

EMERGING MARKETS CHINA



Country Background

China, officially the People's Republic of China, is the world's largest country by population (1.3 billion in 2005) and one of the largest by area at 6 million square miles (9.6 million square kilometers). Beijing, located in the north, is China's capital and its cultural, economic, and communications center. Shanghai, located near the Yangtze River, is the most populous urban centre, the largest industrial and commercial city, and mainland China's leading port. The official language is Mandarin although Cantonese is also widely spoken; literacy is high at over 90 percent.

China's annual GDP growth has averaged more than 8 percent in the past 25 years, making it the world's fourth largest economy. The currency is the Yuan (CNY), also referred to as the Renminbi (RMB). The Communist Party of China (CPC) is the political party in power. One demographic consequence of the "one child" policy is that China is now one of the most rapidly ageing countries in the world, over 70 percent of the population fall into the 15-64 age range.

The economic disparity between urban China and the rural hinterlands is very large. Around 60 percent of the population lives in rural areas but many are flocking to the country's eastern cities.

Marketing Environment in China

There is no single "Chinese" market due to regional differences.

China encompasses diverse topographies, climates, cultures and people. Economic development has generally been more rapid in coastal provinces than inland and there are large disparities in per capita income, culture and lifestyle between regions.

Foreign investment remains a strong element in China's remarkable expansion in world trade and has been an important factor in the growth of urban jobs. The main exports are manufactured goods, including textiles, garments and electronics.

Unique Challenges for Marketers in China

Distribution of spending power is very uneven: most of China's affluent consumers can be found in the main cities such as Shanghai, Guangzhou and Beijing, or the more numerous secondary cities like Chongqing, Harbin, Wuhan, Nanjing, Chengdu and Tianjin.

However, there are also millions of potential customers in the hundreds of smaller cities around the country. This urban population is expected to grow rapidly as one of the biggest mass migrations in history from the countryside to cities gathers pace. In the decade to 2010, the United Nations estimates that 200 million rural Chinese will become city dwellers. For now, it is the smaller cities that are proving to be a special challenge for outsiders.

The diversity of China's market doesn't mean creating multiple messages. Instead, campaigns need to be carefully devised and tested across a variety of markets to make sure they have a uniform effect.

Media Environment in China

	TV	Computer Ownership	Internet Access**	Broadband	Mobile Phone
Penetration (%)	95.8	4.2	9.5	1.6	30
Users (MM)	360*	53	120	20	393

* Number of households

** The difference in internet access and computer ownership is explained by the fact that a lot of people have internet access only in the workplace, others only in cybercafes.
Source: China Statistical Yearbook, CNNIC Report and Internet research

There are more than 600 terrestrial TV channels in the country, making it the second-largest, in terms of TV Ad spend, in the world.

In 2005, the amount spent on advertising in the mainland increased 21 percent to \$37 billion, driven by increased marketing by international consumer brands. Chinese online ad spend increased by 77 percent, reaching \$400 million, overtaking magazine for the first time. The top online advertisers are real estate, IT products and online services.

The biggest advertisers overall are the pharmaceutical and the cosmetics/personal care industries, followed by retail and services.

Top Media Outlets in China

Television	Newspaper	Magazine	Web site
CCTV-1	Reference News	Readers	www.sina.com
CCTV-8	China TV Guide	Bosom friend	www.sohu.com
CCTV-3	People's Daily	Family	www.yahoo.cn
Hunan TV satellite channel	Global Times	The family doctor	www.baidu.cn
CCTV-3	Guangzhou Daily	Marriage family	www.163.com

China's Top Advertisers

1. P&G
2. Harbin Pharmaceutical Group
3. China Mobile
4. Colgate
5. Jiante Biological Investment Co Ltd.

Retailing in China

In the past five years, China's retail market has begun to mature in the major cities—a remarkable achievement given that the industry is effectively only two decades old.

Intense competition in the market has led to saturation in the major economic centers down the East Coast of the country. Large retailers have moved aggressively into modern trade formats, with supermarkets and convenience stores filling cities and satellite towns.

As modern trade has gained increased prominence, so more traditional formats such as large shopping malls have witnessed a downturn in sales and profits in what has become a heavily oversupplied market since the second half of the 1990s. Many of the country's largest shopping malls struggle on, while major department stores have seen sales revenues and profits decline for five years or more.

With oversupply a feature of the major cities, the retail industry has looked further afield, expanding into secondary and tertiary cities. Urbanization continues to drive retail sales growth.

China's retail industry growth is the biggest in Asia but it is a fragmented industry. China's top 100 retailers accounted for just 8 percent of the market in the year ending 2002 and didn't fare much better in 2003. Their average Return on Equity fell to 2 percent in 2003. Over 300 foreign retailers are in China already, and they are set to expand with China's deregulation of the sector.

