinese Consumer



IN ASSOCIATION WITH:



## KEY FINDINGS

To see how major brands are approaching the emerging Chinese consumer, Forbes Insights, in association with the World Federation of Advertisers, surveyed more than 300 China-based senior executives at large consumer-focused businesses (\$250M plus in annual revenues) responsible for creating, managing, or executing their companies' marketing strategies in China. The key findings include:

- **Consumer awareness in China is king.** About a third of Chinese (35%) and non-Chinese (32%) companies today are focused on brand awareness as a key marketing goal for the coming year. Among non-Chinese companies, 36% are focused on creating positive brand perception.
- **Marketers will shift from awareness to growth.** Three years from now, their top priorities will shift from brand awareness to increasing sales/revenue from China, and expanding into new regions/areas in China.
- **Global brands must align with local Chinese culture and tastes.** The vast majority of non-Chinese marketers (63%) indicated they believe they need to change their brand attributes for Chinese consumers.
- **Many Chinese brands also are looking to extend their presence beyond their borders.** Over a quarter (27%) of Chinese respondents indicated they intend to expand their brands globally.
- **Second-tier cities present the greatest opportunity.** Overall, eight of ten respondents agreed that growth is most likely beyond the first-tier cities of Beijing, Shanghai, and Tianjin.
- **As marketers focus on brand development among Chinese consumers, television advertising will play a large part**—79% of respondents have it as part of their marketing programs for 2011. But looking ahead, new platforms may emerge as marketers will be formulating integrated communications strategies.
- **Digital and mobile marketing are a critical part of the mix for reaching Chinese consumers.** About 90% of survey respondents said they are extremely or very important, especially when it comes to communicating with younger consumers.
- **To succeed in China, marketers may need to overcome some unique barriers.** These include a lack of reliable market research, a lack of operational transparency in the Chinese marketing communications industry, and a need to find qualified marketing talent and leadership.
- **Ethical standards for marketing communications need to be put in place** in order to protect the reputation of marketing with consumers and government in China over the longer term.

## INTRODUCTION:

## Time for China to Go Shopping

Few markets are as tantalizing to global brand marketers as the new consumer-driven China. The “new” market of 1.3 billion people—coupled with the meteoric rise of both the size and spending power of its middle class—holds enormous potential for manufacturers of consumer goods and services. But, clearly, the dynamics of China are unlike anything marketers have ever seen before, and it presents challenges as serious as its market is large.

Why is China taking off now? Essentially, the government has given the people the right to go shopping. In 2011, China begins its 12th five-year plan, shifting its economic focus from export-led sectors to increasing domestic consumer demand. The plan, passed by the government in mid-March, 2011, is designed to develop the country into a major consumer marketplace. It plans to increase consumer product imports, promote urbanization, and optimize the consumer market for consumption.

That the Chinese consumer is driving global growth is well known. The statistics are arresting: ten million new Chinese consumers enter the market each year. In 2010, China’s consumer market was estimated to be worth \$1.7 trillion. Credit Suisse projects that the burgeoning domestic consumer market could grow to nearly \$16 trillion within a decade.

But while the consumers are there in droves, brands don’t necessarily know how to reach them. China is still an emerging economy, and marketers often feel they don’t have the research they need to target these new consumers. Furthermore, regional differences across China are pronounced but poorly understood, particularly by foreign firms. And as incomes of Chinese in second-, third-, and fourth-tier cities rise, their consumption patterns will drive market dynamics in unprecedented and unpredictable ways. Consider the following:

- There are more than 420 million Internet users in China, a number growing by the minute. The advertising and marketing landscape in China is rapidly changing to adapt to dynamic media and communication technology trends.
- There are five times as many people in China learning English than there are people living in England. There is an implication here for marketers—the younger generation has a lot of exposure to, not to mention interest in, the West.

- Chinese consumers spent \$9 billion on luxury goods in 2010, second only in magnitude to the United States.
- The consumer in China has become significantly more sophisticated than ever before. Simon Pestridge, global brand director for Nike, said, “There is no difference between the consumer in China and the consumer in the U.S. They are incredibly proud and savvy, which is different from 10 or 15 years ago.”

How, then, are companies finding their way through the demographic and marketing wilderness to the promised land of market share and brand loyalty? Forbes Insights, in association with the World Federation of Advertisers, surveyed more than 300 senior executives based in China who work for global or Chinese consumer companies. All respondents were responsible for creating, managing, or executing their companies’ marketing strategies in China.

In surveying a wide range of marketing executives at domestic and international firms active in China, this report attempts to sketch out the approaches companies are taking to reach the Chinese consumer. It examines the short- and mid-term goals of consumer brands in China, looks at the tactics companies are using, and identifies some of the critical barriers that marketers will need to overcome.

# Brands for China and Beyond

## PERCEPTION AND AWARENESS

According to executives responding to the survey, consumer awareness in China is king; raising consumer awareness is one of the three most-frequently cited goals for the near- and mid-term. About a third of Chinese (35%) and non-Chinese (32%) companies are focused on brand awareness, making it the most commonly cited marketing goal for the coming year. (Fig. 1)

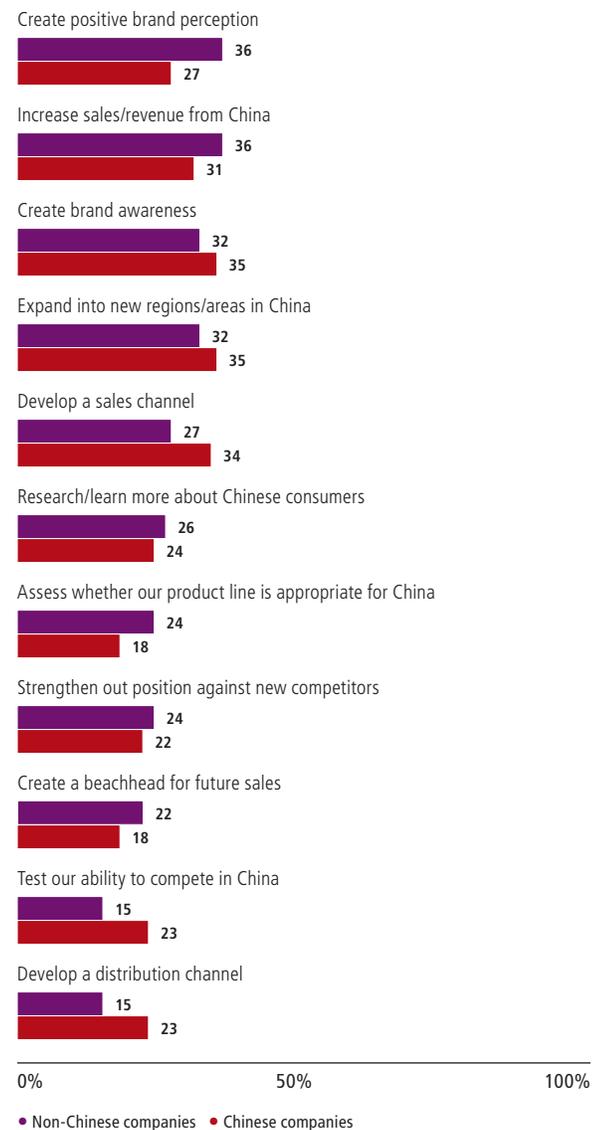
But brand perception is critical too, and the top focus of non-Chinese companies—27% of Chinese companies and 36% of non-Chinese companies named positive brand perception as a top marketing goal for the next year.

