The Lay of the Land

They've staked their claim. Now, agencies are rushing to expand, boost profits

BY NOREEN O'LEARY

Last year, an exec at an international agency network in Beijing was congratulated by a local competitor for the quality of a new business pitch. He was surprised to receive the praise, having thought the session was a confidential sharing of credentials with a prospect. As it turns out, it was a ruse: The Chinese adman and other local advertising neophytes paid to watch the faux pitch through a two-way conference room mirror. The local marketer was actually conducting a "workshop" on how to present like a "4A's agency."

That anecdote is making the rounds in China's ad circles, and whether urban myth or true account, most industry observers find it easy to believe in the Wild West atmosphere that characterizes the mainland's fledgling advertising business. Fifteen years ago there was hardly a marketing industry on mainland China; this year, the country's media spending is expected to hit $14 billion. However, behind the giddy hype of double-digit media increases is the more sobering reality that for any international executive, this may be one of the hardest 24/7 jobs in advertising. Local clients, with labor-intensive requests, are promiscuous, and agency relationships last less than three years, on average. For their part, multinational marketers—the financial foundation and rationale for networks opening in the country—are now breaking with global agency alignments when it comes to China. Those clients are making increasing demands as they expand deeper into the countryside, putting even more pressure on agencies already struggling to find and retain trained talent in China's emerging professional class. The world's most fragmented media environment is quickly becoming the world's largest Internet market as consumers, who didn't even have landlines a decade ago, are moving directly to broadband.

China is no longer just a dot on the corporate map where global communications strategies are simply adapted to the local culture and mid-level agency execs are shipped out to another backwater outpost. China's become a coveted career move for the industry's brightest, even as it proves a challenge that tests the mettle of the best of those agency managers. China is no longer viewed as investment spending; it's become a top priority for the world's largest marketers—a country that now plays a pivotal role in the outcome of global reviews. It has become the global laboratory for best-of-class innovation and creative thinking and—agency loyalties aside—clients will tap into whatever resource that delivers it.

Multinational networks don't necessarily have a stranglehold on that business; 75 percent of China's ad billings are in the hands of local agencies, according to industry consultant R3, and those homegrown competitors are quickly becoming stronger and more professional. Make no mistake about their ambitions: A recent industry conference, hosted by *China Advertising* magazine in Beijing and attended by 200 local agencies, offered a session on how to take multinational business away from multinational agencies.

"China is crucial to every agency network and the toughest job in advertising is being a CEO here," says Greg Paull, a 20-year veteran of multinational agency networks who founded R3 five years ago. "It's very much a market in transition with a lot of tension. Ex-pat managers come here for two to three years and leave. Marketers break alignment with their global agencies. There's no such thing as a safe account any more."

Mika/zefa/Corbis

That becomes clear in looking at how multinationals ranging from Unilever, Mars and Wrigley to GM and Volkswagen have broken ranks in China with their global partners (see chart, page 18). One sign of the changing competitive landscape is Heinz's shift of some business from Leo Burnett to local shop Guan Tang. Another telling detail is the fact that seven of the 10 major shifts in alignment over the past decade came at the expense of China-based Omnicom agencies, which didn't make the grade with global marketers looking for the best agency partners.

"We're playing catch-up to a certain extent in China and India. But in the last 18 months with Michael Birkin [Omnicom CEO, Asia Pacific] and Serge Dumont [Omnicom president, Asia Pacific], we've made more progress than we have in the last 15 years," says John Wren, Omnicom CEO. "We're expanding our footprint in China, we're focusing on our existing client base by producing great work, and we're seeking out Chinese companies who we believe will become big exporters to the rest of the world."

Omnicom struck a new joint-venture relationship and changed top management at BBDO and DDB within the last two years. The holding company was just recently added to the Procter & Gamble agency roster; historically, it hasn't had the kind of multinational marketers like P&G and Unilever, who were early pioneers on the mainland.

WPP Group CEO Martin Sorrell, the first industry chief to attach a high importance to expansion in China, had that early advantage and the U.K. holding company is the largest industry multinational there. (By most accounts, WPP's Ogilvy Group is the largest network player on the mainland, with 1,500 employees.) Publicis weighs in as the second-largest holding company, thanks to operating units Saatchi & Saatchi and Leo Burnett. Interpublic Group's McCann Erickson has built strong local operations, but IPG has struggled with a disastrous joint venture for Lowe and the low profile of FCB, which lacks the globally aligned marketers of most networks and depends heavily on local Chinese clients. Havas' Euro RSCG has distinguished itself with the populous country's largest field marketing group within 4D. Dentsu and Hakuhodo have focused primarily on Japanese marketers, but the former has big expansion plans, vowing to have a head count of 10,000 in China by 2010.

