

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