Perception isn't just some amorphous concept, said Sean Leow, founder of NeochaEDGE, a Shanghai-based creative agency that connects brands like Coca Cola and Absolut Vodka with Chinese artists for their advertising campaigns. Consumers have to be aware of what your brand stands for, Leow pointed out. When Converse, the shoe company, was looking to put break into the Chinese market, they made a strategic decision and alliance to associate Converse with music. "They ran a campaign called 'Love Noise,' where they sponsored a few indie rock bands, and they were able to build up a lot of brand equity," said Leow.

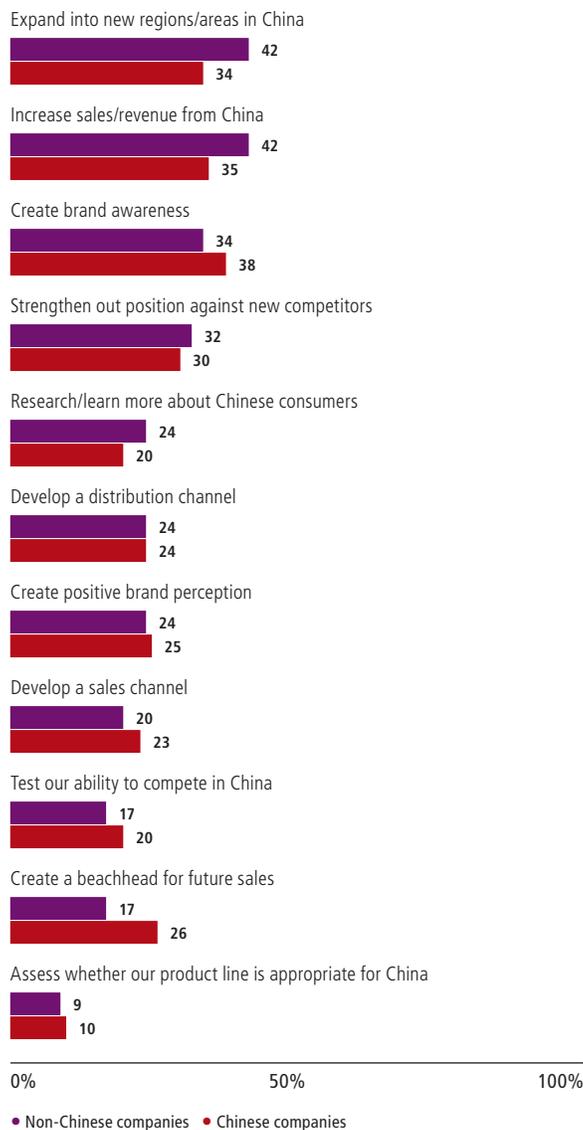
Similarly, Nike has built its marketing and branding strategy around basketball. "As a brand, we have to think about creating one-on-one relationships with the consumer," said Pestrige of Nike. That has meant doing everything from having Nike-sponsored NBA stars teach basketball clinics to providing online venues for players to get tips and information about the sport. "The important thing we can do is to be part of basketball, because in China basketball is everything," he said.

Brand awareness, however, may be particularly challenging for non-Chinese companies looking to break into industries in which there are already hefty domestic competitors. The data bears this out: asked to name their longer-term marketing goals, the number of respondents from non-Chinese companies selecting "creating positive brand perception" dropped 12 points (from 36% to 24%). This suggests that after their initial efforts, awareness trumps perception. (Fig. 2)

FIGURE 1: What are your company's primary marketing goals for China over the next year?



**FIGURE 2:** What are your company's primary marketing goals for China over the next three years?



Others may be facing an uphill battle regarding perception and awareness. For example, consumer electronics retailer Best Buy recently announced that it would shut down its Best Buy-branded stores in China. Instead, it has chosen to focus on growing Five Star, the domestic Chinese chain it acquired in 2006, because Five Star has achieved greater market penetration and consumer awareness in the Chinese market.

**CHANGE YOUR BRAND FOR CHINA?**

Best Buy's shift away from its core brand in China may be indicative of how some non-Chinese brands need to approach the market. While operating a China-only brand appears not to be the norm, the vast majority of non-Chinese marketers (63%) indicated they believe they need to change their brand attributes for Chinese consumers. (Fig. 3) In many cases, this may mean altering some brand attributes to demonstrate alignment with local Chinese culture and local Chinese tastes. For instance, western spirits brands have had to alter their scotch marketing to account for Chinese cocktails that mix scotch with ice and green tea.

That is not to say that strong global brands need a complete brand makeover to compete. The success of many global brands in China would seem to support this: take Starbucks, McDonald's, and KFC, for instance. Still, even if brands don't need a complete makeover, they might benefit from a few nips and tucks. "Not everyone has to change their brand, but they have to show that they 'get' the local culture," said Leow of NeochaEDGE.

Pestridge of Nike, agreed. "It's like any relationship; you have to show an authenticity. If we just brought Kobe Bryant here and did nothing with him that wouldn't work," he said. There is a balancing act that global brands in China must achieve to be successful, to be both a great global brand, but also show commitment and desire to be part of the local culture. Nike has pursued local authenticity in part by creating a China-focused e-magazine related to basketball that will be distributed in Beijing, Shanghai, and Hong Kong. The magazine is illustrated by local artists and touches on the many nuances of the basketball scene in China. On the actual product side, Nike makes its basketball shoes

in China with a more durable sole, since basketball is played on very hard, abrasive courts.

This need for brand flexibility is supported elsewhere in the survey findings. Two thirds of respondents agreed that companies that are unwilling to change their brands cannot succeed in China. (Fig. 4)

In certain cases, tweaking for a new audience can help “uncool” brands re-imagine themselves. Buick is an example of a brand that pulled off a successful make-over: it is one of the most popular automakers in China despite a moribund reputation in its home U.S. market. For the Chinese market, Buick made a few key changes—a more powerful horn, as honking is a favorite pastime in China, and headlights designed to look more masculine and fierce, two features hardly in keeping with the traditional American Buick.

