

CHINA - THE LAST GREAT MEDIA FRONTIER

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Introduction

With its population of approximately 1.2 billion, China could be regarded as the last great frontier for marketers and media alike. The Survey Research Group is now grappling with the awesome logistics of scale, size, communications, diversity and political issues in this huge country. It has formed a joint venture with a division of the Chinese Government - a process in itself worth recounting.

The purpose of this paper is to give a brief glimpse of what it is like to try to assess the media habits of the Chinese, and the challenges which media research companies will need to face and overcome. The first part of this paper gives an overview of the China market and the second part deals with the media research issues.

Media research in China is a mix of the ideal to the impossible: response rates are exceptionally high, but sometimes it is not politically possible to ask the correct question.

How representative are Beijing, Shanghai and the Guangdong region of the rest of China? What happens in the Steppes of Mongolia? What patterns of TV, radio and newspaper reach exist? What trends are emerging? Why was the navy in Beijing involved in a diary-based TV measurement service?

Whilst this paper will not cover new techniques, it will provide a refreshing and sometimes humorous report of the life of a media researcher in this last great frontier.

Overview

China was once considered by the West as a sleeping lion in the old days. Now that the lion, or better say the dragon, has awaked, we can expect a QUANTUM JUMP in economic growth as China progresses towards the 21st century. The 14th Party Congress recently reconfirmed the open-door market-economy policy and officially endorsed the currently practised system as a "socialist market economy".

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In 1992, China's economy is likely to grow by an impressive 10% in real terms. Over the next few years, a high growth rate of 8% to 9% has been endorsed by the Chinese leadership and is very likely to happen.

(Slide 2)

Retail sales have been growing by a compound growth rate of 15% since 1979, the start of the open-door economic policy. Currently, retail sales stand above RMB 1,000 billion a year.

(Slide 3)

Advertising, which was virtually non-existent in the seventies, is now part of everyday life and the rate of growth is phenomenal, rising 10 fold in the last eight years from RMB 370 million in 1984 to RMB 3,500 million in 1991.

(Slide 4)

Retail outlets mushroomed throughout the country in order to satisfy the ever rising consumer demand. In 1980, there were only 2 million outlets throughout the country. Today, there are over 12 million retail outlets.

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It is no exaggeration to compare the significance of the discovery of the China market by international marketers in recent years with Columbus' discovery of America five hundred years ago. Both are important markets for international marketers.

(Slide 6)

As those working in the China market know only too well, the market is so huge that existing suppliers will always fall behind in capacity expansion and that new suppliers will never stop coming.

In recent months, hardly a day has passed without new investments, new plants or new capacity expansion by international companies in this huge market. Announcements such as these are common everyday news:

- * Shell plans to invest US\$2.6 billion in Southern China.
- * Gillette further expands into the China market of 1 billion blades a year.
- * Yaohan (Japanese department store chain) will open 1,000 supermarkets within the next 18 years.
- * Cafe de Coral (fast food chain) will open 50 outlets in China over the next 5 years.

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All major industries and services, both high tech and labour intensive businesses, are moving to this vast new market. In the market research field, we are pleased to say that we are the only international market research company which has formed a joint venture research agency in China, currently employing 94 full-time staff which will expand to 150 in 1993.

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China Market Is Huge

Today, few people will deny the importance of the China market.

Selling to the China market is selling to the most populous country and thus consumer market in the world.

This is a country which produces births every year equivalent to the population size of Canada. One more Canada each year!

(Slide 9)

Selling to China is selling to 280 million households and the number of households is increasing every minute of the day as people get married and move to new homes.

Beyond The Nominal Wage

Wages in China are low by international standards. Most people earn less than US\$100 a month.

On the other hand, we should note that a lot of the basics in life are still heavily subsidised by the State. People pay next to nothing for their rental or transportation or medical expenses. Hence, when we examine the expenditure pattern of an average urban household, we find that they pay eight to nine times more for their cigarettes and spirits than for their rental in an average month.

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Can you image you spend nine times your monthly rent for smoking and drinking every month of the year!

