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ADVERTISING

Japan's Dentsu Enjoys Strong Growth in China

Local Brands, International Accounts Help Lift Agency to No. 3 in Market

By **GABRIEL KAHN**
 Staff Reporter of THE WALL STREET JOURNAL
 August 19, 2003

TOKYO -- After years of struggling to expand abroad, Japan's **Dentsu** has found success in one market -- China.

In the four years since it first opened an office there, revenue has climbed from \$52 million in 1999 to \$278 million in 2002. A survey by consultancy R3 ranked Dentsu as the country's third-largest ad agency, based on 2001 tax filings, the most recent year for which data are available. Dentsu says it is enjoying robust growth this year as well, driven by some of China's brightest emerging brands, such as computer maker **Legend** and beverage purveyor **Jianlibao**.

Dentsu also has landed some big international accounts, something the company has struggled to do in the U.S. and Europe. Swiss food company **Nestle**, a Dentsu client in Japan, is using the agency in China because "they offered an experience and understanding about China that we couldn't find elsewhere," says François Perroud, a company spokesman.

The heady start has turned China into the shining star of Dentsu's otherwise mixed effort to tap markets outside of Japan. "Everyone believes it's our future," says Fumio Oshima, Dentsu's executive vice president, speaking at the company's Tokyo headquarters.

Though China's ad market still is emerging, agencies have piled in recently. ACNielsen

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JAPAN'S AD TITAN

A look at Dentsu:

- **Business:** Holding company with interest in sales promotion, corporate communications, marketing and production, sports marketing
- **Headquarters:** Tokyo
- **Chairman and CEO:** Yutaka Narita
- **Total Japanese ad spending, 2002:** \$47 billion (5.9% from 2001)
- **Total billings for year ended March 31, 2002:** \$47 billion (down 5.4% from prior year)
- **Net profit:** \$192 million (down 16.4%)
- **Top clients in Japan:** Toyota Motor, Coca-Cola, Matsushita Electric Industrial, NTT



estimated China's total ad spending at more than \$10 billion in 2002, a gain of more than 20% from 2001. At current growth rates, ACNielsen predicts China will be the world's No. 3 ad market by 2010, trailing the U.S. and Japan.

Dentsu is the Godzilla of Japanese advertising, controlling about 25% of all ad spending there. Japan contributes about 94% of the company's more than \$14 billion in billings. It has been able to maintain that remarkable grip on the world's second-largest ad market, through a network of carefully cultivated relationships with the country's largest companies and biggest television stations.

But the company long has wanted to expand internationally, where it has had only mixed success. Dentsu has tried to remedy that by buying its way into overseas business, most recently with a \$1 billion investment for 15% of France's [Publicis Groupe](#). Though the two companies are still sorting through to make that alliance work, the most tangible benefit to Dentsu has been a boom in its business. Publicis encouraged one of its global accounts, [Hewlett-Packard](#), to ditch give its business to Dentsu in Japan.

The agency long has been interested in China. Back in 1996, Dentsu Chairman Yu met then-Chinese Premier Jiang Zemin; that same year, Dentsu established a program at Chinese universities to teach advertising. It sent more than 300 Dentsu employees to the program and invited Chinese professors to the Dentsu headquarters for stints of a few months.

"We showed our commitment, and we've been accepted by the community," says Yu.

The extensive ties Dentsu built up through its exchange programs and other activities have opened an entry into China's emerging business world. The university programs it funded allowed it to recruit top local talent. As a result, it was able to win local business when other agencies were still depending on their international clients in China. Local competitors have more than half of its billings in China. By contrast, [WPP Group's](#) Ogilvy & Mather entered China in 1986, still depends on international firms for 60% of its business.

Another Dentsu advantage: Executives acknowledge that the company often is willing to wait as long as three months to be paid back. "Those terms are very attractive," says Greg Paull, a principal with R3 Asia Pacific. Dentsu's deep pockets make other financial arrangements possible.

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