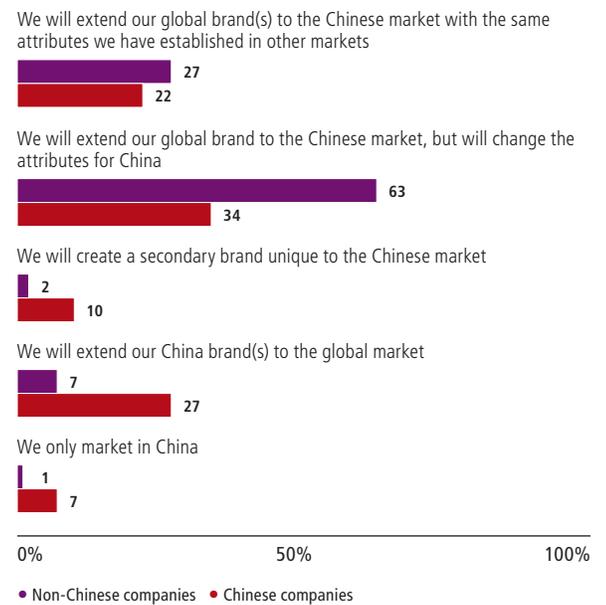
**GLOBAL AMBITIONS FOR CHINESE BRANDS**

While global brands are eyeing Chinese consumers, Chinese brands also are looking to extend their presence beyond their borders. Ultimately, the brand competition that is arising in China could quickly spread into the home markets of non-Chinese companies.

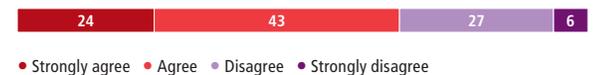
In the survey, over a quarter (27%) of Chinese respondents indicated they intend to expand their brands globally. For example, Hong-Kong-based Shangri-La Hotels and Resorts Group, one of the best-known luxury hotel brands in China, opened its first European hotel in Paris last year, and hotels in London and Vancouver will anchor international expansion in 2012.

“With more and more Chinese travelling overseas, spending more, and looking for venues and destinations outside of the traditional Asian countries and looking further to Australia, North America, and Europe, it’s no surprise that we opened Shangri-La/Paris in December,” said Kent Zhu, director of sales and marketing at the Shangri-La Group.

**FIGURE 3:** Which of the following best describes how you intend to manage your brand(s) to Chinese consumers:



**FIGURE 4:** Companies that are unwilling to change their brand cannot succeed in China



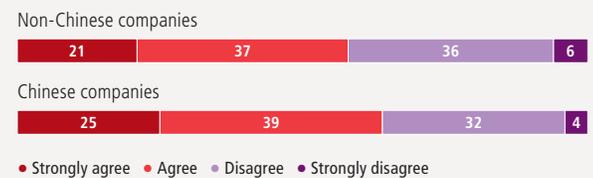
## CHINA'S HOMEGROWN BRANDS

When it comes to reaching the Chinese consumer, western marketers have to do more than simply increase their brand awareness. There may be a need to overcome a wide range of Chinese-grown brands that already have a significant presence in the market, and those brands may be looking beyond China's borders, as well. These include mobile services provider China Mobile; electronics maker Lenovo; online services companies Baidu and NetEase; beverage companies Wuliangye Group and Moutai; and appliance companies Haier and Gree.

A majority of survey respondents said they think that Chinese brands will increasingly have an advantage over global brands—64% of Chinese agreed (25% strongly agreed) and 58% of non-Chinese companies agreed (21% strongly agreed). (Fig. 5) This result suggests a belief in a rise—or even dominance—of the homegrown brand.

Ye Tian, founder of Chinese restaurant chain JOVI, who was born and raised in China and currently lives in Beijing, agreed that Chinese companies have a home-field advantage. For one thing, being local gave JOVI direct access to its customers, something they've taken advantage of by doing extensive market research. Tian said the close connection to the customers has been invaluable. The market research gave Tian and his team at JOVI a key insight—that its target

**FIGURE 5:** Chinese brands will have an advantage over global brands within China



market likes to eat in front of the television. That piece of data informed its decision to panel the restaurants with many flat screen televisions.

"I don't think our success is just about the food," said Tian. "We spent so much time trying to understand our consumer." The message for brands that are not indigenous to China is clear: it may take some extra work to get up close and personal with your customers.

## Second-Tier Cities: The New Frontier

Who is the new Chinese consumer? To put it in broad strokes, the current demographic target identified by survey respondents is middle class, educated, urban, and married, and evenly split between men and women.

Urban, however, no longer implies that they are in the Beijing-Shanghai-Hong Kong corridor, which is why 32% of non-Chinese companies said expanding into new regions in China is a primary marketing goal this year, and that number jumps to 42% looking ahead three years.

In fact, overall, eight-of-ten respondents agreed that the greatest growth opportunity in China is beyond the first-tier cities of Beijing, Shanghai, and Tianjin. (Fig. 6) That's not surprising given that China has more than 100 cities that have populations in excess of 1 million. Or thought of in another way, many of the so-called second- or third-tier cities in China have a similar urban population to global cities such as Amsterdam or Chicago.

For marketers, this means that the growth of China's consumer class appears to be taking place outside the first-tier cities. Beijing and Shanghai may be approaching saturation, and a regional presence will be very valuable moving forward. These second- and third-tier cities, after all, are where the majority of the population lives and as the middle class gains more economic mobility, they'll have more disposable income. According to McKinsey, half of China's 100 largest cities will experience at least 50% growth in consumption between 2008 and 2015, and 25 will double their consumption.

The Shangri-La Group's expansion in China is certainly evidence of one luxury brand's bet on these second-, third-, and fourth- tier cities. Over the next two years, it will begin their second phase of expansion to those cities, said Zhu. By 2013, Shangri-La will have hotels in Chongqing, Diqing, Haikou, Lhasa, Manzhouli, Nanjing, Qinghuangdao, Shenyang, Tangshan, Tianjin, and Yangzhou.

Nike said it treats a tier-six city the same way it does a tier-one city. "We have a presence in all the tiers of cities, from zero to fifteen, and we have consistent campaigns in those cities that center on basketball," said Pestrige. So

**FIGURE 6:** The greatest growth opportunity in China is beyond first-tier cities such as Beijing, Shanghai, and Tianjin.



