

WARC BRIEFING

China's Changing Market



AN INTRODUCTION TO

Warc Briefings

Warc Briefings provide short, clear overviews of the history and future outlook for key theories and activities in brand communications.

Each Briefing draws on Warc's unrivalled resource of international effectiveness case studies, practitioner articles and academic journals to summarise the main developments in a subject area and supply all you need for further reading and inspiration. A companion series to Briefings, Warc Best Practice Papers, provides practical ideas and tips on a range of topics.

Both series are exclusively available online to Warc subscribers (www.warc.com).



warc
ideas and evidence
for marketing people

THE WARC BRIEFING ON

China's changing market

DEFINITION

China will be the world's third-biggest advertising market by 2012. Judged by strategic importance and growth prospects, it may already be the most important.

QUICK FACTS

- China Mobile, Nokia and Coca-Cola were named the most engaging brands in a 2010 poll of Chinese consumers.
- In a highly fragmented market, Wal-Mart is China's leading retailer though competition from local operators including CR Vanguard and RT-Mart rose in 2011.
- 20% of global luxury goods sales could come from China by 2015.

FUTURE OUTLOOK AND TRENDS

For centuries, rural China has contained most of the country's population. But by 2015, half of China's population will live in cities. A mere 10 years later, China is expected to have more than 200 cities with populations exceeding 1m – roughly five times the number that Europe has today.

The scale and speed of this urban development are unprecedented in human history: it took the USA an estimated 80 years and the UK more than a century to achieve a similar level of urbanisation.

Urbanisation is a useful proxy for the convulsive economic and cultural changes that have swept across China in recent decades. Without downplaying the importance of the 700m-strong rural Chinese, the growth of urban China and its development of Western-style retail, lifestyle and information infrastructures, represents arguably a once-in-a-millennium growth opportunity for businesses and brands.

China already has the world's largest car market, the biggest internet and mobile population, the biggest share of growth in retail dollars worldwide and the second-biggest economy overall.

Where to start on this topic? By discarding pre-conceptions, certainly. China has often deviated from the templates of other emerging markets. It is frequently said, for instance, that as India's middle class has prospered, consumers have traded up from small cars to larger models. By contrast, newly-prosperous Chinese families have tended to go from owning no car to a top of the model range, bypassing several stages in conventional development cycles. And these shifts are not uniform across categories since expenditure on more expensive, discretionary branded goods is often offset by Chinese consumers' adherence to less glamorous value items in other areas.

It is also true that most research on Chinese consumers is drawn from Chinese cities, and frequently only from the most developed of these (so-called Tier One cities). However, it is the lower tier Chinese markets which are likely to deliver much of the future growth for brand owners, as well as posing challenges to their established infrastructure and pricing models. Analysts even question the existence of a single Chinese market as opposed to a series of regional economies in disparate stages of transition.

Chinese consumers have also shown a deft ability to accommodate the contradictions which have sometimes baffled Western advertisers entering the market. Tradition and novelty can co-exist quite happily in Chinese homes. Interest in communal activities has been balanced by enthusiasm for individualism and self-expression. Embrace of Western brands and lifestyles has been counterpointed by a revival of patriotism and traditional Chinese values. Against this unpredictable backdrop, three trends are likely to prevail.

First, the economic and political momentum to encourage Chinese households to spend more and save less looks unstoppable. The slowdown in world trade during 2009-10 underlined the importance to policy-makers of reducing the country's reliance on exports by growing private consumption.

Second, China's demographic pressures are unusual among emerging markets. It has an ageing population, a massive pool of internal migrant labour and sharp disparities in wealth and outlook across groups. Given its size and complexity, the market is likely to require new, rich ways of segmenting Chinese audiences to represent this diversity for many years to come.

