

China Advertising Trends Research

This study is the first of its kind in China and was commissioned by marketing consultancy R3 (Greg Paull and Goh Shu Fen, Principals) in partnership with Grupo Consultores (Frédéric Messina, International Research Consultant and César Vacchiano, Principal).

This first edition intends to reflect and monitor the evolution of trends in the dynamic Chinese advertising industry. For agencies this research provides a framework for comparing their image, position and perceived performance against other agencies, and hence is a valuable tool to guide them to more productive partnerships with marketers. For marketers, beyond image and perception of agencies, this study also provides important insights into agency selection methods, agency evaluation and compensation trends.

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Here are some of the headlines of the trends observed in the study:

- **Breakthrough and innovative ideas** are in demand by China marketers, with agency creativity ranked as the top reason for hiring and firing a creative agency
- **Media agencies** are the key partner to marketers in development of communication strategy however the focus remains firmly on negotiating low prices and good media positions
- **The average length of agency relationships** in China is 2-3 times shorter than the US or Europe, leading to higher costs and lower productivity (frequent agency selection) for marketers
- **Short term, project based relationships** are still the basis of 28% of engagements, well above the 8% we track in the west
- **Agency compensation practices** continues to evolve in line with global trends, with over 50% of China marketers using a fee-based system and 1 in 4 now paying agencies for performance

Methodology

The research methodology used has been fine-tuned over 25 years in Europe and tailored for local China marketers. In order to set a robust foundation for future benchmarking this study was significant in scope and scale. Two surveys were conducted; one for creative agencies and one for media agencies. Field work was conducted by Synovate from October 2005 through to January 2006 and in Beijing, Shanghai and Guangzhou. Executive interviewers conducted face to face interviews (not by phone or email) with a hand-picked group of top China marketers and advertising decision makers who are currently working with, or have worked with, the leading agencies in China. In total 506 interviews were completed,

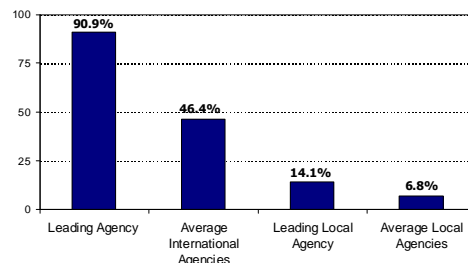
including 406 interviews with senior marketers and 100 interviews with key agency professionals. The study covered 505 individual client-agency relationships, 319 of those with advertising agencies and 186 with media agencies. 25% of all interviews were independently validated for quality control and consistency. The marketers interviewed included representatives from major multi-nationals, state-owned and locally owned companies with marketing budgets from RMB 30MM to RMB 500MM+. A broad spectrum of industries was represented, from food and beverage, to FMCG, telecommunications, automotive, apparel, energy, office and building materials and more. Input from advertising leaders such as Nike, Unilever, Nokia, Ford, Pepsi and L'Oreal to name just a few, help to ensure that the study captures the leading edge of trends and insights. More than a thousand data points were captured – the following summary is but a snapshot of some of content and key findings in this landmark study. To subscribe to the full report please contact greg@rthree.com

1. Which creative and media agencies are the most well known?

The China advertising industry is highly saturated with over 50,000 agencies present in the market. It is not surprising that the large international agencies are the most well known to marketers in China. More interesting, is that the local agency offer has yet to find an audience with leading marketers, with local China agencies having significantly less awareness than the international agencies. To this end, no local agencies (creative or media) were ranked in the top 10 for spontaneous or total awareness with marketers in our study.