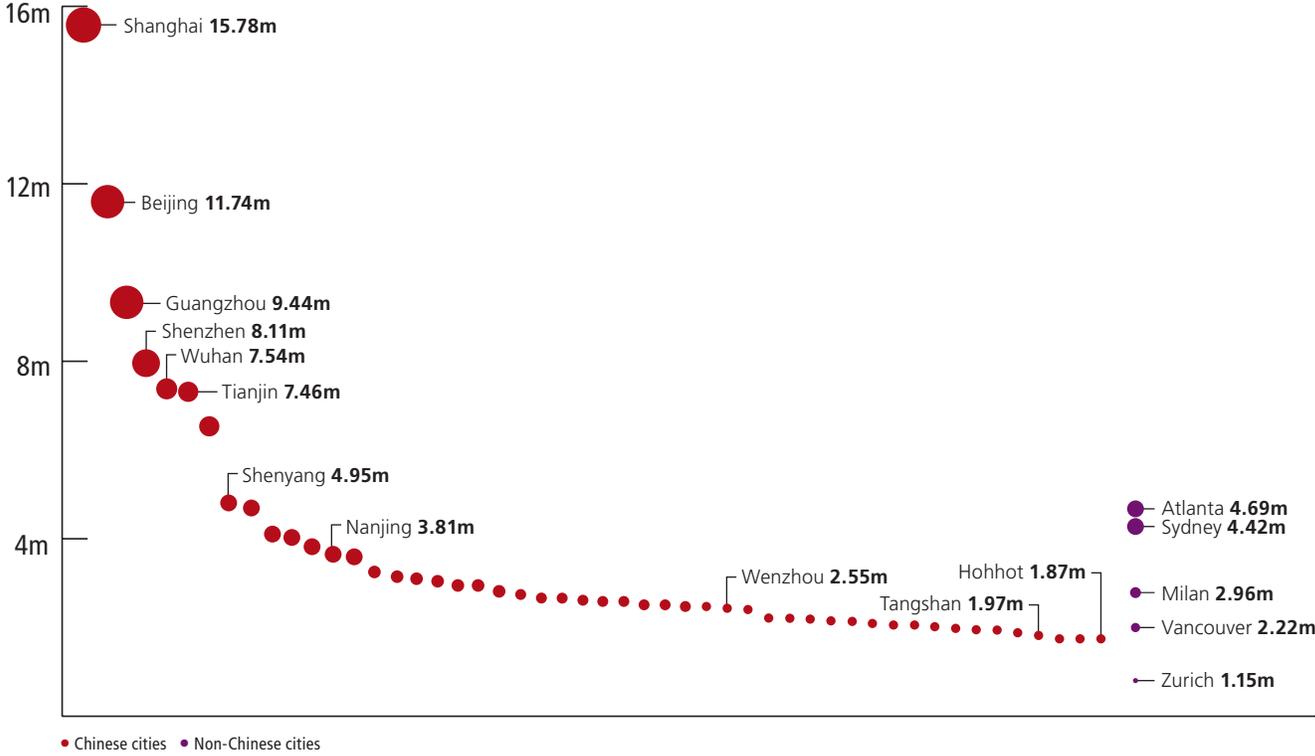
when Nike-sponsored Kobe Bryant comes to China for a weeklong junket, he doesn't just spend time in the coastal cities, said Pestrige. "He goes to smaller provinces and teaches kids how to play basketball. You have to show the Chinese consumer that you are serious about investing in their community." It's a strategy that seems to be paying off—China is Nike's second largest market after the U.S., and it has annual sales of \$1 billion there.

There may be huge potential in these second- and third-tier cities for brands that appeal to the desire for social mobility and the good life, but may not operate at a luxury price point. JOVI, a popular chain of restaurants that has four locations in Beijing with plans for 15, expects to open a franchise in Yichuan, the capital of Ningxia, a remote province in northwest China. But at the Yichuan branch of JOVI, the price point will be lower, said Ye Tian, founder of JOVI, who oversees the company's marketing operations.

Price is an important consideration in these second-tier cities. Per capita income in China hovers around \$6,000 per year, or about RMB 4,000 per month. (Per-capita income trends much higher in cities and coastal provinces, and much lower in the countryside and western interior.) So certain brands will find that they have to adjust the price of their products accordingly in order to make a viable play for these up-and-coming markets. Similarly, non-Chinese marketers may find that consumers are less willing to pay a premium for "international" brands when powerful regional brands offer quality products at more reasonable prices.

## THE LONG TAIL OF CHINESE CITIES

As China's population becomes increasingly urban, so-called second- and third-tier cities will become more important to consumer marketers. The chart below shows the relative populations of the 50 largest cities in China (based on UN figures), from Shanghai with 15.78 million people to Hohhot in Inner Mongolia, with a population of 1.87 million. Considered another way, some of these "smaller" Chinese cities are larger than international metropolises such as Zurich.



SOURCE: Urban Agglomerations, United Nations, Population Division of the Department of Economic and Social Affairs, World Urbanization Prospects: The 2009 Revision Population Database

## A HOMEGROWN LUXURY BRAND FOR CHINA

In September 2010, Shang Xia, the Hermes-backed Chinese luxury brand, opened its first store in Huaihai Road, the upscale shopping area in Shanghai. Shang Xia, which means “topsy-turvy” in Mandarin, sells housewares and furniture that is 100% designed and manufactured in China. “The mission is to recreate the authentic value of Chinese tradition and Chinese culture,” said Qiong Er Jiang, CEO and artistic director of Shang Xia. So far, Shang Xia has received gobs of press, from business dailies to fashion glossies in Italy and France, and all without taking out one advertisement or even hiring a public relations firm.

Jiang attributed the buzz surrounding Shang Xia to the experience the store offers. “With this kind of product, we don’t do marketing. We instead make customers an offering to come in and listen to the music that we had specially composed for our store, drink our tea, feel our silks and eggshell porcelain.” Jiang believes that word of mouth is the best kind of marketing for a luxury brand like Shang Xia. Why? To keep the trappings of a coveted luxury brand, Jiang says that customers have to feel that they discovered it for themselves, or have heard it about through a trusted source. “We don’t invite celebrities and seek endorsements. Our customers are our best ambassadors,” Jiang explained.

That doesn’t mean Shang Xia isn’t proactive in its marketing. Recently, Shang Xia invited talented Chinese designers to create a unique cultural object on the theme of “heritage and emotion.” The winning object was a box called “pass it on.” The box was designed to keep family pictures and objects. To showcase it, Shang Xia staged a two-week exhibition. During the exhibition Shang Xia set up a post office where visitors could send Shang Xia-designed postcards to anyone in the world, with Shang Xia picking up the postage tab. “It was a huge success,” said Jiang.

While Hermes has a financial stake in Shang Xia, it is fairly hands-off, Jiang said, something necessary for a homegrown luxury brand in China. “Hermes is more like a godparent than a parent,” said Jiang. “We exchange ideas, but Hermes says, ‘You decide because it’s project about Chinese culture and we are not Chinese.’”

But will the Chinese consumer look inward for luxury? Time will only tell. Jiang said Shang Xia has ambitions beyond China. First, Beijing, then Paris, and then, Jiang said, they’ll take stock of Shang Xia’s next market. There’s no doubt in her mind, however, that a Chinese luxury brand can go global. “Shang Xia is for the international market.”

# Tactics to Reach the Consumer

## THE CHANGING LANDSCAPE OF MARKETING AND ADVERTISING IN CHINA

Globally, advertising and marketing channels are in a dramatic state of flux, and that situation is mirrored in China. While traditional advertising channels—such as television and print—remain strong today, their predominance is likely to be challenged in the coming years.