Third, if the opening of the Chinese market to multinational brand owners defined the 1980s and 1990s, more recent years have seen the rise of domestic groups with strong internationalist ambitions such as Li Ning, Haier, Lenovo and Huawei. These players are likely to offer strong competition in the battle for brand loyalty both in China and abroad, and to prompt two-way traffic in communication and ideas between Western and Chinese approaches to marketing.

Taken together, these trends are likely to ensure China is a market in flux for the foreseeable future. Brand owners will have to combine long-term strategic priorities with short-term tactical flexibility to make the most of these opportunities. To quote one Chinese proverb, "A journey of a thousand miles begins with a single step".

BRAND STRATEGY

Below, we set out insights from some key case studies published on Warc.com to illustrate successful strategies adopted in China by both foreign and indigenous brand owners.

■ **Social media as entertainment.** Television may be the country's biggest advertising medium, but it is also dull and formulaic. It is little wonder then that urban Chinese have embraced the internet's potential as a mass entertainment medium to a much greater degree than their

Western counterparts, a tendency also reflecting the political restrictions on online information and debate. Gaming, online communities and social media channels are hugely popular, and a large number of Chinese internet users define themselves as initiators, rather than simply transmitters, of web conversations.

Pringles, the P&G-owned snack which is a marginal player in China, exploited this phenomenon when it wanted to connect with 18-24-year old Chinese. It chose to target this base with online video clips and a range of in-store, gaming and flash mob executions to engage audiences, drive awareness and improve the brand's business metrics. The campaign out-performed its main targets of increased unaided awareness and trial.

■ **Emphasising provenance and quality.** Product reliability and durability have emerged as important considerations for Chinese consumers when considering brands.

Chinese shoppers have often highlighted familiarity with a brand's production and history as positive attributes when making choices. In this regard, it is noticeable, therefore, that brand owners such as Unilever have tended in China to give more emphasis to their corporate parent branding, than to individual brands.

In a related vein, Nestlé Neslac – when struck by a milk contamination scandal – responded with a series of online parenting videos released in partnership with youku.com, the Chinese online video site. Nestlé later expanded this into a series which racked up 21m views, over-performing against its target audience and helping to reduce negative online buzz.

■ **Localising references.** It has become a truism that Western brand owners from Coca-Cola to car manufacturers have needed local partnerships to operate effectively in Chinese markets.

For instance, when Nokia launched its N-97 series of handsets in the country, it built a platform of co-branding partner opportunities with China Mobile and indigenous owners of search, travel, retail, fashion and video websites. A local activation programme featured a push to create a Chinese

“Internet Millionaire”. The results consolidated Nokia as the Chinese market leader.

In a more niche sector, Cartier created a successful exhibition within Beijing’s Forbidden City. The items highlighted Chinese influences on Cartier over the decades in a way which balanced acknowledgement of Chinese traditions with re-enforcement of the brand’s record of sophisticated innovation.

Given the disparate linguistic and regional characteristics in the country, local partnerships have even proved vital for indigenous brand owners attempting to establish a national consistency in their branding.

Millward Brown, the advertising research group, recently warned of the difficulties of achieving consistent responses to the same campaigns in major Chinese cities, much less beyond these. It advised advertisers to stitch together cross media campaigns for different Chinese regions to “offer some degree of customisation for each set of markets”.

■ **Celebrity and CSR.** While use of celebrities is a common feature of advertising in all the BRICs markets, Chinese campaigns have given this a different flavour.

To generalise dangerously but unavoidably, Chinese audiences have tended to show greater interest in role models who exhibit collective, public-spirited or self-deprecating tendencies. Individual performers have mostly had limited appeal unless they were also seen to pay due attention to values of family, tradition and nation.

A notable Adidas China campaign captured this sense of priorities in images of Chinese citizens physically lifting sporting stars to Olympic success. In the non-profit sector, celebrity and public-spiritedness have been notably combined. Chinese actor Jet Li led a successful campaign to encourage public walks following the earthquake in Sichuan and a ground-breaking HIV prevention initiative, fronted by actor Wang Baoqiang, effectively tackled the taboo issue of infection among migrant workers.