Average Agency Awareness 2006 (Prompted Awareness %)

agencies' survey 06

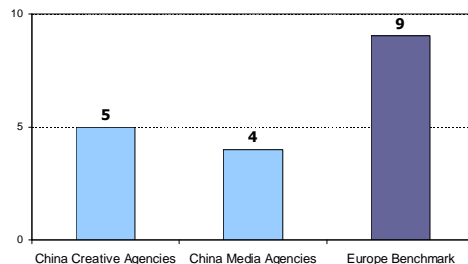


Based on 32 leading creative agencies



Average Agency Awareness 2006 (Average Number of Agencies Mentioned)

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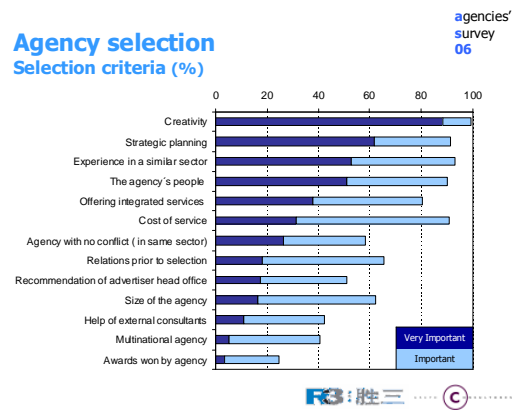


Awareness of agencies was however, low across the board in China with the average number of agencies mentioned per advertiser at 5 for creative and 4 for media. This is low by comparison with our European survey where the average number of agencies mentioned is 9. This state of lower awareness of agencies in China has implications for marketers, such as making agency selection higher risk as marketers have fewer insights into agency

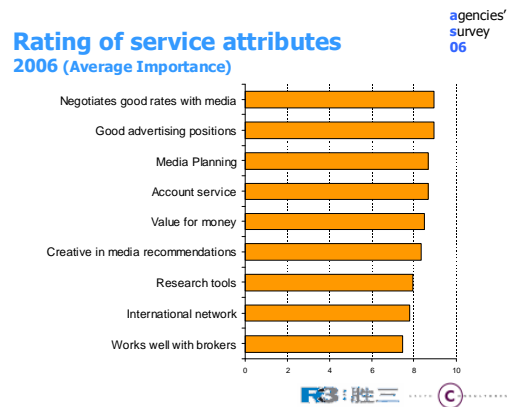
performance and industry benchmarks. As we will see later, the role of consultants is increasing in response to advertiser's demand for greater understanding of best practices.

2. What criteria are most important to marketers when selecting an agency?

Creativity almost unanimously tops the list of most important attributes in agency selection. Strategic planning, experience in a similar sector and the agency's people are also very important to more than 50% of marketers surveyed. Cost plays a vital support role with over 90% of marketers claiming its importance in the selection process. The data presents an interesting irony – based on a 100 point scale creativity would account for 96% of agency selection decisions, however one measure of creativity – agency awards – is the lowest ranked attribute in importance for marketers.

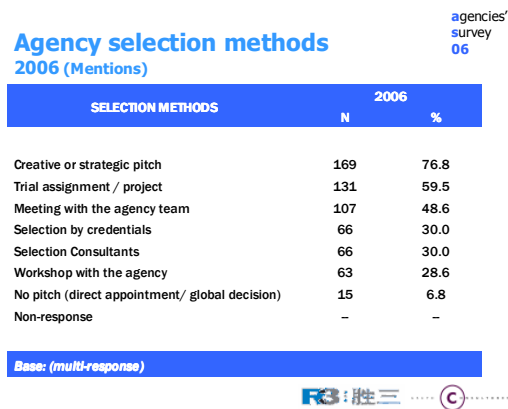


For media agencies the attributes most valued by marketers, particularly multi-nationals are negotiating good rates and good media positions. Creativity in media is rated less well and is not currently top of mind for marketers with only 19% mentioning creativity / innovation as a quality in their ideal media agency. We expect the demands on media creativity to accelerate in response to the greater challenges of connecting with consumers in a fragmented media environment.