While WPP's Sorrell and Omnicom's Wren have each made a half-dozen trips to China last year, IPG's Michael Roth, after two years as CEO, has yet to visit his company's operations there. Stephen Gatfield, IPG's svp, strategy and network operations, logged three years as Burnett's Asia-Pacific regional managing director in the late '90s and has acted as Roth's proxy. "Given our corporate priorities, which in 2005 had to be on Interpublic's financial controls and in 2006 turned to operating strategy, including some major unit realignments, I have been unable to visit our operations in China to date. That does not mean the market has been underserved," says Roth. "All of our senior operating people are in-market often, as is Steve Gatfield, who travels there regularly on Interpublic's behalf and reports back to me. Now that we have positioned ourselves for growth in 2007, my focus will include key developing markets, and I plan on being in China in the coming weeks and subsequently in India."

> **'Some of my competitors have had China to themselves for too long. We're closing the gap very quickly.'**
>
> —OMNICOM CEO JOHN WREN

The country is already WPP's fifth-largest market, with a 15 percent share, and the company believes it could double the size of its operations within five years.

But, Wren says Omnicom is gaining ground: "We have nothing to apologize for in what we've accomplished in the last 18 months. Omnicom has operations now in 39 cities in China. We're getting the structure in place. We're building it, we're not protecting anything old. Some of my competitors have had China to themselves for too long. We're closing the gap very quickly."

R3, which works for marketers like Visa, Coca-Cola, Johnson & Johnson and McDonald's, conducted research last year, asking 220 marketers their perception of the strongest agencies in China. Based on criteria like strategy, creative, service and production, Ogilvy came out on top, followed by a second group: JWT, Burnett, McCann and Saatchi. Below that level, 15 other multinationals ranked, followed, finally, by 120 local agencies. (While there are over 100,000 agencies registered in China, the majority of them function as media brokers.)

It's the multinational networks that set the industry standard, with the term "4A's agency" commonly used in China as both a designation of professionalism and an aspirational goal. China's double-digit economic growth is the big draw for industry holding companies, but the numbers belie the difficulty in delivering those results.

"There's impatience. There are massive growth targets here because of economic growth in China. There's a lot of pressure. Sustaining growth is difficult," says Eddie Booth, chief creative officer, Leo Burnett, Greater China.

It's not just about bringing in new business. Generating profitable revenue is one of the biggest difficulties facing agency executives. Profits are eroded by increasing overhead: Salaries are rising amid the intense competition for talent. Ex-pat managers have lucrative packages, drivers and housing allowances. The cost of doing business in tier-one cities like Shanghai and Beijing is jumping as real estate prices climb. Given the scale needed to operate profitably in China, Western marketers—themselves pressured to attain double-digit growth targets mandated by the home office—are squeezing agency compensation. Then there are the peculiar characteristics of the Chinese market: The biggest category of advertising is pharmaceuticals, mostly products like herbs and "miracle cures," the overwhelming majority of which is made by local companies. That sector is fueling media spending.

"ACNielsen says the market is growing at 30 percent, but it is not. It's the pharmaceuticals that are driving that growth, and are they paying rate card?" muses Don Norris, who until recently was managing director, McCann Erickson, Guangming. "Real growth here is more like 8 to 15 percent. The numbers aren't

Quentin Shih

LEADERS OF THE PACK: Ogilvy is regarded as the strongest agency in China. Pictured here: Shenan Chuang, Chris Reitermann and T.B. Song.

what they appear to be."

As in other parts of Asia, agencies rarely pick up full-service accounts, with media handled through planning and buying companies.

Sheena Jeng, CEO, Publicis China, says the big winner of current Chinese media inflation—where prices have been rising 15-20 percent a year—is state-owned communications. "The double-digit growth is created by rising media costs, fueled by the pharmaceuticals' spending," she says. "Media costs are going up, but those profits go to the government."

REACHING FOR MORE TIERS: Euro RSCG has the largest field operations, with 860 full- and 30,000 part-time staffers in China, says CEO George Gallate.