Tips for Advertisers

More new and emerging media, especially the Internet, but also “out-of-home”, and “out-of-work” media such as outdoor and in-store, are growing rapidly.

TV is still the most common medium, with the highest penetration. But slots are the most expensive in Chinese TV history, with five-second ads going for a reported \$316,000 and 30-second ads for just over \$1 million.

The Chinese spend nearly four hours a day watching TV—well ahead of radio and Internet on which they spend about 90 minutes.

China is already the largest country in the Asia-Pacific region in terms of Internet users. The U.S. is the only country with a larger online population. But with less than 10 percent of the Chinese population online, the potential for Internet growth in China overshadows that of the U.S.

Key Millward Brown Metrics

	Awareness Index	Persuasion	Enjoyment	Involvement
City Average	8	Shanghai 24% Beijing 27% Guangzhou 20% Shenyang 33% Secondary city 26% Tertiary city 37%	Shanghai 3.93 Beijing 3.95 Guangzhou 3.92 Shenyang 4.03 Secondary 3.93 Tertiary city 4.06	Shanghai 5.0 Beijing 4.98 Guangzhou 5.13 Shenyang 4.66 Secondary city 4.86 Tertiary city 4.72

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Fun Facts & Trivia

- China is the oldest uninterrupted major world civilization, with records dating back over 4,000 years.
- China is big enough to have several time zones, but only has one.
- China is a vast nation. It has everything from tropical to sub-arctic conditions.
- Its land boundaries add up to 13,743 miles (22,117 kilometers): The border countries include Afghanistan, Bhutan, Burma, India, Kazakhstan, North Korea, Kyrgyzstan, Laos, Mongolia, Nepal, Pakistan, Russia, Tajikistan and Vietnam.
- The Chinese year is based on the cycles of the moon. This is called a lunar schedule. The Chinese New Year is different every year, but it usually comes between the end of January and the middle of February. A complete cycle of the Chinese calendar takes 60 years, or five sets of 12. The Chinese calendar dates back to 2600 B.C. and is the oldest known calendar.
- Each year is represented by an animal (Chinese Astrology). There are twelve animals which represent the twelve years. The Chinese believe that you have some of the characteristics of the animal representing the year in which you were born.
- There are more than 5,000 family names in China, of which 200 or 300 are popular. The order of Chinese names is family name first.
- Fourth graders are expected to know 2,000 of the 40,000 written Chinese characters. By the time they leave college, they will know 4,000 or 5,000 characters. Each character is learnt by looking at it and memorizing it.
- Unlike the 26 letters of the Latin alphabet, Chinese words cannot be sounded out letter by letter.

Top Tips for Visitors

- Modern tourist facilities are available in major cities. Money can be exchanged at major airports, hotels, and department stores. Major brands of travelers' cheque are accepted at such exchange facilities and cash advances against a credit card can be arranged, a service charge is usually added.
- Cash rather than credit cards is essential in remote areas and you should ensure that you carry sufficient RMB and travelers' cheques to cover your requirements.
- There are cyber-cafes everywhere in China, especially in tourist areas. China has tight regulations so you will need to show your passport to use one.
- Tipping is not encouraged in China.

- Macau SAR has well developed tourism facilities. Gambling and tourism are some of the major factors in Macau's economy.
- While China is a year-round destination, the months of May, September, and October are ideal months for travel anywhere in the country.
- China's most popular man-made wonder is the Great Wall. The Great Wall was built in the 3rd century B.C. (completed in 204 B.C.). The actual length is more than 2,000 miles (3,220 kilometers).

Eating out

- The Chinese use chopsticks as their tableware rather than a knife and fork.
- Never stick your chopsticks upright in the rice bowl, since that usually appears at a funeral and is deemed extremely impolite to the host and seniors present.
- There are a total of eight different "dish systems" in China, Sichuan, Shandong and Guangdong are the best known. An excellent Chinese meal should be gratifying simultaneously in sight, smell, touch, taste and even sound.
- People in China tend to over-order food.

To Buy

The main things to buy in China as souvenirs are silk, tea and Chinese medicines.

Must Read

"Chinese Idioms and Their Stories" by Zhang Ciyun: a must read for those who would like to understand Chinese culture.

The "That's" series of city guides to China—"That's Shanghai", "That's Beijing" etc., contain very helpful information.

Useful Links

www.ctrip.com—the leading online travel service in China. You can ask questions on <http://www.english.ctrip.com/community/qa/qa.asp> and get answers back.

<http://www.cnta.gov.cn/lyen/index.asp>—China National Tourism Administration.

<http://www.china-embassy.org/eng/>— For a list of services and frequently asked visa questions and answers, travelers can view the Chinese Embassy's Web sites.