Among marketers participating in the survey, television is clearly the primary channel today for reaching the Chinese consumer—79% of respondents have it as part of their marketing programs for 2011. (Fig. 7) Looking ahead three years, it remains in the top spot, but will be used by just 60% of marketers.

Which new channels will emerge? Marketing executives at both Chinese and non-Chinese firms foresee a rise in word of mouth, public relations, online and social media, and mobile apps as the most potent ways to reach Chinese consumers in the future.

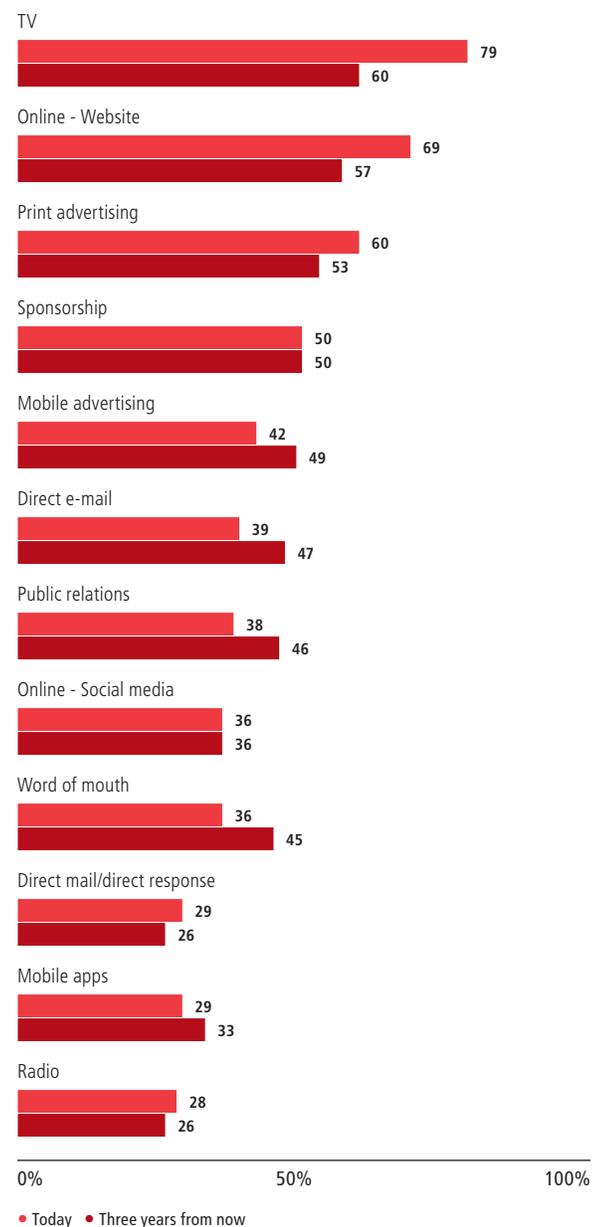
Clearly, as marketers look to build brand awareness and perception among Chinese consumers, television advertising will play its part. But as marketing priorities shift away from brand development toward sales and geographic expansion, other media are likely to play a critical role. In particular, marketers will likely be formulating integrated marketing communications strategies across a variety of Chinese consumer touchpoints.

But first, a caveat: While television’s appeal to marketers is expected to drop off in the next three years, the exodus from TV is not universal, and is likely to remain quite potent for certain consumer brands.

Rex Wong, vice president of marketing for Asia at Anheuser-Busch InBev (AB InBev) China, the multinational beverage giant with 20 brands in China, said television is an integral part of AB InBev’s marketing strategy. “Television is the highest reach medium for every household in China,” said Wong.

AB InBev’s approach to television advertising, however, is not one-size fits all. “We are very specific about which channels in which regions we are advertising on,” said Wong. “In some regions consumers watch more CCTV and some watch more local TV. Viewership habits

FIGURE 7: Which channels/platforms will you use as part of your marketing program for China during 2011?



vary dramatically, so we have to pay attention to them and tailor accordingly.”

Pestridge of Nike said not to write off television as a dying medium in China. “There is a lot of commentary about how it is diminishing, but it could play a very important role, particularly in cities where there is not as much access to Internet.”

But the cost of broadcast, said Zhu of the Shangri-La Group, is a one of the major obstacles to marketing in China. “Generally, the price of media is a challenge, but television in particular,” he said.

Whether or not TV will remain dominant is still to be seen, but what is clear is that TV, while important, is not the only medium brands are relying on.

Wong, for one, described AB InBev’s marketing game plan in China as “360 degrees,” a fully integrated plan encompassing television, mobile, billboards, sponsorship, and online.

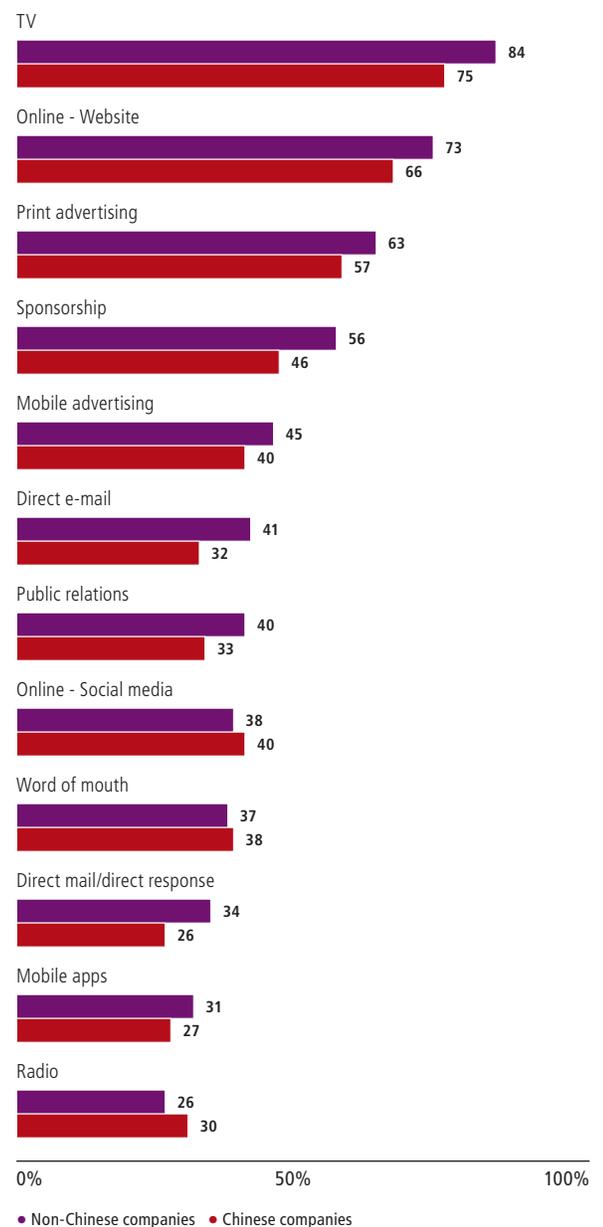
And some brands will use other, less traditional media to get noticed. Starting in April, JOVI, the restaurant chain, will be putting up thousands of vending machines with JOVI products all over Beijing as a way to attract customers to its restaurants.