Then there is China's revolving door of client/agency partnerships. The country has no tradition of professional services, so the concept of collaborating with outsiders is very new. According to analysis by R3, the average length of agency/client relationships is 2.8 years. "If anything, that number is getting shorter every year," says Paull. He describes one regional client, with a $38.6 million (300 million Yen) budget, who sends out an Excel spreadsheet every quarter to media agencies and asks them to fill in their lowest buying numbers. Paull says a large chunk—about 30 percent—of client/agency relationships are less lucrative project-based assignments. (Kel Hook, managing director, Wieden + Kennedy, Shanghai, says he thought he was pitching a major piece of business only to discover it was for a point-of-sale project.) The review process can be interminable. Marian Koa, managing director, Publicis, Beijing, says local clients call for a pitch every six months. Many local marketers use the reviews as training sessions for staff, giving them a skewed sense of industry disciplines. "That's bad training," she says, sighing. "They think an idea is strategy."

Or worse. Given the national dismissive mind-set regarding intellectual property, some local companies think strategy is free. "There's a big trading mentality here. Someone will say: 'I have a business, come show me your ideas,' and then he'll steal them and give them to his buddy to produce," observes Joe Wang, chairman, CEO, Ogilvy, Southern China.

Unfortunately, multinational agencies are not immune to the competitive fever created in such a chaotic environment. Carol Potter, CEO, BBDO/CNUAC Advertising, Shanghai, who was named to that job last March, says she was in a pitch recently where another "highly reputable" 4A's agency was willing to work for the prospect without charge for six months. "It was hugely desperate, unbelievable. For an agency to do that damages all of us. What message does that send?" Potter asks.

This is in contrast to an up-and-coming local shop, Meikao, which has turned down participation in three recent pitches because the reviews didn't meet its standards, according to R3. For all of its principles, Meikao underscores the cultural curiosities of a local industry still very much in development. The agency has a toilet on display in its lobby and a corporate manifesto called "Toilet Bowl Spirit," which advises clients the agency "can release your pressure and make you comfortable … think of the comfort when you sit on a toilet bowl, you will understand us."

R3's Paull says that one of the most interesting recent developments is that more and more big clients routinely include local agencies in their pitches. There is a small but successful group of hybrid shops that are getting projects from large marketers. Dynamic Marketing Group, which has been in China for 13 years, was started by New Yorker Dan Mintz and works for Volkswagen, Johnson & Johnson, China Mobile, Audi and Nike. Rather than impose an American sensibility upon China, Mintz's 400 employees are mostly mainland Chinese. (DMG claims to be a $100 million in billings agency.) Nitro, on the other hand, is a Shanghai-based agency whose Mars client work there led to a Masterfoods' Twix assignment in the U.S., where the agency opened in 2004. Nitro was created in 2002 by Australian adman Chris Clarke, who first forged ties with Mars when he ran his Pure Creative Asia-Pacific network, later sold to D'Arcy. In China, the shop has since made inroads into marketers like Unilever and InBev. The newest member to the hybrid club is WE Marketing Group, founded in 2005 by longtime Grey China CEO Viveca Chan and fellow Grey Chinese managers, who seek to create a West-East agency sensibility. WE claims client work for Shanghai Automotive, Audi, Mercedes, Coca-Cola, Merck and Kodak, and says it plans to become China's first multinational network.

Working at 'Warp Speed'

BBDO's Potter, who previously was global head of Unilever at JWT, is just one of many new agency heads put into place in the last couple of years as networks bolster problematic offices in China. In addition to BBDO and sister company DDB, agencies like Young & Rubicam, Lowe, Grey and Universal McCann also have new top talent. (Even companies on the upswing have shifted senior execs during that time, including Publicis, Wieden, Nitro, Starcom and ZenithOptimedia.)

If outsiders see China as a developing market, the view inside the industry is quite different: China has arrived as a worldwide force with considerable influence within agency and client organizations. Last June, as Motorola shifted its business out of Ogilvy in the U.S. and Europe and into Omnicom agencies, the marketer chose to stay with Ogilvy in Asia—despite TBWA's concerted efforts in China to pry the business away.

"With Motorola, the client relationship in China was the only time we could stop a global realignment," underscores Paul Heath, president, Ogilvy & Mather, Asia Pacific. "That's the importance of China now. It helped us stop shifting business in a review."