The Affluent Consumers

The socialist market economy allows entrepreneurial endeavours and the growth of the private economy. This allows a minority to become rich and this minority is big in number.

"Ge-Ti-Hu" -- the self employed individuals -- number over 20 million in China, many of whom are relatively affluent consumers.

(Slide 11)

This explains why some expensive watch suppliers can find a very lucrative market in China. One of them claims selling 12,000 units a year.

The Truth Behind National Average

China's GDP per capita is US\$300. Hiding behind this national average is the fact that many cities have per capita GDP in excess of US\$1,000 and a few cities including Shunde, Foshan, Shenzhen and Jiangmen in Guangdong, in excess of US\$4,000 to US\$5,000.

In a vast country like China, national averages can be very deceiving.

(Slide 12)

A casual examination of the household penetration of consumer durables in the main cities in China will reflect the relatively high living standard of urban life in the country.

(Slide 12a)

Rising Consumer Expectation

In the 70s, the "3 bigs" -- durables which consumers aspired to own -- were bicycle, sewing machine and electric fan. As life improved in China, the "3 bigs" were transformed into TV, washing machine and refrigerator in the 80s. In the 90s, consumers talk about the "3 bigs" being VCR, motor cycle and telephone.

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Having a telephone at home is now a status symbol in China. The waiting list for installing a telephone is long everywhere and demand simply outstrips supply.

Increasingly Quality Conscious

Tracking surveys show that price consideration is becoming less influential in the choice of brands and product quality in terms of design features, functionality, durability and reliability is what the consumer looks for.

(Slide 14)

Price will always be important no matter what happens, but suppliers to the China market will have to pay more attention to the non-price factors as the market is now changing from a sellers' market to buyers' market.

Foreign brands always carry a premium and quality image and consumers' patronage is ever increasing.

In the audio visual electronics and office appliances markets, Japanese brands dominate the market.

In colour films, Kodak and Fuji are the market leaders.

In the household products category, P&G, Unilever and SC Johnson are very active.

In the instant coffee market, Nestle and Kraft General Foods dominate the market.

In the telecommunications field, Motorola, Ericsson, AT&T, NEC and National are active in different regions of the country.

Foreign brands which may have significant minority shares are also well patronised by the Chinese consumer in the areas of:

- * Beer
- * Cigarettes
- * Confectionery
- * Fast food
- * Fashion & casual wear
- * Full cream milk powder
- * Instant milk formula
- * Motor cars
- * OTC products
- * Soft drinks
- * Wines and spirits
- * etc.

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The Chinese consumer will continue to search for quality goods which are good value for money and foreign brand products stand a good chance to penetrate the market.

Little Emperors

A very important segment of the China market is the babies and children market. As a result of the "one child policy", the child in the family becomes the "Little Emperor" and is given the best by the two parents and the parents of the two parents, totalling six people taking care of one child. This is also known as the "six to one phenomenon".

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With 24 million births each year, the babies and children market are simply huge by any standard.

You can visualise that the market potential for infant milk formula, children's vitamin, baby skin care products, nappies, toys, baby food, educational aids, etc will be very considerable for any supplier in the world.

Regional Differences

There are a lot of regional differences in the vast China market.

For example, Guangzhou residents would be more concerned about food than clothing. The reverse is true with people from Shanghai. This is borne out by the analysis of household expenditure pattern of these two main cities.

(Slide 17)

In many beverage product tests we carried out in China, we also found that northern Chinese have a sweeter tooth than southerners.

By and large northerners drink more beer also on a per capita basis.

(Slide 18)

Due to difficulties in transportation, most provinces produce and sell their own brands of different consumer products. You will feel the regional differences when you compare the brands of the same product in different cities. National brands for local products are not common.

High Savings Ratio

An average urban household saves 16% of its annual income. Savings in the banks have broken through the RMB 1,000 billion (US\$200 billion) level. The Chinese consumer has the money to spend and awaits creative marketers to place new products in the market. As marketers, you have a very good chance to share part of this "expenditure pie" and convert part of the savings into consumption and revenue for your company.