**ARE CHINESE COMPANIES MARKETING AGGRESSIVELY ENOUGH?**

Across the board, a majority of Chinese companies are using marketing and PR efforts—TV, online, print, sponsorship, etc.—but not as much as their multinational counterparts. One explanation is that Chinese companies don’t have to try as hard—they have the “home field advantage.” An alternate narrative suggests that Chinese companies believe more in word of mouth. In fact, for Chinese companies, there’s a huge jump in the importance of word of mouth between now and three years from now (33% vs. 50% in three years). (Figs. 8 and 9)

Tian, of JOVI, is a big believer in word of mouth. In fact, he credits word of mouth for the overnight success of JOVI—the restaurant chain, within six months of opening, had been approached for a franchising deal in Hong Kong. “Customers are our best advertising. They are informed and will just send a link to a friend or relative,” Tian said.

**FIGURE 8:** Which channels/platforms will you use as part of your marketing program for China during 2011?



For both Chinese and non-Chinese companies, public relations ranks toward the bottom of their current marketing communications mix. But three years from now, something changes for the multinationals: non-Chinese companies are much more likely to say they'll use a PR firm (37% now vs. 64% three years from now).

One interpretation here is that non-Chinese companies see a PR campaign as something they'll implement once they've established a solid brand presence in the market. According to the respondents at non-Chinese companies, public relations, is not a way to gain a foothold in the market; it is a way to consolidate market position once they've introduced themselves to the Chinese consumer.

But for the Chinese companies, the importance of PR as a marketing strategy only jumps minimally—from 38% saying it is important now to 45% saying it will be important in three years, indicating that, perhaps, there is something lost in translation about the value of PR in China. For Tian of JOVI, hiring a public relations firm, even with all the expansion of his brand, is not on the horizon. The immediate value proposition just isn't clear to him. "We are very closely connected to our customers and prefer to have no proxy between us," said Tian, whose only investment in advertising so far has been 5,000 yuan to put up a coupon online.

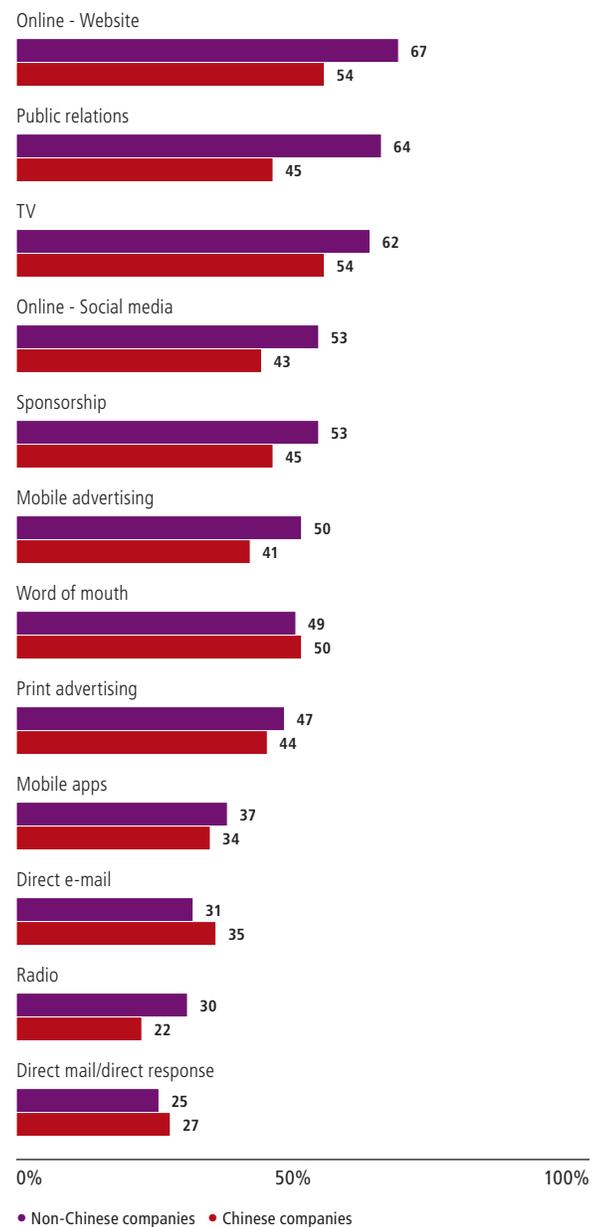
**ONLINE AND MOBILE ARE THE FUTURE**

Moving forward, digital and mobile marketing will be a critical part of the mix for all brands in China, as marketers seek to integrate their message across both traditional and digital platforms. China has more than 420 million Internet users, according to the China Internet Network Information Center, and its number of mobile subscribers tops 850 million.

It is not surprising that 90% of survey respondents said that online marketing is extremely or very important for reaching the Chinese consumer. (Fig. 10) Still, it is crucial to see how marketers are using this channel.

Leow, whose agency focuses mostly on marketing to the under-30 set in China, contends that digital is almost all that matters among younger consumers. "The Internet is

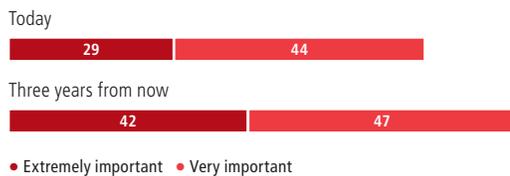
**FIGURE 9: Which channels/platforms will you be using three years from now?**



**FIGURE 10:** How important is online marketing to reaching the Chinese consumer today? How important will it be three years from now?



**FIGURE 11:** How important is mobile marketing to reaching the Chinese consumer today? How important will it be three years from now?



**FIGURE 12:** Mobile and Internet marketing will help homogenize Chinese consumer tastes



their primary consumption and sharing platform for everything they do,” he said.

But with millions of websites, blogs, and dozens of social networks, what really stands out? Leow believes Weibo, the micro blogging site similar to Twitter that has 80 million users and is adding 10 million more users a month, is a digital platform that all brands and marketers should have on their radar. “Traditional blogging is kind of dead,” said Leow. When NeochaEDGE created a video for Absolut Vodka, they promoted it through their channel on Weibo. In two weeks, just by pushing the video through their network, the video got 85,000 views.