Ogilvy also scored last year when J&J opened up the pitch for its plum Beijing Olympics assignment to non-roster shops, with the WPP agency besting Lowe, thought to be an AOR shoo-in. Similarly, in 2005, DDB's foundering Chinese operations are said to have hurt the network's chances in Intel's global pitch, which went to McCann.

Given those pressures—and opportunities—Westerners charged with managing agency operations in China can expect the relentless demands of doing business throughout worldwide time zones and facing the everyday logistics of a country where few people speak English. It's a job that requires the kind of quick thinking and intuition they don't teach at Harvard Business School.

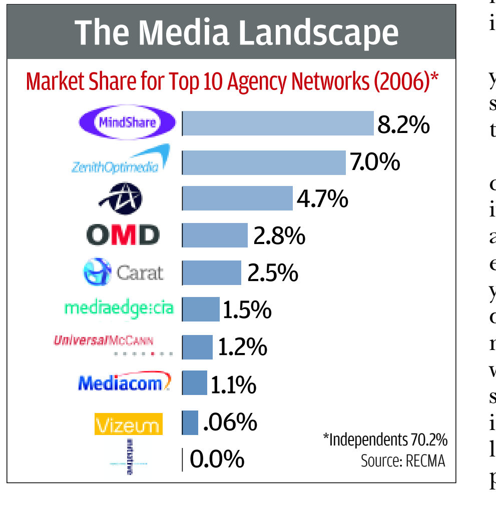
MEDIA MIGHT: Mark Patterson runs GroupM in China, where it leads media holding companies.

"You have to operate at lightning speed to capitalize on opportunities here. It takes an entirely different set of entrepreneurial skill sets," says Mike Amour, CEO, Asia Pacific, Grey Global Group. "It's because of the speed at which things are happening and the sheer geographical scale of Asia. It's not command and control, it's more unstructured: the approval process you have in New York or London—you don't have that luxury here."

Amour, who joined Grey last June, is Scottish, having previously worked in the U.K., the U.S. and Europe. Most of the network offices are run by ex-pats, from the U.K., Australia and Europe, and Chinese nationals who have had the benefit of experience in the more mature regional ad markets of Taiwan, Hong Kong and Singapore. One of the few Americans at the top of a network agency is Tom Doctoroff, the Greater China CEO of JWT. (Nearly fluent in Mandarin, the Detroit native is distinctive in other ways, having worked on the mainland for nine years and successfully forged ties with Chinese marketers in the process. Six years ago, JWT, Shanghai, had no local clients; now 54 percent of its business comes from them.)

Agency execs describe lives spent on planes and routine 9:30 a.m. to 11:30 p.m. workdays and weekends in the office. Many local marketing departments are still inexperienced, so agencies often find themselves serving in that capacity.

"Everything here is happening at warp speed, everyone is totally impatient," says Margaret Chan, group business director, McCann Erickson, Guangming. "In the Western world, it may take one year to produce a campaign, what with the research and everything. Here, from getting the [client] brief to being on the air may take three to four weeks."



That short-term emphasis extends toward brand building—or lack thereof among local clients. "Many marketers don't think yet about branding," says Kitty Lun, CEO, Lowe China. "They're very sales oriented and a lot of times clients mistake product attributes as brand values."

Agency sources say it's not unusual to have a local client call after midnight and expect to see work the next day. Because of the state of development within the nascent local marketers' community, doing business in China is more labor intensive and time consuming—putting even more pressure on profits.

"The level of strategic thinking isn't there yet. You have to go into them with finished stuff," says Chris Reitermann, managing director, Ogilvy and OgilvyOne, Beijing.

Complicating the frenetic pace is the churn of talent. China's professional class is in its infancy and finding good local people—and retaining them—has created a spiral of escalating promotions and pay increases. A young copywriter can be hired as a creative director at a local shop. (The importance of money can't be underestimated in China, with some industry observers saying that pursuit of wealth, in part, explains the lack of interest in creative breakaway shops.) For local agencies, multinational offices are prime poaching grounds, given their inter-

How to Avoid Getting Censored

THE RULES: Showing the flag is one of many restrictions.

Three years ago in China, Toyota had to pull two ads for an SUV after complaints about imagery showing two lions saluting and bowing to the car. Nine months later, Leo Burnett had to apologize for a trade magazine advertisement that showed a lion sliding off a pillar to demonstrate Nippon Paint's smooth surface. The offense in both instances? Disrespecting a cultural icon thought to symbolize China itself. (It couldn't have helped that both marketers were Japanese in a country still harboring animosity over past invaders.)