(Slide 19)

So you should by now have a clear impression of the immense scale of the China market - it's totally unlike any other marketing opportunity because it is rapidly becoming more open in a **regulated** manner. This is a stark contrast to the chaotic, even anarchic situation in Eastern Europe.

Not only is there immense pent-up demand for consumer goods and services, there is no doubt a longer term potential for new media services. And of course that's where the fun begins for anyone connected with the media scene in China. Despite its apparent willingness to embrace some aspects of Western culture, there is a marked unwillingness to relinquish control over the media.

This creates an interesting situation for "non-approved" media crossing the frontiers into China - for instance STAR TV which is transmitted via the Eastern beam of Asiasat. People in the relatively liberal Southern coastal zones may be prepared to volunteer that they watch the BBC World Service TV programmes - but further North there is a reluctance to do so. One can only measure access to a SMATV dish, and not the programmes it may receive.

Despite its daunting size, and a huge population of around 1.1 billion people, commencing market research in China is a step at a time - as Lao Zhu once said "A journey of a thousand miles starts with a single step". We've made a number of steps to date.

(Slide 20)

We're currently active in consumer and retail research a total of 22 cities, and we will extend this number to 40 in the next 12 months. As you can see, the focus is principally on major centres and the more developed Southern coastal regions.

Media research, like any research, needs clients to pay for the data. Whilst FMCG marketers are scrambling for the hearts and minds of the Chinese consumer, demand isn't quite as frenzied yet for media research

Here's our overall plan in China up to the year 2001.

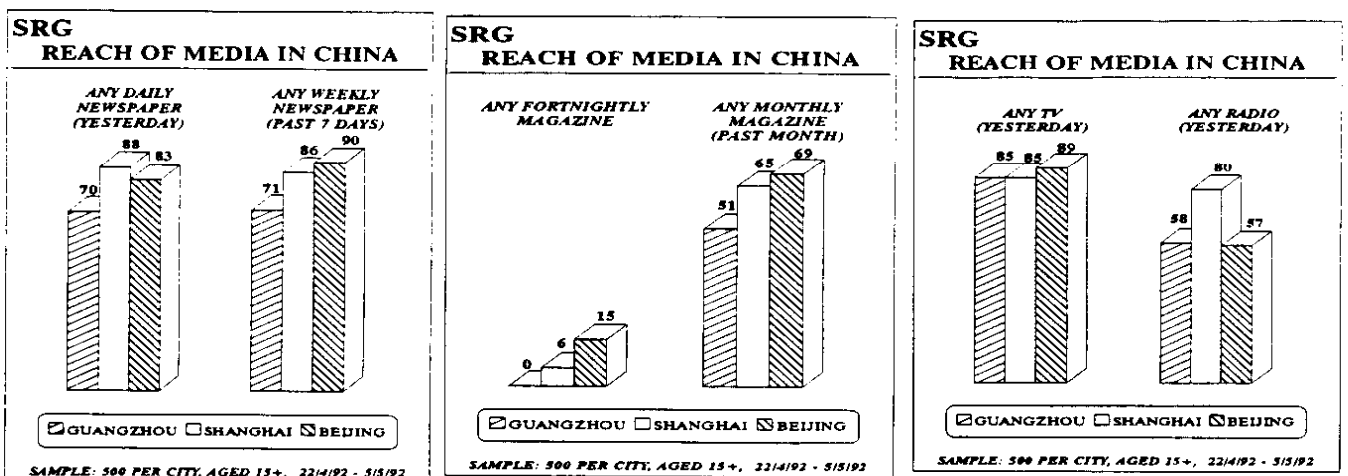
(Slide 21)

Our Adex advertising measurement service is now underway in the main cities of Guangzhou, Shanghai and Beijing as well as in the southern most province of Guangdong. Adex currently covers TV and newspapers. Magazines are fragmented, and often either carry restricted volumes or no advertising. And you may need to book a year in advance.

Media Index, a broad brush measure of major media forms, covers the 3 main centres and is planned to spread to other major markets in 1993 and beyond.

TV audience measurement will likely commence at a more sedate pace.

Let's take a glimpse at what media are popular among Chinese consumers in the 3 major cities. The data comes from our second modest-scale Media Index survey conducted in 1992.