For AB InBev, their online and digital marketing strategy doesn’t just involve slapping up some banner ads. Rather, it is about infiltrating social networks in creative ways, like creating a virtual bar on the social network Renren, where members can sell beers and compete against users. “We then select the ‘best’ bar with the most sales and send them to the U.S.,” said Wong. “If you look at the trends, people in China are spending more and more time online, so we are going to spending more resources on the Internet as a result.”

Contests, AB InBev has found, are also a great way to engage consumers online. AB InBev recently launched a Karaoke contest as a way to promote their Budweiser brand—participants made and then uploaded their own Karaoke videos to be voted on. At the end of the competition, finalists were invited to go on national television to compete for first place.

The developing mobile market also remains critical. While marketers don’t see it as quite as important as online marketing today, it will be as vital a channel within three years. (Fig. 11)

You don’t have to look further than a noodle shop in any city in China, where scores of customers have phones laid out on the table in front of them and check them compulsively, to see that mobile is a heavyweight among marketing vehicles to net consumers. While still less than one-half of the population in China has access to the Internet, everyone has a phone. And when it comes to reaching the emerging middle class and migrant workers—those who travel from the countryside to the big cities—mobile is the way, but companies have to find creative and culturally relevant ways to execute these campaigns.

AB InBev, while it runs its share of garden-variety text message campaigns, has been making its mobile advertising more interactive, noted Wong. Consumers can use their cell phones to scan bar codes to see if they’ve won a prize.

Perhaps there is one more implication to the growing use of Internet and mobile technologies among China’s consumers—creation of consistent tastes that transcend local and regional preferences. About 85% of survey respondents said they agreed that mobile and Internet marketing would help homogenize Chinese consumer tastes. (Fig. 12)

## Challenges for Marketers

While there are tremendous growth opportunities for brands in the Chinese consumer marketplace, marketers also must deal with a number of barriers that could cause them to stumble.

Survey respondents identified a handful of barriers that they feel could keep their marketing programs from succeeding. (Fig. 13)

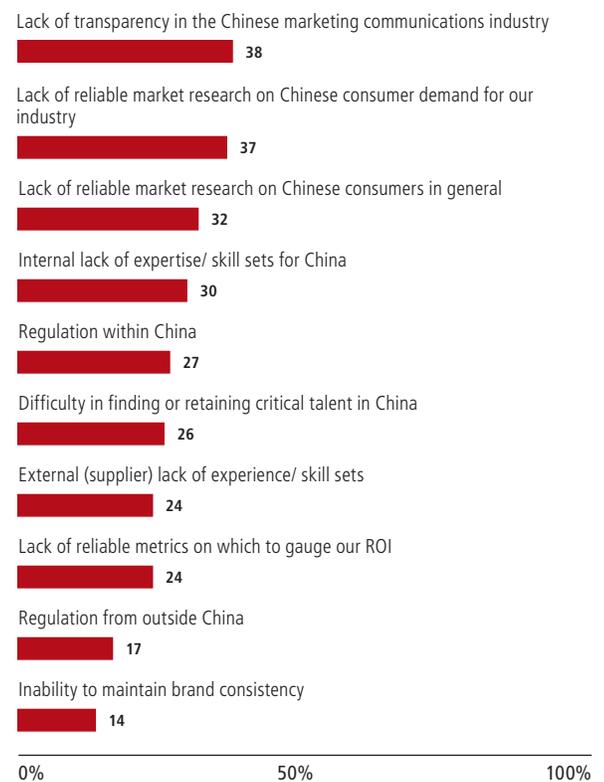
### LACK OF RELIABLE MARKET RESEARCH

The overwhelming consensus is that there is a dearth of good market research on the Chinese consumer and market. Among survey respondents, 37% said they may be stymied by a lack of research on Chinese consumer demand for their specific industry, while 32% said they felt there was a lack of reliable market research on Chinese consumers in general.

Given China's breadth, its unpredictability, and the diversity of regional tastes, a lack of understanding of consumer preferences could seriously stymie marketers. Missteps can be costly, both in terms of the bottom line and brand equity. Yet even large brands have made serious mistakes by not getting the right consumer data. For example, when it opened its Shanghai outlet, retailer Marks & Spencer assumed sizing would be similar to its established Hong Kong store. But it soon found that smaller sizes were selling out and larger sizes were sitting on the shelves. It had failed to foresee the regional difference.

In addition, marketers do not appear overly satisfied with market research providers in China. More than 10% of respondents rated these companies as either terrible or poor. (Fig. 14)

**FIGURE 13:** What do you believe are the key barriers that will keep you from accelerating your marketing communications investment in China?

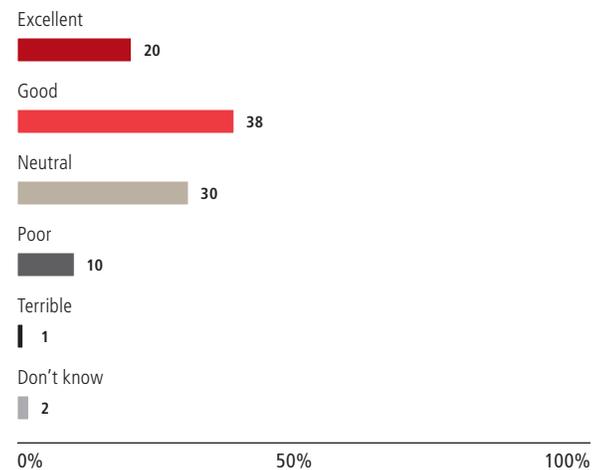


**LACK OF TRANSPARENCY**

Overall, 38% of survey respondents said a lack of transparency in the Chinese marketing communications industry has the potential to hold them back.

The issue of transparency is less about responsible business practices (the vast majority of respondents felt that marketing practices in China could generally be considered “responsible”—see sidebar below) than it is about consistent standards among agencies. In particular, this transparency needs to relate to some of the less “obvious” facets of agency operations, such as media research, media planning, and media buying. While Western agencies typically have created processes to make these areas less opaque, Chinese agencies often are not yet at that level.

**FIGURE 14:** What are your general perceptions of the performance of the market research providers in China?



**CHINESE ATTITUDES TOWARDS MARKETING**

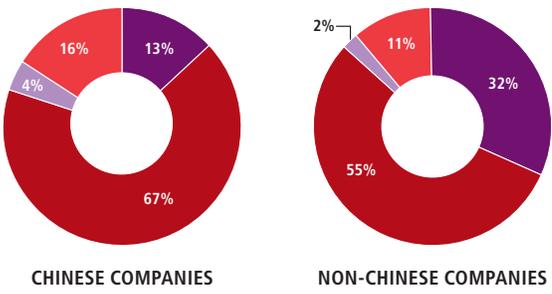
Survey respondents also were asked about how they felt marketing was viewed by the Chinese market. Interestingly, there was little disparity between executives from Chinese and non-Chinese companies. Most felt that Chinese consumers and the Chinese government had a mostly positive attitude towards marketing. (Fig. 15)

Recognizing the importance of protecting the reputation of marketing over the longer term, more than 90% of respondents felt it was important for the marketing industry to establish ethical standards for marketing communications. As the industry grows in China, this could lead to greater self-regulation, particularly in areas related to trust and credibility.

