WEST MEETS EAST: KFC ads can be spotted among Chinese marketers on Nanjing Road in Shanghai.

Bright Lights, Big Challenge

Why China's $700 bil. market is as much an obstacle as an opportunity for marketers

BY NOREEN O'LEARY

Just 10 years ago, Procter & Gamble's Crest brand was unknown to China's population, most of whom seldom—if ever—brushed their teeth. Now P&G, the country's largest consumer products company, sells more tubes of toothpaste there than it does in America, where Crest has been on store shelves for 52 years. With more than a 25 percent share of the Chinese market, last year Crest has even pulled ahead of category giant Colgate for the first time.

P&G is one of the most successful Western operators in China, and Crest offers a compelling case study in how to tackle the unique challenges of the world's fastest-growing economy. Marketers who ignore the pent-up demand of 1.3 billion emerging consumers spending more than $700 billion (as of 2005) do so at their own peril. For most multinationals, entering China is a no-brainer, but the reality of cracking the market is far more difficult.

First, the obvious hurdle: China's far-flung customer base encompasses a broad range of economic disparity and cultural complexity. What is not so apparent to outsiders is the lack of marketing infrastructure that companies take for granted in the West: China still lacks quality consumer-research data and national distribution systems, and it has a fragmented, state-owned media. And clients or agencies looking for local management talent will find a huge shortage, as the country nurtures its first generation of a professional class.

Naturally, P&G's nearly 20 years of experience in China is specific to a company selling the stuff of everyday consumption. But, as one of the marketing pioneers in reaching deeper into the country's lower tiers, P&G's experience is applicable to almost any marketer in China these days.

Companies that continue to aim just for the low-hanging fruit of the country's most-prosperous coastal areas jeopardize their future share in China. Right now, 70 percent of China's affluent households live in the country's top eight cities. By 2012, only 30 percent will live in those cities, as the rural masses move into midsize areas. Many of P&G's multinational rivals came into the market by adapting global strategies to tier-one cities like Beijing and Shanghai. (It's generally accepted there are four socio-economic consumer tiers, with tier-one being the highest income bracket. However, in China's fast-changing social landscape, many marketers and their agencies now divide the country into eight tiers.) Early on, P&G had also employed the same strategy that had worked well in developed countries: Create more innovative products that garner higher price points. P&G eventually realized the market limitations of that strategy, because 70 percent of the overall market was in the middle and lower tiers.

Cheap local brands dominated that segment, with little differentiation among them. Foreign brands sold at considerable premiums. Colgate, however, put pressure on pricing after it substituted local supplies for imported ingredients; this in turn forced P&G to rethink its Crest strategy.

P&G prioritized local organization and assembled its own national distribution system. The company's researchers went out to the countryside, lived and shopped with Chinese consumers; and an expanded sales force achieved the scale it needed to reach further into lower tiers. Brands like Crest and Tide are now sold in 2,000 cities and 11,000 towns and villages. The new Crest portfolio includes various product attributes, price points and tone in communications.

"We learned premier pricing was not the way to go because it limited how far you can go from the top-tier cities," says Brian Petersen, P&G's gm, oral care and baby care, Greater China. "But, as you add mid-tier consumers, will you destroy your premium image to do that? We did it in a way that actually improved our image."

The key was to ensure that top-tier consumers didn't feel as if they were trading down when choosing Crest, while lower-tier consumers needed to feel they were buying the best product they could afford. A government survey estimated that, as recently as 2003, 57 percent of rural Chinese residents—some 500 million people—had never brushed their teeth, so the nuances between premium and lower-cost Crest varieties (foaming quality, after-taste and grittiness) probably had little impact on lower-tier consumers.

Flavor was another matter completely. China's rural populations like simplistic natural tastes, such as fruit or herbs. Drawing upon cultural beliefs about good health, P&G devised an herbal formulation. The company also created a salt version, as the Chinese consider salt a teeth-whitening agent. The advertising message was simple, says Dr. Ken Zhang, a technical director at P&G's Beijing Technical Center: "It's kitchen logic, it's your grandmother's stories." More affluent, city dwellers have palettes similar to U.S. consumers, preferring "more complex" flavors like mint. For them, P&G made a tea-flavored Crest, based on the Chinese belief that tea treats halitosis. The ad message was about the chemical, scientific proof

R&D KINGS: P&G's James Kaw, site director, and Dr. Ken Zhang (who works on Crest) in the company's Beijing lab.

behind Crest's premium claims. P&G found that consumers of its premium products want to know about multiple health benefits. Mid-level customers just want basic cleaning and cavity prevention; they don't yet look for values of gum health and breath benefits.