There are very high levels of reach of newspapers in the 3 main centres, particularly Shanghai and Beijing where the figure is 8 or 9 out of 10 people aged 15 years and over.

There is an unusual array of magazine publication frequencies in China - and an emphasis on regional media titles. Each city is very different in magazine titles read.

Overall, monthlies achieve substantial reach.

The Chinese love TV - nine out of 10 watch TV on an average day. Radio varies somewhat, but Shanghaiers seem keener on radio. The most popular station is the channel called, rather remarkably, "The First Programme".

Whilst the bulk of revenue for syndicated media services typically comes from the media itself, this is not the case in China - all revenue is derived from advertising agencies. And because advertising rates are relatively low by international standards, agencies may not earn enough commission to afford media research. Chinese media owners (that is, Government Departments) have yet to understand the value of purchasing and using media research. We have even received handwritten rate cards from newspapers - things are still pretty basic in China!

On the positive side, media researchers can enjoy incredibly high response rates: normally 97-98%. And while, just a few years ago, we couldn't obtain the Population Statistics Yearbook of a certain province in Northern China - (it was strictly for internal use only) - it's now for sale at bookshops. Another bonus: our interviewers are no longer dragged off for interrogation because they were asking strange questions. And we don't have to contend with internal censorship.

Previously, if a printout was sent from one city to another, it would arouse the suspicion of the mail censor - and could be delayed for months. We had no choice but to hand carry it to its destination. Today, we use modem transmissions and save a lot of physical energy!

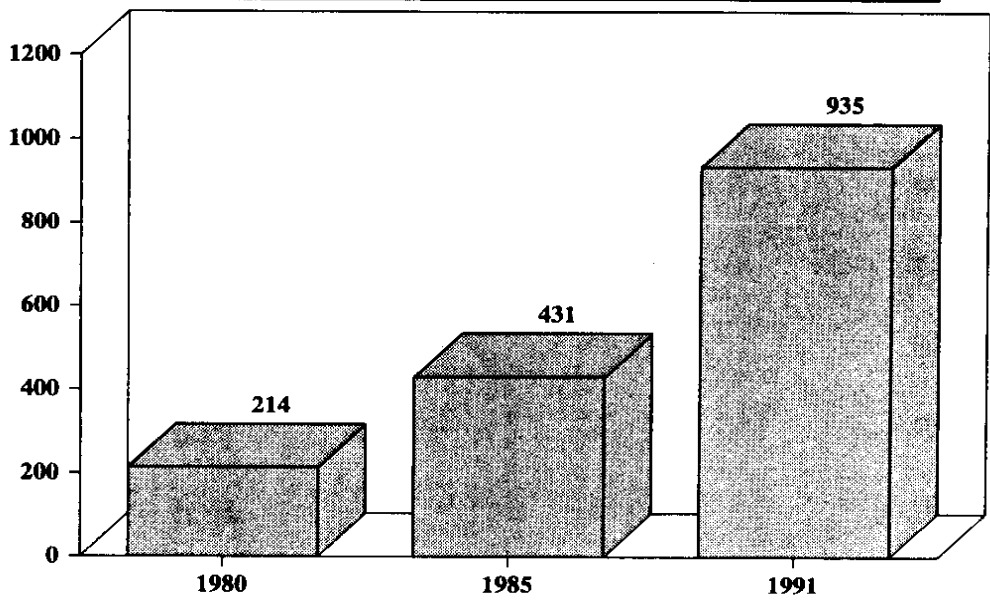
Now, if they could only work on avoiding sudden, frequent power cuts - we needn't have generators on our shopping list when starting a new office.

Doing business in China requires guanxi - "connections" - to get things done within a reasonable time frame. Establishing a joint venture really helps, because this will inevitably be with a government department which will have many connections.

The eagerness of some government bodies to become involved in new developments leads to some strange associations - we can only assume that the Navy got involved with measuring TV audiences in Beijing because they were one of the few organisations with access to computers and programmers.