While U.S. regulations ensure ads not be false, misleading or deceptive, agencies in China further grapple with the nuances of cultural, social and political restraints. The China Advertising Association, under the auspices of the State Administration for Industry and Commerce, has advisory oversight of such issues of appropriateness. Those rules were detailed in the Advertising Law of the People's Republic of China, in effect since 1995. (In addition to government law, Chinese media have the discretion to reject any offensive ads.)

"The most common problems in ads from foreign companies are that they contradict Chinese tradition, moral issues and cultural background," says Li Fang Wu, assistant secretary general, CAA, through an interpreter.

He ticks through some of the restrictions. Certain superlatives—"the best," "the most"—are not allowed. Marketers can't use the word "national," show China's flag or use its official song or images of its politicians (alive or dead, e.g., Mao is forbidden). Certain statistics or data, such as sales volume, can't be used. Comparative claims aren't permitted: "With a certain tea cup, you can't say it's better than traditional tea cups," says Li.

More obviously, there are restrictions on nudity and bad language. Restraints on violence are subject to interpretation, based on dialogue. However, Li makes clear that "terror [or] killing of things is not allowed because it is not part of Chinese culture."

The mildest punishment for inappropriate content is to pull the ad. The most serious penalty is a fine calculated at five times the cost of the ad's media time. "If the ad relates to deceptive claims or bad behavior in society, this could occur. One of the main purposes of that is to make sure marketers get no benefit from the ads," says Li.

The CAA is also a member organization with 613 companies represented. For the last 13 years, it has put on the China Advertising Festival, which hands out its distinctive "Great Wall" trophies. "The level of creativity in China has made great progress in the last five years, compared with Western countries or Hong Kong and Taiwan," says Sun Yingcai, CAA vice secretary-general, through an interpreter. "We believe the gap is becoming smaller and smaller."

His colleague, Li, however, cautions that evolution will occur on the government's terms: "Probably the one obstacle in development of Chinese creative is that ads have to deal with social and government restrictions. Ads can't make fun of some social problems or the government."

Flag: PictureArts/Newscom

Paul Hu/Assignment Asia

EX-PATS RULE: BBDO's Carol Potter is one of many ex-pats leading agencies in China.

nal training programs. Omnicom's efforts to catch up in China are also driving up salaries, competitors claim. The holding company is "coming in with an open checkbook," says one network exec at a rival. Adds Publicis' Sheena Jeng, who lost six employees to DDB: "DDB is doubling and tripling salaries."

Wren responds: "We're doing whatever we need to do. It's not been hard to recruit people."

"Talent has become more expensive," says T.H. Peng, CEO, McCann Erickson, Greater China. "We have junior people with one-year experience and they say, 'Pay me or I'll go elsewhere.'"

New initiatives are being created to foster employee loyalty and develop greater bench strength. Last fall, McCann announced a deal to collaborate with Beijing Jiaotong University to upgrade its marketing communications program (and give the agency interns and future employees). Publicis is looking at options like housing allowances and loyalty bonuses. Organizations like the Clios stage an annual workshop and exhibit; The One Club focuses on student development and competitions. China's version of the 4A's—no relation to its U.S. counterpart, the American Association of Advertising Agencies—has set up training programs and hosted its first creative competition last December.

T.B. Song, chairman, WPP, Greater China, was instrumental in setting up the 4A's in China and has become a kind of elder statesman in the industry. Song says Ogilvy was the first Western agency on the mainland to establish a joint venture, which was then mandated for foreign companies coming into China. Its partnership, with government-owned Shanghai Advertising Ltd., worked so well that it was renewed last year for another 15 years. That association has brought key political relationships in a country where everything is controlled by the government. (One powerful example: Through Ogilvy PR's influence, a meeting was set up between client Allianz Insurance and former Premier Zhu Ronghi that led to the opening of the insurance industry to foreign companies.) Ogilvy works closely with the 70 million-strong Communist Youth League, which acts as both a source of research and sales force.

Ogilvy management consistency has helped make the joint ventures successful, but more important may have been its day-to-day control of the operations. Hooking up with bad joint-venture partners has undermined the efforts of Western companies to establish themselves on the mainland. Clear rules of engagement have proven essential: Last year, Lowe got out of a 50/50 joint venture, which, by all accounts, was ruinous.