P&G tracks consumers pre- and post-product launch. Monitoring those habits has not been easy. "The problem is, there is no place that is representational of China," says P&G's Petersen. "It's a journey. We started it very, very early and there's no way you can compensate for that. You start in one place, go to the next place and then peel back the layers to get a richer understanding. You just have to be patient. The journey's not over—the understanding we got from the top-tier cities three to five years ago are already outdated models."

Even in top cities, where growing affluence is making for an increasingly homogenous population, differences still abound among members of that new leisure class. "Starbucks is doing well in Shanghai, which is very Western and white collar, or in Beijing where people like to gather and talk politics,"observes Ed Lebar, managing director of Y&R's Brand-Asset Valuator Group. "But in Guangzhou, Canton, people say we eat dim sum, so we can't drink coffee with that. There's no occasion for coffee."

INSIDE THE FORBIDDEN CITY: Starbucks is popular with professionals in higher-tier cities.

Few outsiders would expect that tier-two cities like Chongqing, Harbin, Wuhan and Nanjing could offer up enough target customers to draw the attention of a luxury brand like Jaguar. The British carmaker has been in the market for two years, selling 20 cars in its first year and over 1,000 last year. It now has 34 dealers selling higher-end models like the XJ and S-type, but not the cheaper X-types. "We're targeting the newly rich, the entrepreneurs in China: people in high-tech, real estate, manufacturing," says Chris Brown, gm, Jaguar and Land Rover, China. "Tier-two cities have lots of manufacturing; that's where these guys have their factories. There's fairly low awareness [of Jaguar], but high opinion. Jaguar is known for its Britishness, its association with royalty and the Chinese view of it as having a noble heritage."

Don Norris, who up until recently was managing director, China, at McCann Erickson in Guangming, says that while moving farther away from China's largest cities is a marketer's imperative, it's an expensive proposition. "Tier-one cities only deliver 4 percent of total household income—if you're only playing in tier one, you're already behind the game," he advises. "But no one has enough money to do it all. Not everyone is a P&G or L'Oreal. Everyone's clients are starting to get tapped out."

To stretch dollars further in China's fragmented landscape, marketers take their show on the road in lower-tier markets. McCann client Nescafé, for instance, conducted what it calls the world's largest coffee-sampling program through the agency's sister company, Momentum. Last year, Nescafé passed out samples across 150 cities in China, using 18 teams throughout eight tiers. In a tea-drinking country, that effort is credited with an increase in sales of over 150 percent.

P&G, which bases its China operations in Guangzhou, moved its research facilities to Beijing in 1998 to affiliate its R&D with the country's version of MIT, the elite Tsinghua University. (The school hosts a number of other international marketers, including Microsoft.) The shift underscores the increasing importance of on-the-ground product development in China. Last year, Pepsi—which overcame Coca-Cola to become the largest beverage producer in China in 2006—opened its first research center outside the states to develop drinks suiting local tastes. A

Rolf Bruderer/Corbis

Top: Quentin Shih; Bottom: Ji Guoqiang/Imaginechina year earlier, Adidas, mounting an aggressive expansion in China, established the company's Asian design and development center (ADDC) in Shanghai just for the company's apparel and accessories. It's not just a matter of getting closer to the company's manufacturing base and fastest-growing market, it's a way for the larger Adidas corporate culture to tap into the emerging artistic vitality in China.

"We'll be able to shorten the lead time. Now we'll be able to work on a 12-month cycle from design to market, and it allows us to design with good product insights," explains Paul Pi, Adidas vp, marketing, Greater China. "But it's important also because we can anticipate future trends here and it provides us an Asian perspective on things like music and fashion. You're going to see a lot more 'China cool' in things like that, and art and movies."

'Consumer psychology is hierarchical here. ... Brands are markers in this ambitious society.' —TOM DOCTOROFF, JWT

Pride and Prejudices

Over 95 percent of Chinese consumers have a TV, and while that medium is still arguably the most efficient way to reach Chinese consumers, the challenges of expanding outside major urban areas often calls for simplifying a message to appeal to a broad audience. "Some clients treat China as one budget," says Eddie Booth, CCO, Leo Burnett, Greater China. "Consumers here are driven by local culture [and] history, the same as anywhere else in the world. What exaggerates it in China is [because of its diversity] clients can't afford it because they don't want to do three versions. So you have the lower common denominator winning out."