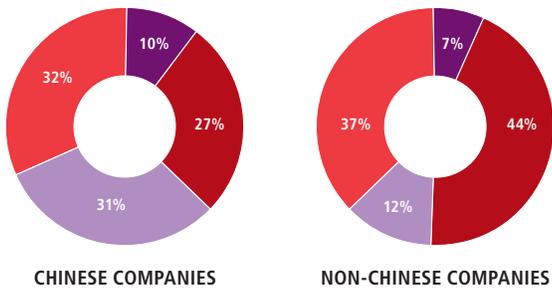
**FIGURE 15:** Attitudes towards marketing in China



**FIGURE 16:** Where are you currently recruiting to build your marketing leadership in China?

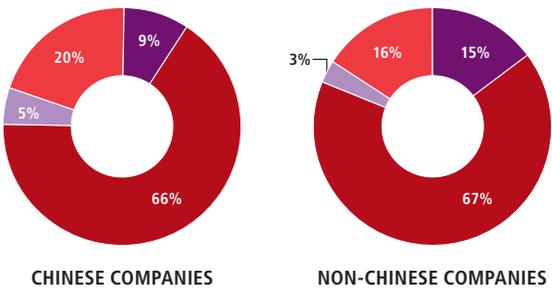


Where will you be recruiting leaders three years from now?

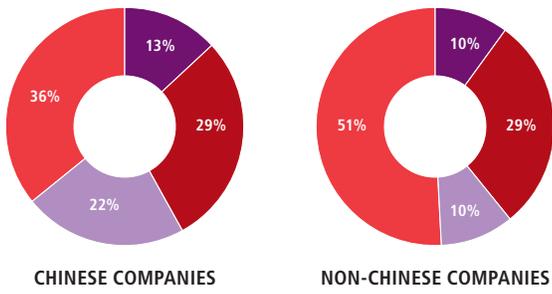


● Non-Chinese from within the company ● Chinese nationals from within the company ● Non-Chinese from outside the company ● Chinese from outside the company

**FIGURE 17:** Where primarily do you intend to recruit to build your marketing staff for China?



Where will you be recruiting staff three years from now?



● Non-Chinese from within the company ● Chinese nationals from within the company ● Non-Chinese from outside the company ● Chinese from outside the company

**FINDING THE RIGHT SKILLS**

Talent is an important issue for both Chinese and non-Chinese marketers, particularly as they begin ramping up their Chinese operations. But with this growth, companies are rightly concerned that they may not be able to take advantage of the business opportunity in China because of a shortage of qualified executives and managers to drive the

process. The consumer opportunity in China may be great, but it is vital to remember that China is still a developing market, without a long history of management training. It's not a matter of finding a person to take a key role, but finding the right person.

Among survey respondents, 30% said a lack of China-focused expertise and skill-sets within their companies

holds them back. Moreover, 26% said they could be affected by difficulty in finding and retaining critical talent in China.

When it comes to talent, both Chinese and non-Chinese companies are looking to create the right balance of East and West. For their marketing leadership, companies appear more concerned that the executive come from within the company than that the executive is from China or not. (Fig. 16) Among non-Chinese companies, 32% are currently recruiting non-Chinese from within the company, and 55% are recruiting Chinese nationals from within the company. Just 13% are currently recruiting leadership from outside the company. Chinese companies, as might be expected, are most likely to recruit Chinese nationals from within the company as their marketing leaders, but still, a significant 13% are recruiting non-Chinese leaders from within their ranks.

In three years, interestingly, the situation flips. Chinese companies are more likely to recruit non-Chinese from outside their company as their marketing leaders, while non-Chinese companies are more likely to be looking at Chinese from outside their company.

For marketing staff, both Chinese and non-Chinese companies are looking to recruit Chinese nationals. (Fig. 17) Today, they are looking primarily within the company, and in three years they expect mostly to be recruiting from elsewhere.

At NeochaEDGE in Shanghai, Leow said all of his staff are Chinese, but speak English, which is a non-negotiable skill for anyone he hires. “A lot of the decision makers are still Western, so it’s important to be able to have a staff that can interface with them,” he said.

The consensus is that any brand hoping to make rain in China has to have a staff on the ground going out to events, concerts, and bars and young enough to be digital natives, or at least understand social networking sites such as QQ Renren, YuKu Weibo, Kaiser Kuo, and Xiaonei.com.

The conventional wisdom in China is that there is a new generation born every three years. So how do brands stay on top of those trends? Pestrige of Nike contends the most important thing is “Hire an amazing group of local staff, who speak English, and who can keep you very informed,” he said. Interestingly, 95% of Nike’s corporate staff in China is local and 80% of Pestrige’s direct reports are local.

Still, as the data show, at least for now, there will continue to be a bit of a hybrid in staffing. “You’ll need to bring in expatriates where you want some functional expertise, but then you’ll want someone local to focus on digital, because I’m not sure what someone from the outside can teach the Chinese about digital,” said Pestrige.

## CONCLUSION

Despite meteoric economic growth, China has remained a riddle to some companies. Global powerhouses such as Home Depot, eBay, and Best Buy have found it a challenge to translate their international successes into Chinese gold. It has become increasingly apparent that a one-size-fits-all marketing strategy often does not guarantee success in China. Additionally, differences persist in the approaches, strengths, and weaknesses of foreign and domestic companies.

However, some trends for success shine through—consumers want to know what your brand stands for; be

authentic and find ways to be locally and culturally relevant; hire a young, energetic local staff who can help you navigate the fast-changing digital landscape in China; and keep your eye sharply focused on the rising cluster of cities, just to name a few.

Though much remains to be learned about the Chinese consumer, one thing is clear: companies will need savvy advertising and marketing more than ever to decipher market dynamics in the years to come.

### METHODOLOGY

The information in this report is based on the results of a survey and one-on-one interviews conducted by Forbes Insights in January and February 2011.

Forbes Insights, in association with the World Federation of Advertisers, surveyed 310 executives responsible for creating, managing, or executing their companies' marketing strategies in China. All respondents were personally located in China; 57% worked for companies that are headquartered in China, and 43% worked for companies that are headquartered in the U.S., Europe, or Asia/Pacific (outside China). Two thirds of the companies (67%) had annual revenues of \$1 billion or greater, and the remaining 33% had revenues of at least \$250 million.

Nearly two thirds of respondents (64%) held C-level or other senior executive titles, including CEO/president/managing director, CMO/head of marketing, and COO. The remaining 36% had titles including senior vice president, vice president, director of marketing, and marketing manager.

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