

The AMERICAN CHAMBER of COMMERCE in SHANGHAI

Orientation China Guidebook

Leading You to Business Success



PREPARING TO LAUNCH

Chapter 9: Connecting with Consumers in China

Strategies to reach China's coveted consumer class

Welcome to China, the land of the superlative!

With 1.3 billion people, the most populated nation in the world is already being hailed as the savior of the world's economy. Last year, the Chinese bought 13 million cars, overtaking the United States as the largest automobile market in the world. But with auto ownership at a mere 6 percent, the possibilities for growth seem unending.

Also last year, the fast food chain Kentucky Fried Chicken (KFC) opened one new restaurant a day, boosting their outlet count to 2,872. That was despite the downturn, during which young Chinese did not seem to have lost their appetite! Rival McDonald's plans to hit the 2,000 mark by 2013.

At last count, China had 875,000 millionaires. Its luxury market, growing at 50 percent in value every year, is already the world's second largest and on track to become numero uno in five to seven years time. There are more Louis Vuitton stores in China than in all of Europe. Real estate and commercial developers are scrambling to build American-style outlet malls in suburban Shanghai, Beijing, Chengdu and other top-tier cities, where avid buyers throng

on weekends and scramble to buy discounted luxury goods. In a nation where consumption is as much about signaling one's arrival in society as about self-gratification, twenty-something 'office ladies' scrimp during the first six months of their jobs to buy the latest Louis Vuitton handbag and the coolest Nokia handset.

Even as Disney draws up its plans for its first theme park on the mainland in Shanghai, thousands of young children are being enrolled by their parents at the nearest Disney English school, where Mickey Mouse, Goofy, Lilo and Stitch become able allies in young China's quest to be fluent in English. Not to be left behind, their parents are enrolling themselves in Wall Street English schools. The foreign language teaching business in China is worth US\$2.1 billion, according McKinsey estimates.

But these are just the headlines. 1.3 billion people cannot be the same, can they?

China is a nation that is as complex as it is changing fast. It is those corporations that can come to grips with the complex consumer landscape and keep pace with the change that have the greatest opportunity to gain.

Delve into Diversity

Though the predominant perception about Chinese society is that of a Mandarin-speaking, Han population, the reality is that there are 55 ethnic groups that populate the nation. These groups represent a diversity that ranges from Mon-Khmer and Malay-Polynesian in the south, to Turkic and Tajik in the far west, to Mongolian and Korean in the north. These are interspersed with tribal communities like the Hui, Miao and Bai. Traditionally proud, these communities are finding new ways of expressing their identity in the more open China of the 21st century.

Cuisine is one way in which these local identities are expressed, and Chinese food is much more of a smorgasbord of flavors, ingredients and styles of cooking than the stereotype of noodle and dumplings that it is popularly believed to be.

KFC takes advantage of this diversity

in two ways. The first is by adding something new from traditional Chinese cuisine every few months. As a family destination, they recognize that it is young folks who are drawn by their staple fried chicken and burgers, but the accompanying elders need their rice congee, dough stick, egg tarts and sautéed vegetables; so those are on the menu as well. It's a fascinating recipe for success, which blends the modern and the traditional. The second is a company strategy that seeks market expansion through the acquisition of local cuisine chains like Little Sheep, a Mongolian hotpot restaurant, and Dong Fang Ji Bai (East Dawning), a homestyle restaurant.

Indeed, on Chinese media, it is possible to completely localize brand communications and cater to very specific geographic regions. There are nearly 3800 local TV stations, spread across over 600 cities. As a marketer, you can take your pick between blanketing the nation with one standard message



on any combination of the 19 national CCTV channels, or covering a region through one of the 19 provincial channels, or getting completely local. Some of the most popular commercial TV hits in China – like *Supergirl*, *Happy Boys* and *Ugly Wudi* (all adaptations of Western shows) have been broadcast on provincial TV.

Internet Immersion

With 384 million Internet users – larger than the combined population of the United States and the United Kingdom, China lives in its screens. Yet, the absolute figure is misleading because only 28.7 percent of the population has access to the Internet. By comparison, 77.3 percent of neighboring South Koreans are online, while the figures for the UK and the U.S. are 68.6 percent and 76.3 percent respectively.

Even as there is substantial room for growth, the Internet offers enormous opportunities for marketers, especially those that are targeting the nation's 200 million youth population. Young people are now spending more time, on average, on the Internet (3.04 hours a day) than they are watching TV (2.98 hours a day). Some 265 million people play games online, and the gaming market grew 35 percent to reach US\$3.9 billion in 2009. This market is forecast to exceed US\$6 billion by 2012, according to Pearl Research. Three Chinese companies corner a large portion of the market: Tencent Holdings, maker of 'Dungeon and Fighter', with RMB1.24 billion in revenue, Shanda Games, just a shade behind with RMB1.23 billion in revenue, and NetEase.com, which makes 'Fantasy

Westward Journey' – a game based on a traditional folktale about the Monkey King. Tencent also makes a serious sum of money from pet online penguins.

Even as Facebook and Twitter remain off-limits for most Chinese Internet surfers, local social networking sites such as Renren.com and Kaixin001.com are all the rage among young office workers. Stealing the cabbages from one another's virtual farm is a popular pastime. Some sociologists surmise that this is a way the young want to reconnect with their rural past (many youth have migrated to the city in search of jobs), while others see it simply as a way of killing time.