At the same time, it's critical that international companies tailor their messages to suit the uniqueness of China's culture and rules of its state-owned media. There is still sensitivity to outsiders and government concerns about "spiritual pollution" in a country that has had unwelcome occupation by the British, French and Japanese in the past. State censors enforce rules related to content in commercials. (For more on media censorship, read China: Part III in the Feb. 5 issue of *Adweek*.)

In November 2004, for instance, the government banned Nike's "Chamber of Fear" commercial starring LeBron James, claiming the spot insulted national pride. The footage showed the NBA star battling a cartoon kung fu character, two women in traditional Chinese attire and a pair of dragons, considered a sacred symbol. Citing James' defeat of Chinese cultural symbols, the State Administration for Radio Film and Television said the ad "violates regulations that mandate all advertisement in China should uphold national dignity and interest and respect the motherland's culture."

Even seemingly benign ads have received rebuke from the government. Fifteen years ago, P&G detergents had problems with censors who didn't believe whitening claims, because at the time, local detergents didn't get things white, says Pully Chau, CEO Saatchi & Saatchi, Shanghai.

With their sense of optimism and confidence, Chinese consumers may be the most intensely nationalistic in the world. More and more marketers are utilizing the sentiment, particularly now as Olympic fever is sweeping the country in advance of the 2008 Beijing Summer Games. Burnett's Booth works for iconic sportswear brand Li Ning (named after its founder, a former Chinese Olympic athlete), which in recent years has lost its dominant share to international companies like Nike.

"In the old days there was no competition, because you had a good name [and] quality. Then Nike [and] others came into the market, along with other imported brands. People couldn't afford that stuff, but now prices aren't so different," says Booth. "So we're trying to tap into Chinese pride with the message that products are designed, created, innovated in China. Three to four years ago, we never would have even mentioned China. Now, even Adidas and Nike are starting to use national pride [in their marketing]."

That national chauvinism, interestingly, applies only to role models who have earned it. The Chinese love English Premier League soccer, since the country has yet to see one of its own as a world-class player. In 2002, Chinese cell phone manufacturer China Kejian paid $3.2 million to sponsor England's Everton team for two years. Never mind that the company didn't even sell its phones in the U.K.; it boosted its brand through media exposure, as the Chinese watched those foreign games back home. Lacking any of their own megastars, the pop and film celebrities most used in Chinese advertising hail from Hong Kong, Singapore, Taiwan and Korea.

Those outside athletic companies are supporting the growth of sports in China through things like training programs and local sponsorships. Likewise, other international brands in China are benefitting from the halo effect of goodwill through efforts that help raise consumers' standard of living. P&G works with the government as part of an oral care education program; Unilever helps fund impoverished rural schools; KFC spots talk about a company fund that contributes to young graduates advanced education and to help them find work at the fast-food chain; Intel establishes brand equity by giving computers to lower-tier schools, even though those consumers aren't buying computers yet.

When it comes to international versus local product preferences, Chinese consumers appear to prefer foreign brands associated with technological innovation, status and fashion. (For more functional, commoditized purchases, such as washers, air conditioners and refrigerators, Chinese brands prevail.) Western tastes and marketing influences may be ushering in the first modern generation of personal expression in China, with consumers showing a growing sense of individualism. The country is even crazy about basketball, a fast-paced game where a single player stands out. China now ranks as the NBA's second-biggest market, and players like Yao Ming of the Houston Rockets have become superstars. Companies such as Lenovo and Haier even use their NBA affiliation in marketing outside China.

"The power of the individual has increasing resonance," says Joe Wang, CEO, Ogilvy & Mather in Shanghai and Southern China.

Still, in a country known around the world for televised images of the crackdown in Tiananmen Square, observers such as Tom Doctoroff, CEO of JWT in Greater China, say individualism stops short of anything in marketing imagery that might be construed as rebellion. What is acceptable, he says, is "peer-endorsed individualism."

Others echo that sentiment, describing the new sense of individualism, expressed by young people through sport, fashion or lifestyle choice. Youth—the country's most enthusiastic consumers—now advise their parents on purchasing decisions, an ironic twist in a country where Confucian tradition entails that elders pass along their culture to their children.