More generally, interest in questions of environmental and corporate social responsibility (CSR) has flared up in recent surveys of Chinese consumer

attitudes. Allied to the population's interest in product authenticity, mentioned above, this suggests long-held notions of placing an importance on maintaining a balance – internally and with the natural world – showing integrity and saving face have not been swept away in the rush to consumerism. Clever marketers take note.

RELATED WARC BRIEFINGS

Multinational Campaigns; BRICs; Global Media Trends.

FURTHER READING ON WARC.COM:

Advertising and business trends

China to join top three global ad markets as TV spend soars, *Stephen Whiteside, Warc Exclusive, March 2011*

Can a single ad work across China? *YeeMei Chan, Sacha Cody and Sirius Wang, Millward Brown Asia, March 2011*

Relevant Pieces to the Chinese Media Puzzle, *Don E Schultz and Martin P Block, ESOMAR, Asia Pacific, Kuala Lumpur, April 2010*

China: An Overview of the Retail Sector, *Ray Gaul, Bryan Gildenberg and Stephen Mader, with Vadim Khetsuriani and Vincent Verdier, WPP Atticus Awards, Merit, 2009*

Brand strategy and case studies

Pringles: get to the crunch, *Susanna Lee, Institute of Practitioners in Advertising, Entrant, IPA Effectiveness Awards 2010*

Nokia N97: Selling a 2G mobile phone in a new 3G market, *Warc Prize, Entrant, 2010*

Sportswear in China – how local brands challenged the might of Nike and Adidas, *Glenn Smith, Warc Exclusive, December 2010*

Consumer insights

Many faces of the real China, *Kunal Sinha with Mickey Chak, WPP Atticus Awards, Grand Prix, 2010*

10 Things You Should Know About China, *Katie Zurita, Warc Exclusive, TNS, January 2011*

Keeping up with the Changs: the view from China, *Peter Vogel, Warc Exclusive, March 2010*

Comparing consumers across China's tiers, *Steve Garton, Warc Exclusive, Synovate China, October 2010*

About Warc

Warc is the world's leading online marketing intelligence service. Established 25 years ago, Warc has customers in more than 100 countries, including many of the world's biggest advertisers. At the heart of Warc is warc.com, a unique online service for marketing people around the world.

WARC WILL HELP YOU

- Glean ideas and evidence from a bank of 6,000 effectiveness case studies on all main regions, industries and campaign objectives.
- Build your communications strategy on proven approaches and latest thinking.
- Forecast advertising expenditure and media cost trends.
- Understand how your competitors run their communications via a daily news email on industry trends and in-depth global company profiles.
- Respond when the CFO asks you 'What's the return?' by providing authoritative approaches to measuring communications effectiveness and ROI.
- Manage your agency relationships with tips from Warc Best Practice guides.

Take a free trial at www.warc.com/trial

CONTACT US

Warc Head Office

85 Newman Street
London
W1T 3EX
United Kingdom
t: +44 (0) 20 7467 8100
f: +44 (0) 20 7467 8101
e: enquiries@warc.com

Singapore Office

31 Pekin Street
03-01 Far East Square
048761
Singapore
t: +65 3157 1214
e: asiapacific@warc.com

US Office

2233 Wisconsin Ave NW
Suite 535
Washington, DC 20007
United States
t: +1 202 778 0680
e: americas@warc.com

“Warc is the go-to resource for the latest knowledge and trends in marketing and brand communication. The Warc archive is a veritable treasure trove of case studies which offers great learning and insights to marketing professionals”

Reynold D’Silva, Global Brand Director,
Pond’s, Unilever

Sign up for a free trial at
www.warc.com/trial

Follow us on Twitter – @warceditors



WARC

ideas and evidence
for marketing people

**Warc. The global provider of ideas
and evidence for marketing people.**

www.warc.com

e enquiries@warc.com

t +44 (0) 20 7467 8100