As of Jan. 1, 2006, Western marketing service companies no longer needed to have Chinese partners. Last year, however, Omnicom chose to associate with the powerful Citic Group, a state-owned concern founded in 1978 by no less than the country's instigator of economic reform, Deng Xiaoping. Citic's Citic Guoan unit is now partnered with DDB. Earlier last year, Citic Guoan had an acrimonious public split with WPP's Grey Worldwide after an unprofitable union.

Serge Dumont, president, Asia Pacific, Omnicom, insists: "DDB Guoan is a different joint venture. It's a voluntary joint venture and we have management control. It gives us credibility with local clients at a time of rising nationalism in China. The motivation is entirely different: Talent wants to be associated with companies who have strong local partners."

Over the past year, DDB Guoan has doubled its head count in Shanghai to 75 people and opened digital unit Tribal DDB and CRM company Rapp Collins. BBDO, which was given country responsibility by Pepsi in 2002, has helped the soft drink maker close Coke's China lead in recent years. The agency developed one of the industry's most popular campaigns last year after it asked consumers to write their own scripts for a Pepsi commercial. BBDO received 57,000 submissions and over 250,000 people voted for the winning concept. (The Shanghai office also just won a global creative shootout for the next General Electric "Ecomagination" pitch.) TBWA, whose Chivas client sells more whiskey in China than anywhere else, has been one of China's most-awarded agencies in recent years. Business at its Tequila unit is soaring, with the direct unit posting a 80 percent increase in revenue last year. Media unit OMD claims it is now ranked No. 3 in China, up from sixth place, though third-party RECMA places it in fourth.

GROWING PAINS: Burnett's Eddie Booth says, "there's impatience" and "a lot of pressure" to grow in China.

Despite Omnicom's blue-chip reputation elsewhere in the world, it may find China's young market a greater challenge. While in more developed foreign ad markets, multinational agencies can acquire scale more quickly through affiliation with local shops, there are fewer good acquisitions still available in China and cultural differences can be extreme. As the company's agencies rush to build operations—going up against all the inherent difficulties in the market—they also need to catch up to more entrenched players who are already fine-tuning the next phases of client expansion.

"The agency that delivers the next 500 million consumers wins," says McCann's former China head, Don Norris. "If you haven't cracked tier one, forget it. Tier one only deliv-

Breaking Rank in China

Major marketers shift alignments away from their agency networks.

MARKETER	GLOBAL NETWORK	IN CHINA	YEAR
Unilever Ice Cream	McCann	Nitro	2004
Mars	BBDO	Nitro	2003
Ritz-Carlton	TBWA	Grey	2003
Bayer	BBDO	McCann	2005
GM	Lowe	Bates	2002
Wrigley	BBDO	Leo Burnett	2001
Heinz	Leo Burnett	Guan Tang	2005
Pfizer	BBDO	JWT	2000
ExxonMobil	DDB	McCann	2003
Volkswagen	DDB	DMG	2000

Source: R3

Carol Potter: Andrew Rowat; Eddie Booth: Paul Hu/Assignment Asia ers 4 percent of China's households."

"You can't view China as something that is established and we're coming in late," says Michael Birkin, CEO of Omnicom's Asia-Pacific region. "What's happening today will not have a lot of bearing on 2050, despite the rhetoric of certain individuals and companies. The speed of branding here is like nothing I've ever seen. Our view is that we have massive ambition and we're working incredibly hard toward that. Instead of talking about being late, we believe it's still the early days."

While Omnicom has successful below-the-line operations elsewhere in the world, will it have time to get up to speed as clients demand the scale and varied expertise to take them into lower-tier markets? That is becoming increasingly crucial in a culturally complex country of 30 provinces with a multitude of languages and dialects.

"If you want to do mass advertising, it's incredibly expensive," says George Gallate, CEO, Euro RSCG, Asia Pacific, India, Middle East. "Doing a brand handshake is much cheaper." To get close to consumers with that message, Euro RSCG, for instance, now has the largest field operations in China. It employs some 860 full-time employees and 30,000 part-time staffers.

From TV to the Most Popular Blog

Mao's communications instrument of choice was the TV, and to this day TV is still the most dominant factor in the mix of state-owned media. Consumers possess more TVs than telephones. The medium claims over 95 percent penetration, with more than 2,200 channels. There are still nearly 100,000 media brokers in China, many of whom are notorious for their business techniques, but China's central government has been cleaning up corrupt practices, with media dealings becoming more transparent.