Learning Abroad

Given that sense of burgeoning individualism, China today is a hot bed of entrepreneurs seeking to carve out their own fortunes. Many of them run businesses on the Web even as they work in other jobs and in the government. That would appear to be the perfect environment for a company like eBay. The online auction site entered China in 2002, with great ambitions, and has instead been a high-profile example of misjudging the market. eBay initially bought a stake in a local company, Eachnet.com, of which it acquired full control. In 2003, a rival homegrown site, Taobao, launched and quickly became the market leader. Taobao was offered as a free service—which ebay reluctantly matched—and the site was seen as aesthetically more Chinese and user-friendly. A small but telling detail: Consumers said they liked Taobao's option to instantly chat and e-mail, so potential customers and sellers could engage in time-honored Chinese haggling.

Even savy marketers like Anheuser-Busch miscalculate the difficulties of China's nascent distribution system. (Compounding its lack of national distribution companies is its developing transportation infrastructure; the first expressway in mainland China was only completed in 1988.) China is now the world's biggest beer market, a huge jump from 1980, when it ranked No. 33. Its beer industry is still highly fragmented, with each city having its own strong brands, typically low-priced. A-B made an investment in the country's largest player, Tsingtao Brewery Co. in 1993. Two years later, A-B launched Budweiser, opening a production facility in Wuhan. With its premium branding and distribution costs, the beer giant couldn't profitably compete with entrenched local brands. It upped its stake in Tsingtao and bought Harbin Brewery Group, China's fifth-largest brewer.

For its part, French company Carrefour—a large retailer in China that launched its Dia discount chain—may have guessed wrong when it assumed the country's poor focused solely on sustenance. "Dia came here thinking there are a lot of poor people here. They're about to fold now, because quality is an absolute imperative with the Chinese," says Neil Hudspeth, CEO, branding concern Enterprise IG, Asia Pacific. "For all of the counterfeits here—yes, there are some people who will buy them. But at the end of the day, they want the real thing, real quality. The copycat phenomenon puts more pressure on brands to put more emphasis on forging an emotional bond. So many brands here have put more emphasis on rational benefits like price, etc."

'We're in a lucky position now ... we've made enough mistakes to say every brand is a strategic one.' —FRANK BRAEKEN, UNILEVER

TEA TIME: Unilever tops the market in milk-tea sachets, a product that may be exported.

Andrew Rowat

Getting that right is very much a concern with the country's largest players as well. Unilever enjoyed a strong presence in India through its Hindustan Lever unit. But like many international companies coming into China, it underestimated the complexity of the challenge. "We arrived here and thought: 'huge markets.' No, we arrived here and had huge opportunities," muses Frank Braeken, who's had a successful run with Unilever in emerging markets such as Russia, Eastern Europe and South America, and was named chairman of Unilever Greater China in 2005 as part of the company's revamping in the region. "The 'what' is not complicated, the 'how' is. We're in a lucky position now in that we've made enough mistakes to say every brand is a strategic one." Braeken reorganized the three operating units—foods, home and personal goods, and ice cream—into one entity, which has led to an integration of sales and distribution.

He's looking to find just the right message mix as he localizes Unilever's brands and fosters better integration of the company's above- and below-the-line efforts. "We have to strike the right balance between function and emotion," he emphasizes. "In the past we got it wrong when we assumed functional elements were more important."

JWT's Doctoroff, who works on Unilever

China Calls and the World Listens

When Motorola's late CMO, Geoffrey Frost, first saw the Razr work produced by Ogilvy & Mather in Beijing, he thought it was a big idea, worthy of use in more than one market. The office has produced 12 global Motorola campaigns since 2004—and it serves as one example of how China, with its size and market potential, will become a critical focus of innovation for marketers, who may increasingly take those local ideas around the world.

Ian Chapman-Banks, Motorola's gm of marketing and business development for mobile devices in North Asia, says this is just the beginning. "There is now 30 percent mobile phone penetration. In 20 years there's going to be a billion phones in China," he predicts. "This is the start of a consumer revolution that's going to change the world—whether it's phones, cars, houses, biscuits."

