

Counting in Chinese

With reliable data hard to come by, creating a winning marketing formula for China can be a head-scratching exercise

By Constantine von Hoffman

The lunchtime discussion topic was China. Marketing executives around the table swapped stories

about the country's bureaucracy, counterfeiting problems and economic growth. One executive listened more than she spoke, taking notes and occasionally asking for more details. As the global marketing chief of a large subsidiary of an even larger multinational, her need to know about China was a pressing one: In four months, her company would be launching its business in China, and she had just realized that the information she was getting from her local partner—a joint venture formed with the government—was nonsense.

This woman was clearly no marketing novice. When asked about business in Europe or Latin America, she easily rattled off numbers about market penetration, brand value and purchase frequency. But when asked the same about China, she became a deer in the headlights. She didn't have the data, and she knew it. It seemed little comfort to her that no else did either: When she asked where everyone else got their data, the collective answer was a rueful, "Good question."

Obtaining reliable information about the world's most populous country has been an elusive goal since Marco Polo's first business trip to China seven centuries ago. Ask U.S. businesses what they have to show for their years of trying to drill down into the demographics of Chinese consumers, and the answer usually is, not much.

The reasons for this are almost as numerous as bricks in the Great Wall. How do you survey a nation of at least 1.3 billion people belonging to 56 ethnic groups speaking scores of distinct languages and

dialects? How do you overcome a physical infrastructure that can make travel and trade among the nation's 22 provinces (23, if you count Taiwan, which the Chinese government does) incredibly difficult? How do you get insights from people who, for the past 55 years, have lived under a repressive, totalitarian government where answering the wrong questions frequently has highly negative consequences?

It's not only their own government that the Chinese don't trust; they've been suspicious of foreigners since before Caesar, in part because they see other cultures as inferior. (China is known as the Middle Kingdom because its people long believed that it occupied a place between heaven and Earth.) Another reason for their mistrust stems from previous wars fought with Western nations attempting to gain access to China's markets.

Combine the physical and cultural difficulties of gathering demographics with the lack of reliable data from the government itself and it's easy to see why China is such a tough numbers game. For the new breed of CMOs schooled on metrics and data analysis, developing a marketing plan for China is akin to time travel, back to an era when guesswork, estimates and gut feel ruled the day.

Those challenges, of course, haven't kept U.S. companies away. Most senior management teams view the China opportunity as too big to ignore—and they use some of the very numbers they deem as unreliable to make their case. They cite the 40 cities in China with populations of more than a million people each. They trot out World Bank numbers showing the Chinese economy growing at 9 percent annually and its gross domestic product (GDP) increasing from \$1.1 trillion to \$1.6 trillion in the past four years. They look at the estimates from Euromonitor, a provider of global consumer market intelligence, that the percentage of China's citizens who own a telephone will rise from 28 percent to 41 percent over the next decade.

It all adds up to a relatively untapped—and enticing—business market. But looks can be deceiving. “The numbers on first pass are always very exciting,” says Roy Tan Hardy, VP of marketing for Hong Kong Disneyland.

Dig more deeply, and a different story

emerges. Visions of mass markets and healthy profit margins are replaced with a more sobering reality: Making money in China is hard. “If you go into China with a big bang theory and saturate the whole country at once, you may as well give your money to charity because you're just going to lose it,” says James McGregor, former CEO of Dow Jones's operations in China and author of the book *One Billion Customers: Lessons from the Front Lines of Doing Business in China*.

Companies that have succeeded in China have looked at the country not as one mass market but as a massive number of very small markets. McDonald's, for example, entered China 15 years ago with one restaurant in one city, Shanzen. It has slowly built up its franchises to more than 700 restaurants in 17 major “population areas.” The marketing team doesn't even attempt to gather demographics on the entire country. “It's not like we're trying to research all

1.3 billion people every day,” says Dean Barrett, McDonald's senior VP of global marketing. “We've concentrated our efforts in the cities we're in.”

McDonald's executives felt the chain's initial marketing approach must be focused on

consumers in the areas around its first restaurants; although the Golden Arches were familiar to some Chinese, the company was basically starting from scratch in building its brand.

“We were talking to our customers in those local areas about who we were, what our brand identity was and how that could fit into their culture and lifestyle,” says Barrett. The company invited customers in to see the restaurants and sent store managers out to talk to schools and other groups. It wasn't until 1996—five years after that first restaurant opened in Shanzen—that the company bought its first nationwide ads on Chinese television. “In order for national marketing to be successful, it has to be built on a local base,” says Barrett.

Even on a local scale, however, good market research is a significant challenge. Neither the government, nor the companies, nor anyone else knows much, if anything, about what Chinese consumers earn or spend. They're not even sure that there are 1.3 billion of them. Communism has made deceiving the government a national pastime.

number crunch

708

Number of McDonald's
restaurants in China



Case in point: Since the late 1970s, the state has restricted many families to having just one child. As a result, some experts believe that tens of millions of “extra” children have been hidden from census takers, meaning the government's census could be off by as much as 250 million people—or slightly less than the entire U.S. population.

As unreliable as the census numbers may be, granular demographic information is even harder to pin down. “You really have to peel away the numbers,” says Disney's Hardy. “To get to statistics that you want, you have to go in



During initial research of China, "we couldn't convince ourselves we could make money."

—MICHAEL MATTHEWS, CMO, AMDOCS

a very indirect way."

In developing the marketing plan for the launch of Disney's first theme park, Hong Kong Disneyland, which opened in China last September, Hardy's team determined that average income or family size was less important than people's awareness of the Disney brand and the classic Western stories—such as Cinderella—around which the parks are built. The group found that consumers in Hong Kong had a good knowledge of many of Disney's classic characters and stories and that 26 percent had already

been to a Disney theme park.