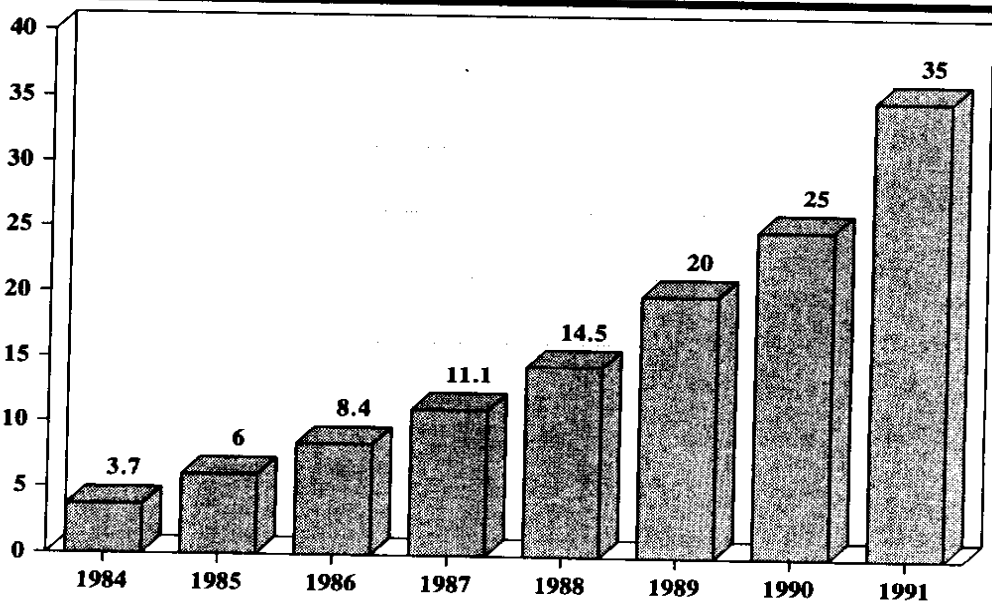
As for measuring the media habits of people in Mongolia - well, that's a few "Steppes" away.

**RETAIL SALES IN CHINA 80, 85, 91
(BILLION RMB)**



SLIDE 3

**ADVERTISING EXPENDITURE IN CHINA 84-91
(UNIT: 100 MILLION RMB)**



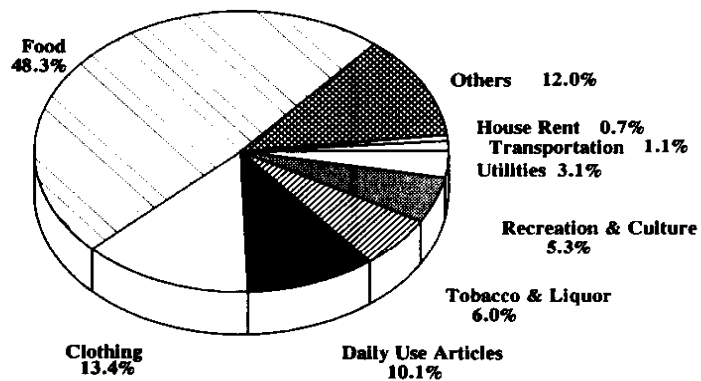
SLIDE 4

**RETAIL OUTLETS INCREASED BY SIX TIMES
BETWEEN 1980 & 1990**

	ALL RETAIL OUTLETS (MILLION)	LICENSED INDIVIDUAL RUN SHOPS (MILLION)
1980	2.0	0.7
1985	10.7	8.7
1988	12.7	10.7
1989	11.4	9.5
1990	11.9	10.1