Motorola, which had more than half of China's mobile market five years ago, plummeted to only a 12 percent share by 2005, as Nokia and Chinese companies began to gain share. Nokia and Motorola now have 33 and 22 percent share in China, respectively, according to Gartner Group. Grabbing back share has been no easy feat in a country Chapman-Banks describes as "the most brutally competitive mobile market in the world." There are 70 international and local brands, 2,000 models and over 70,000 retail outlets. In tier-one cities, there is very high churn, with many white-collar consumers changing phones every eight to 12 months. Even in rural areas, consumers may spend half their income on a cell phone.

Nokia made quick inroads into China by positioning itself as a fashion brand, and the Razr's stylish ads can be seen as a response to its competitor's success. Ogilvy Beijing ecd Nils Andersson says he found inspiration as he walked through the Milan airport and looked at high-end retailers like Cartier: "I wanted to create something jewel-like, Porsche-like, to justify the high price."

The Beijing office's initial pitch featured stylish shots playing off visual puns using razor cuts and shaving. "I wanted to give the campaign attitude and a certain kind of power to the idea," Andersson explains. "We wanted it to look confident about the product, to show it boldly and not make it apologetic."

Motorola also created Motomusic, mainland China's first music download site, and allied with Jay Chou—the region's Justin Timberlake—to boost its image among young consumers. Chapman-Banks wanted his brand to appeal to "global tribes" who share interests, whether in Beijing or Baltimore. "We had to completely reposition the brand," he says. "Phones are no longer just phones. Motorola needed to become a fashion and music brand. It's all about entertainment."

RAZR SHARP: The Motorola campaign from Ogilvy & Mather in Beijing launched locally and then went global.

business with Braeken, says it's not enough to provide information about product attributes to consumers. "Consumer psychology is hierarchical here. Brands are powerful, they're tools in advancement," he says. "Brands are markers in this ambitious society."

Unilever can't focus simply on expanding its current market share in China. So, the new Unilever country head is urging his brand development execs to work more closely with his tactical brand-building group. Braeken says the timing and means of brand expansion into lower tiers is one of his biggest challenges: Where does Unilever take which of its brands in a country, the diversity of which he likens to Europe? How should they be priced, how should they be promoted? That judgment call is complicated by the lack of national distribution, which requires careful choices. Expand distribution too quickly and you risk losing control of the brand to wholesalers and keeping control of price discipline.

Given the unique characteristics of China, Unilever found that some of its most successful global campaigns don't translate locally. Dove's "Campaign for Real Beauty" doesn't work in a culture of idealized beauty, for instance. "In China, beauty is still serious business. You can't say, 'Don't worry, you can strive for perfection,'" Braeken explains.

Unilever detergent Omo's "Dirt is good" strategy has been well received in Brazil, where it originated, and has traveled to Europe and other parts of Asia. (The pitch encourages an active child's lifestyle, away from the TV and computer.) Braeken is still evolving the pitch to China's consumer, who still requires product info. "It's a brilliant platform, but we still have to go through the stage here of explaining that detergent washing whitens clothes," he says. "It doesn't mean the concept isn't good. It just needs a link between brand and functionality."

Expert Exporters

Last year, companies like P&G and Colgate-Palmolive saw their previous double-digit growth in China slow down as competitors like Unilever proved more successful and pugnacious local marketers became even scrappier. Those local companies are becoming more professional in their image and relentless in their spending. McCann's former China head, Don Norris, says of one ice cream competitor to client Nestlé: "There's huge pressure from the locals. They're using more sophisticated packaging to the consumer. Local milk companies outspend Nestlé by 20 times."

What's more, local companies enjoy home advantage when it comes to buying state-run media. "There are different media prices for international companies and for local companies. Government-owned com-

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'Greatest Show on the Planet'

Crowds descending upon the Great Wall at Badaling are greeted these days with a bold assertion about China's future: Perched on a hillside is a huge sign featuring the Beijing 2008 Olympics logo and the games' declaration of purpose: "One World, One Dream."

It's a year and a half before Beijing's Summer Games, and there is already a palpable excitement about the country's coming-out party. The Chinese are planning an event that will transcend mere athletic competition. Given the government's finely tuned propaganda skills, its first Olympics will be produced as proof of China's arrival as a world power. Nothing is being left to chance: Beijing is a skyline of cranes, with 24/7 construction permits at more than 10,000 sites, with much of those building efforts ahead of schedule. Beijing is promising the most technologically advanced games and the most green, with 30,000 acres of freshly planted trees, new air-quality monitors and forest shelters to control sandstorms. The ruling technocrats are even promising good weather: The Beijing Weather Modification Office, which regularly uses cloud-seeding planes, rockets and artillery to create rain, is studying ways to ensure sunny, clear skies.