Given the burgeoning number of cities in China, another potent medium is outdoor advertising, which accounts for 15 percent of the country's advertising, double that of the rest of the world. The Chinese are also generally considered to be "high-touch" consumers who prefer to feel and experience merchandise up close, and on a percentage basis, a greater amount of money is spent on road shows and events than is put toward more conventional Western channels like direct marketing, according to R3.

WPP's GroupM has become China's largest and most powerful media operation, with the group possessing a 15 percent share in tier-one cities and 10 percent nationally, according to the agency. (In the Asia-Pacific region last year, GroupM won more new business than all of its Western media rivals combined, says R3.) As the umbrella entity for four WPP media agencies, GroupM counts 10 different revenue streams, ranging from media buying and planning to content and digital creation and analytics, including data ratings for 20 percent of China's 737 cities. The company has struck a 50/50 balance in its mix of multinational and local clients. GroupM has proven to be a master of conflict management: Last year its MediaCom unit picked up Nokia, GroupM's third major mobile handset brand, and the group also juggles rivals like Procter & Gamble, Kraft, Unilever, Nestle and Colgate.

"Scale gives us the entry point [to state-owned media]. Everything here comes down to influence," explains Bessie Lee, CEO, GroupM, China. "CCTV [China Central Television] sees us potentially as a long-term partner—they want to go international. There are a lot of ways we can work together."

That influence pays off in negotiating rates for marketers, and GroupM is extending its clout through strategic investments in media like state-owned newspapers to give the company preferential treatment. (That sway could also help WPP's PR operations when they need to spin coverage of clients' problems.)

It is the Internet, however, that speaks to China's media future. Internet use grew by 23 percent last year and now has 137 million registered users, or 10.5 percent of China's population. (That compares with 211 million in the U.S., where usage increased 3.6 percent last year, according to Nielsen||NetRatings.) At current growth rates, China is in line to become the world's largest Internet market within the next two years, a prospect that is worrying the government whose online censors will find it hard to keep up with that soaring growth. As it changes the nature of China's media, the Web is also quickly changing the behavior of its new consumer class: Last year, the country's Internet users spent $36 billion (277 billion Yuan) on the Web, a 50 percent increase from the year earlier, according to the Internet Society of China.

Chinese youth, born in Levi's and cutting their teeth on McDonald's, are indicative of future attitudes in China's emerging group of consumers. They may be the world's most Internet-engaged group as they use it for information, entertainment and—as the offspring of China's single-child policy—socialization. These early generations of "Little Emperors" are the first in recent history to be allowed public displays of personal expression, and the Web resonates with manifestations of that. Baidu.com estimates there are already 16 million bloggers with a total of 37 million blogs.

In the dull, state-owned conventional media, there are few celebrities. On the Web, however, consumer-created content is producing overnight stars. By now, the rest of the world knows about the two students at Guangzhou College of Fine Arts who uploaded crude home movies of themselves lip-synching Backstreet Boys' tunes. The two quickly became so well-known in China they landed sponsorships with Motorola and Pepsi. The world's most popular blog, which by mid-2006 had already received 50 million visits, belongs to Xu Jinglei, a Chinese starlet/director who promotes her films on it. She received a commercial deal from Advanced Micro Devices, which uses Xu in her role as a blogger, not actress.

Such are the contradictions in China, a place where those savvy Netizens are defining the advertising executions of multinational shops at the same time local agencies study, through two-way mirrors, the professional practices of Western networks. It's not clear yet how the agency landscape will evolve in an intensely nationalistic country where the government has so much influence in business. If the explosion of Confucian capitalism has taught the West anything, it is that the Chinese are opening up to the modern world on their own terms. For international agencies, however, one thing is certain: China is a numbers game, where all the superlatives matter and share-seeking agencies that gamble on installing nothing less than their top talent do so at their own risk.

Burnett CCO Eddie Booth says the country now ranks No. 4 in terms of revenue for his agency, compared to No. 11 a decade ago. "The voice of China is becoming massive at both agencies and clients," he says. "Within the last 10 years, it's become a certainty that you have to have your very best people in China." ■

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CCTV: One network, 1.2 billion viewers

Even in a city of cutting-edge architecture, China Central Television's new Beijing headquarters promises to be an imposing structural statement when it is completed in time for the 2008 Olympics. Currently under construction, the loop of vertical and horizontal towers, designed by Dutch architect Rem Koolhaas, is as good a piece of propaganda as any in signaling the arrival of the new China.