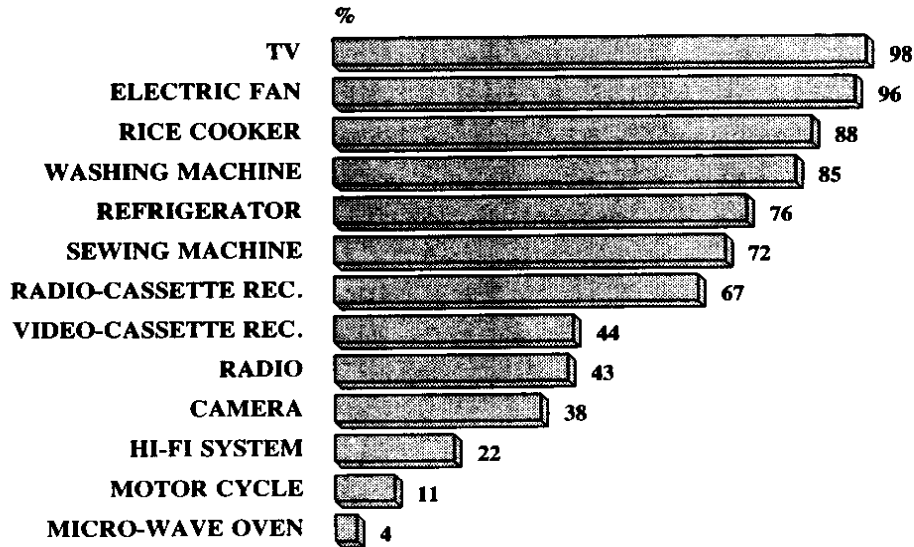
SLIDE 5

**URBAN HOUSEHOLD EXPENDITURE PATTERN
IN CHINA 1990**



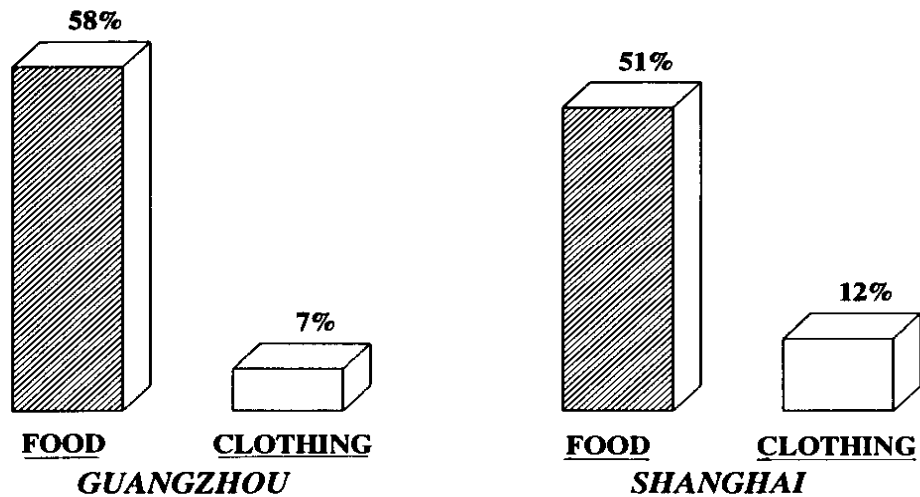
SLIDE 10

OWNERSHIP OF CONSUMER DURABLES IN GUANGZHOU 1991



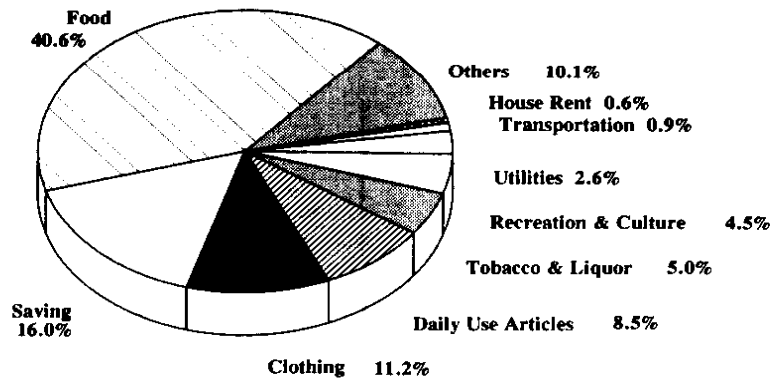
SLIDE 12a

GUANGZHOU RESIDENTS LIKINGS FOR FOOD ARE COMPARABLE SHANGHAINESE ATTENTION TO CLOTHING



SLIDE 17

**HOW DOES AN AVERAGE URBAN HOUSEHOLD
IN CHINA SPEND ITS INCOME IN 1990 ?**



SLIDE 19