WELCOME, WORLD: China is already filled with Olympic fervor—and ads.

"For China, the Olympics will be more than just about sport. This will be the biggest event, the greatest show on the planet ever," says Paul Pi, Adidas vp, marketing, Greater China, echoing a widely held view. "Ninety percent of the Chinese public say they wanted to host this Olympics. That's huge, higher than anywhere else in the world."

It's anticipated that about 4.5 billion viewers will watch the games on TV, while 800,000 foreigners are expected to visit China's capital city and another 1 million of China's citizens will journey there.

For international and domestic marketers alike, there's a sense this is a once-in-a-lifetime opportunity. Many marketers, like GE and Visa, kicked off their first Olympic efforts in 2004.

The '08 games mark GE's first ad efforts in its b-to-b push to land contracts in the fast-growing infrastructure. GE has already won more than $150 million in contracts since the campaign broke. "It's GE's showcase to customers in China," says Judy Hu, GE global executive director, advertising and branding. "We bring solutions, whether in energy, water, security, ultrasound. We're actually selling to the Olympics [organizing committee]."

Adidas is the games' only brand licensee partner, which allows it to sell co-branded products. (Others can only give away goods with the games' logo.) "It's a huge platform for us, probably the largest ever," adds Pi. "We're using the universality of sport and leveraging the desire for the Western world."

Last year, Coca-Cola formed a dedicated Olympics team, bringing 45 people from its various marketing communications partners in-house. The disciplines involved include account servicing, creative, media planning, communications and online strategy.

Other companies have paid out a total of $1 billion to be a part of the Olympic partner program, including Johnson & Johnson, Atos Origin, General Electric, Kodak, Lenovo, Manulife, McDonald's, Omega, Panasonic and Visa. Among Chinese companies who have signed up are Bank of China, China Netcom, Sinopec, PetroChina, China Mobile, Air China, Haier, Sohu, Yili, Tsingtao Beer, Yanjing Beer, BHP Billiton and HYX China Group Ltd. Most of them are first-time sponsors. In traditional single-brand categories like beer, there are already three official sponsors: Tsingtao, Yanjing and Budweiser.

Wearing the Beijing Games as a national badge of pride, normally fickle Chinese consumers say they'll support marketers who buy into the Olympic vision: Some 53 percent of Chinese surveyed said they'd be more likely to buy a product from a co-sponsor of the Olympics, according to research firm consultants R3 and TNS.

In a business culture that plays fast and loose with intellectual property, that mindset could be too tempting to non-sponsors. They should think again. "One of the very unique things about these Olympics is the whole area of ambush marketing. You don't want to get on the bad side of the Chinese government," advises Scott Kronick, president, Ogilvy Public Relations, China. "One of the first teams hired was a team of lawyers to protect the Olympic marks, to protect against ambush marketing."

Jhphoto/Imaginechina

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panies get price breaks," says one ad agency exec at a multinational network. On top of that, marketers like HP compete with Lenovo, which receives financial support from the government.

Amid the booming economy, it might be easy for outsiders to overlook the fact that China is still forging its own form of socialist capitalism with inherent protectionism. "From a government perspective, government advertising is never going to go to a foreign company," says a Shanghai marketing source. "In 2003, the government said about the mobile phone industry: There will be three foreign players and two Chinese players. The government said, 'We won't dictate that; let the market dictate it. However, ultimately the market will look like this.' The government has weight on its side. China is one of the few countries in the world with that kind of size and clout to ensure this."

The country is trying to dictate technological formats that will help it boost profits in its low-margin manufacturing sector. In December, China's top electronic companies unveiled EVDs (enhanced versatile discs), as an alternative to foreign DVDs. The effort comes as part of a state-backed effort to create standards for mobile phones and other products. Chinese companies, which produce 80 percent of the world's DVD players, say they'll switch completely to EVD by 2008, and stop producing DVD players and reap license fees from foreign concerns in the process. (An earlier attempt to convert to EVDs failed.)

The country's ambitions are playing out in other ways: Lenovo bought IBM's PC operations; TCL acquired Thomson's TV manufacturing business, including RCA; Haier attempted to buy Maytag. But few expect Chinese companies to make a breakthrough on the global stage just yet.