CCTV, begun in 1958, airs 16 channels 24 hours a day, seven days a week. Channel 1, which is transmitted to every TV in China, offers a mix of comedies and dramas (mostly Chinese soap operas). CCTV has a relationship with regional TV stations, run by local governments, which must reserve one or two channels for the national broadcaster. (No Western programming is shown during prime time.)

CHINA KOOL: A rendering of CCTV headquarters, designed by Rem Koolhaas.

Office for Metropolitan Architecture / Rem Koolhaas, Ole Scheeren

Like other state-owned media, CCTV had its government subsidies slashed in the 1990s and is now 90 percent supported by ad revenue, said Peter Guoa, director of the commercial and economic information center, CCTV. He estimates 2006's ad revenue of $1.2 billion is more than twice what the network rung up in 1996.

"Chinese consumers are more influenced by TV commercials than consumers are by TV in the U.S.," says Guoa, through an interpreter. "While you have three national networks in the U.S., we have one and it reaches 1.2 billion people—the largest audience in the world."

CCTV's monopoly becomes abundantly clear at its raucous annual one-day auction for commercial time. Given the multiple networks in the U.S., advertisers have more leverage, playing broadcasters off one another. In China, the reverse happens as the country's sole national TV network pits buyers against one another. At last November's pre-Olympics session, complete with CCTV actors, newsreaders and "applause" promoters, bidders handed CCTV $860 million, a 16 percent increase over the year earlier. For the third year in a row, Procter & Gamble was CCTV's biggest spender, pledging $53 million. (By comparison, Colgate-Palmolive, the only other Western advertiser there, spent $6 million.) Wang Lao Ji, Meng Niu and Mingshen were among China's largest local companies.

The amount of commercial time per hour is regulated by China's broadcast TV bureau and cannot be greater than 15 percent of an hour. There are no restrictions on the amount of international ad time. In April, CCTV's international broadcasts—seen by 45 million subscribers outside China—will be divided into three channels focusing on Asia, Europe and America.

China's Best: Award-Winning Work (2006)

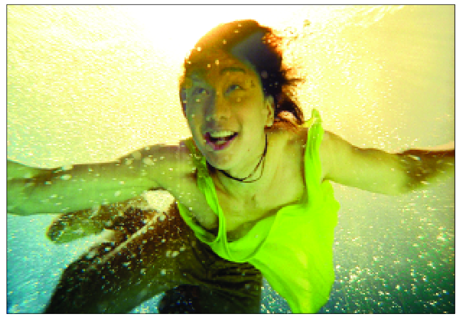
BBDO/VISA: "Victory" TV work has won Times Awards, Gongs Awards and Times Asia-Pacific Advertising Awards.

BURNETT/PONY: "Inkball" print took the Grand Prize at the inaugural Chinese Element International Creative Festival.

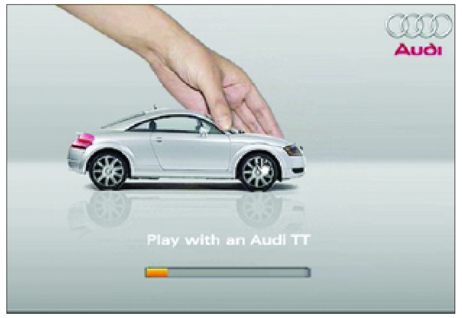
EURO RSCG/EURO RSCG LIFE: "Self Promotion" print campaign won a gold at China National Ad Awards.

JWT/NIKE: "Run Free Road" work in Hong Kong won a bronze Lion at Cannes, a bronze Clio and many others.

LOWE/ELECTROLUX: "Suicide" film ads received a bronze Lion at Cannes and silvers at LongXi and the China 4A's.



OGILVY/SPRITE: The "Sprite Pick-up" spot was recognized with a bronze China Advertising Great Wall Award.



OGILVYONE/AUDI: "Get Your Hands on the Real One!" received a One Show merit award.

SAATCHI & SAATCHI/SNOW BREWERY: "Beer Lover" spot won a silver at the Effie China Awards.

Y&R/SLUMBERLAND: "Ermah" print earned a bronze at the Asia Pacific Awards.