In a nation which is often criticized by the west for curbs on the media, its people have found the internet as a medium of true expression. There are 221 million bloggers in China and this is a number that is growing by 25 percent annually. According to the China Internet Network Information Center, the Internet is where people air their feelings and opinions and strengthen their friendships. At the same time, nearly half of all Internet users believe that the information available on the internet is more credible than on TV.

In the online space, brands are doing rather well by creating avenues for creative expression, building user and interest communities, and also inviting constructive criticism about their products and services. For a Volkswagen campaign, netizens were invited to design the exterior of the New Beetle using a palette of colors and stickers. Online visitors – 604,000 over one month, voted on their favorite designs, and the best designs – out of 27,598 that were submitted – were painted on

dreams and the expectations of society. For many, they are judged by the way their only child turns out, not by their workplace performance.

The huge opportunity for brands and their marketers lies in providing the mother solutions that elevate her role and status, provide her the tools to ease and simplify her life, and create moments of recognition – especially from those for whom she is usually making the greatest effort. Local kidswear brand Balabala's communications are about inquisitive – not smart, trophy-winning – kids. In their case, it is the mother instilling the spirit of inquiry, not pushing the child towards achievement, that is recognized. In one of its ads, KFC shows an office lady being surprised by her son and husband, as they arrive at her office arms full of takeout, when she is working late, all alone. It is such moments of delight that brands can help create.

Balance China and the World

For the first twenty years of China's opening up and reform, Chinese consumers looked outwards. As the flood of multinational brands weighed down supermarket shelves and slick showrooms, it seemed like the Chinese were only seduced by the foreign. During that time, Buick and Volkswagen raced to be among the most popular car brands, Coke and Pepsi were gulped down by the gallon, Nokia and Motorola handsets appeared in everyone's hands, and a lot of babies began wearing Pampers and Huggies.

This year, in January, the top-selling car was the BYD F3. Warren Buffett, who

invested US\$20 million in the company last year, must be happy, very very happy. Third on the list was another Chinese marquee: the Xiali N3. The Buick Excelle came in at No. 5.

In 2007, we asked 4,500 consumers in first-, second- and third-tier cities what their favorite brand was, irrespective of product category. The consumer durable manufacturer, Haier, came out on top everywhere. As one went from first-tier to third-tier, the number of multinational brands among the Top 10 was cut by half, from 8 to 4.

So what happened? Did the fascination for all things foreign run out suddenly? Will it only intensify in the future? Yes and no.

What happened was that China discovered it was leading the world, and the political and economic clout has begun rubbing off on its people. With a successful staging of the Olympics, by being able to weather the financial crisis, the nation believes in itself. Who were multinationals like adidas and Nike cheering for during the Olympics? China, of course. On the flipside, when Mattel got its China-manufactured toys recalled, who did its Executive Vice President Thomas Debrowski personally apologize to? The Chinese people.

The reality is – as they have become smarter and better informed, Chinese consumers are placing greater demands on their brands, irrespective of whether they are multinational or Chinese. One study shows that as Chinese consumers become more sophisticated, the role of nationalism decreased when they shop. In the big cities, only 13 percent of the respondents expressed a clear preference for foreign brands. When the melamine-

tainted infant formula scandal broke, consumers were quick to reject almost all local brands in favor of higher priced foreign brands such as Dumex, Similac and PediaSure. “We will not compromise on our child’s health,” they said.

Multinational companies such as Procter & Gamble, Unilever and Coca-Cola have succeeded in making their brands relevant to consumers in China by blending into local culture, pricing their products at par with local brands and making them widely available. Unilever’s US\$64.5 million research center in Shanghai employs 450 product and market researchers, has access to the scientific knowledge developed globally by Unilever and acts as a bridge to Chinese academia by introducing more traditionally natural ingredients into the company’s products.

On the other hand, faced with a slowdown in global demand, Chinese companies are wooing consumers where they know them the best – in their own backyards. Consumer durable brands such as Changhong, Midea and Gree are expanding their footprint into smaller towns, taking advantage of the stimulus package measures to boost domestic consumption of home appliances. Their local knowledge and ability to strike better distribution deals often puts them at an advantage over multinational players. Not surprisingly, some of these players are able to position their brands on the promise of better customer service – something all consumer durables need to offer. The communications we created for Suning Electronics does that in a rather tongue-in-cheek manner, portraying a man (a Suning salesman, of course) marooned

on an island sending messages in a bottle about ensuring delivery of a home appliance to a customer.

When you are new to China, you will hear different voices and hear about different experiences – both good and bad. That goes with the dynamism and diversity that the land, its culture and its consumer have to offer. Take nothing at face value. Get under the surface, get out of the big city and into the provinces. Observe and meet people in their natural environment, and be prepared to learn and re-learn.

Common people have the answers. Trust them, and you will build a successful business. ■

Kunal Sinha is the Shanghai-based Regional Director – Cultural Insights, Ogilvy & Mather Asia Pacific. Ogilvy & Mather Group China is the largest marketing communications network in China. It offers the full range of marketing communication disciplines including advertising, direct marketing, interactive media, database management, public relations, graphic design and related marketing disciplines. www.ogilvy.com.cn