Outside of the immediate Hong Kong area, the story was a bit different. In the region within 300 miles of Hong Kong—containing an estimated 140 million people—the company found that while a lot of Chinese were familiar with Mickey Mouse, less than 1 percent had ever been to one of its parks. "The Disney brand was clearly recognized," says Hardy. "But the understanding of the brand—its

stories and characters—aren't as deep in China."

As a result, the company created a marketing plan for the new park that focused on showing the films and telling the stories of Robin Hood,

Snow White and other characters, rather than on the park's features and attractions.

number crunch

\$1

150 million Chinese people live on less than a dollar a day

RISK VS. REWARD

In Hong Kong, the Western-style economy, infrastructure and culture makes market

research more reliable. Across mainland China, the challenge is greater. That helps to explain why Amdocs, a \$2 billion provider of customer-care services to cellular service providers, was hesitant to jump into the market. On the surface, such a move seemed like a no-brainer: How could approximately 400 million Chinese cell phone users not represent a great business opportunity? Amdocs' initial research, how-

ever, suggested just the opposite—that Chinese cell phone users are incredibly price sensitive, with many going so far as to have separate phones for incoming and outgoing calls to save money. The likelihood of them paying extra for add-on services was remote.

same time we sensed there was a very definite desire on the part of Chinese companies to be offering our kind of Western-style services.”

As it turned out, divining ARPU was easy compared with gathering other consumer data. In an economy that still relies heavily on paper money, most cellular customers were using cash to settle up their monthly bills or to purchase prepaid phone cards. That eliminated the

Chris Hassall, Procter & Gamble's vice president for Greater China, counters that Chinese consumers are slowly coming around to the value of legitimate brands over cheap imitations. “Because Head & Shoulders provides superior value to the consumer, we can sell it at a price that also provides a healthy return for us,” he says, without providing specifics.

Companies in service-oriented industries are

“It's not like we're trying to research all 1.3 billion people every day.”

—DEAN BARRETT, SENIOR VP OF GLOBAL MARKETING, MCDONALD'S

But the company was under a lot of pressure from investors and analysts to ride the telecom boom in China, from which cell phone makers such as Motorola were reaping huge profits. There was just one problem nagging the executive team: “We couldn't convince ourselves we could make money,” says Michael Matthews, Amdocs' CMO.

In order to project how much consumers might be willing to spend on Amdocs' services, the company (working with a local partner) began tracking the average revenue per user (ARPU) of four Chinese telecom service providers. The magic ARPU number that Amdocs executives felt would indicate a market for their services was \$10 a month; initially, however, ARPUs were tracking in the \$2 to \$5 range. When the average reached the \$5 to \$10 range, Amdocs took the bait. It purchased the Chinese company it had partnered with and entered the market last August, even though the ARPU wasn't consistently where the executives wanted it. Chalk that flexibility up to the China dream: The promise of higher profits was worth the risk.

“In the last 12 months we got to a comfort level,” says Matthews. “We believe there is a growing demand for more sophisticated offerings from communication providers. At the

trove of data Amdocs could gather via credit card transactions.

With limited data at their fingertips, many companies rely on consultants and other third parties to provide demographics, which many foreign businesses acknowledge, can be a crap shoot. “Everyone's got great aspirations,” says Tom Nightingale, vice president of corporate marketing for Schneider National, which opened business in China last April to sell supply-chain management services and software. “They'll promise the moon and the stars but...”

FAKE PRODUCTS, REAL CHALLENGES

No numbers discussion about China would be complete without taking into account the potential financial impact of counterfeiting. Everything from software to manufacturing components to packaged goods—even the packages themselves—are at high risk of being illegally copied and sold against legitimate products (see “Faking It,” www.cmomagazine.com/120105).

“With fast-moving consumer goods, it's not the products themselves that are getting copied, but the packaging,” confirms Joe Studwell, editor of *China Economic Quarterly* and author of the book *The China Dream*.

Low-priced knockoffs are a hit with price-sensitive Chinese consumers, particularly when it comes to commodity goods such as soap, toiletries and household cleaners. “People [in China] won't pay a premium for that,” says Studwell. “The money they have, they'd rather spend on a mobile phone.”

better positioned than product-focused companies to succeed in China because they are more immune to counterfeiting and can offer Chinese consumers something many are desperate for: a genuine Western experience. “You can't copy a culture, a motivation or an innovation,” says McDonald's Barrett. “[McDonald's founder] Ray Kroc once told me anybody can sell hamburgers, but only McDonald's can sell the experience.”

The sum total of this numbers game? CMOs and other senior executives should build a lot of extra time, effort and money into their marketing plans for China. From gathering consumer data to developing the right relationships (see “It's Not What You Know...,” Page 30) to navigating the byzantine government channels, getting things done is simply harder in China.

“Ensuring the necessary governmental approvals were in place took several months longer than we would expect in most other countries,” says Schneider National's Nightingale. The impact, he adds, is felt not just in time spent, but in the extra effort expended to get things done against a tight deadline. “The expectations are high and fast, given the size of the market,” he says.

That is the great paradox of doing business in China: No matter the potential problems, the numbers are literally too big to ignore. “If you believe what you see by walking the streets of the major cities of China, there *may* be a middle class now of between 200 million and 300 million people,” speculates McGregor, the author. “That's one hell of a market.” ●

Senior Writer Constantine von Hoffman can be reached at cvonhoffman@cxo.com.

number crunch
103M
Internet users