"Brands here aren't looking immediately to replicate what companies like Samsung, etc., have done. The level of investment required to build those brands in North America and Europe isn't appropriate at this time," says Enterprise IG's Hudspeth. Citing Chinese manufacturers like TCL and Haier who are already large exporters, he says: "It's better for them to continue to sell through discounters [in those markets]."

Chris Reitermann, managing director, Ogilvy & Mather in Beijing, estimates it will take five years until there are notable Chinese global brands; 10 years before there are significant Chinese automotive nameplates. "Right now the most important thing for a Chinese brand is to secure your home market. If you go abroad too quickly, you could lose your home market," he advises.

More immediate, however, is the growing world influence from the planet's largest, most vibrant consumer laboratory. Marketers like Motorola, Intel and Western Union are using global campaigns that were created in China (see sidebar, page 24). By virtue of China's size and revenue potential, innovation is a top priority for marketers there. Expect to see some of those ideas change the consumption habits of the rest of the world.

Unilever's Braeken, and many others interviewed by *Adweek*, already anticipate that shift in influence away from Western countries. The company has the top market position in milk-tea sachets in the country, a concept he believes could be exported now.

"Can I introduce a new brand? No. But I can influence Unilever," he says. "I can leverage the No.1 priority [China] at Unilever. The brand development organization I'm building is not just for China. It's being developed for specific consumer needs, but they can be solutions for a global market." ■

Imitation: Fakery or Flattery?

With its faux English positioning and similar-sounding name, Roewe—Shanghai Automotive Industry Corp.'s newly launched car using Rover technology—could easily be dismissed as another rip-off in a culture of counterfeits.

But the reality offers a more interesting glimpse into the early stages of Chinese brand development. Given the country's cheap labor force, China has quickly learned manufacturing skills from foreign companies. Catching up to the more sophisticated international branding and design standards is proving more difficult. That's not surprising, given that until a couple of decades ago, China was a command economy focused more on managing shortages than brand differentiation.

In the case of Roewe, SAIC bought the technology rights for two Rover models, the 25 and the 75, last year from Britain's MG Rover Ltd. SAIC failed in its bid, however, for the Rover name, which went to Ford Motor Co. So SAIC devised Roewe (pronounced "Row-wee"), based on "loewe," the German word for lion, and the English word "we," for the power of the masses.

"Roewe's logo integrates both European and Chinese elements. The 'R' represents royalty," explains Kenny Wong, managing director, WE Marketing Group, Roewe's agency. "We also included Chinese elements like lions with curly hair and a pole, which is a very Chinese idea and represents the Chinese people."

In China, the country's first home-grown luxury brand will also be marketed under the moniker Rong Wei, which translates to "glorious power." In October, SAIC unveiled Roewe with a print pitch showing early examples of Chinese innovation, using a compass, gunpowder, paper and printing type. The tagline translates: "We used to propel the world with technology. Now the technologies of the modern world are harnessed by us." TV spots were shot in Spain—but are supposed to look like the U.K.—and feature old British cars and teapots.

SAIC denies the Roewe name plays off the Rover association. However, the Chinese commercial landscape is strewn with sound-alike brands seeking institutional credibility through association with international giants. Wu-Mart is a popular retailer; copycat KFC outlets imitate the real ones. Starbucks sued a Chinese coffee shop chain whose name is identical; General Motors sued Chery Automotive Co., alleging the latter copied the design of its Chevy Spark.

Roewe's high-end sedans are going on sale at the end of the month, with the 2.5 V6 entry-level car expected to be priced at about $30,000 and the 750i at $41,000.

Chinese auto production was expected to exceed 7 million in 2006, up from 5.7 million in '05, with the country's auto output tripling in the last three years. As foreign auto companies rush into the market, alongside growing domestic players, there are already concerns about excess capacity, and the government is keen to boost exports. This month, DaimlerChryler's board votes on a proposed deal between Chrysler and Chery to import the latter's subcompacts to Europe and the U.S., in a watershed move that would put Chinese cars on American roads for the first time.

SAIC, which is joint partners with VW and GM, has international ambitions for the car, which will start to be sold in the U.K. next year. With Roewe, WE's Wong says China will show the world how it can succeed where Western companies, like the defunct MG Rover, have failed. "The world is flat now," he says. "China should have the most powerful [auto] brand in the world."

Aly Song/Reuters/Newscom

China Series

Please look for Part III of *Adweek*'s China series, covering the agency community, on Feb. 5.