3. What methods do marketers use to select their advertising agencies?

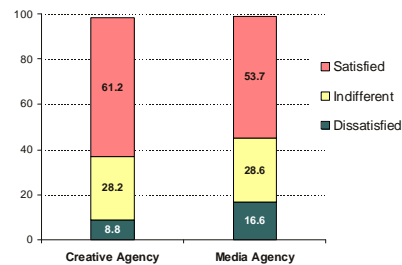
A Creative pitch is the most popular method of selection, mentioned by 77% of marketers. Trial assignment / project is also popular for China marketers to “try out” agencies. Strategic or global appointments are less common overall. China marketers are under ongoing commercial pressure from agencies, receiving 4 to 5 agency presentations on average every year. The role of external consultants is emerging, as marketers seek expert input into the complex process of agency selection and review. More details on the tools that leading China marketers use to select their agencies is available to subscribers in the full report.



4. How satisfied are marketers with their agencies, and what are the most common reasons for changing agency?

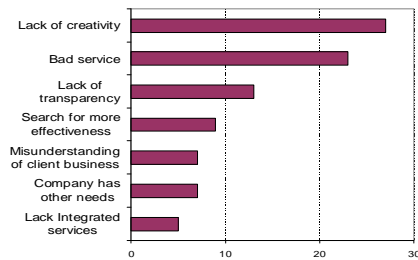
61% of marketers interviewed were generally satisfied with their current creative agency and 54% with their media agency. Of greater interest is that 2 in every 5 marketers are indifferent or dissatisfied with their media or creative agencies, which is high vs our European benchmark (1 in 5). As we will see later, the short duration of most client-agency relationships in China also underscores the instability demonstrated here.

Change of agency
Level of satisfaction current agency (%)



Change of agency
Real reasons for the change (%)

75 advertisers who think of changing agency



75 marketers surveyed indicated that they would definitely or probably change creative agency. Lack of creativity and lack of service were cited as the main motives for changing agencies. Lack of transparency is the third most mentioned reason. Lack of creativity is also the most frequently mentioned improvement area for China agencies, which again emphasizes it as the most critical aspect of advertising agency performance.

The tension around creativity begs an important question – how do marketers define and measure creativity? 96% of marketers select their agency based on creativity, yet agencies consistently fail to meet expectations with poor creativity the main reason for changing agency. Clearer metrics for creative “success” such as those used in performance based compensation are a positive step to build more solid and productive client-agency partnerships. Details on the performance metrics used by leading marketers in China are included in the full report.

5. How long are agency relationships in China?

The average duration of the client-agency relationship in China is 2.8 years for creative agencies and 2.4 years for media agencies, which is short by comparison to Europe and the USA where the average duration is over 6 years. In the

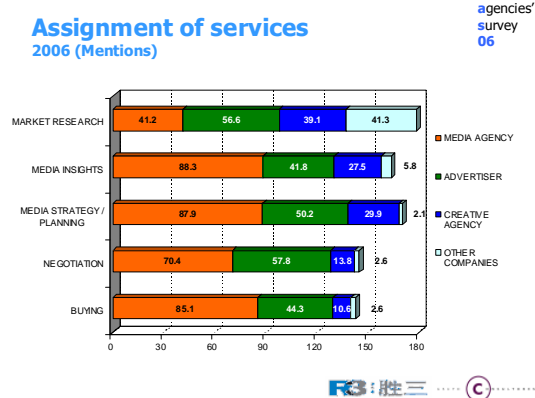
Agency- Advertiser relationship (%)
Duration of the relationship

Image Agencies in China	Creative Agencies	2.8
	Media Agencies	2.4
European Survey		6.4
A.A.A.A.		6.5

study, approximately 40% of China relationships lasted only one year or less, and over 60% lasted two years or less. This trend to short term agency relationships is also evident in compensation practices with nearly 1 in 3 China marketers engaging their agencies on a project basis. Agency selection is complex and costly for both parties. Frequent change in agencies may mean that the relationship is never nurtured to its full potential - the agency is not able to contribute at a strategic level and the client therefore doesn't fully leverage the agencies' potential to contribute beyond advertising, which is becoming more critical in the context of increasing media clutter.

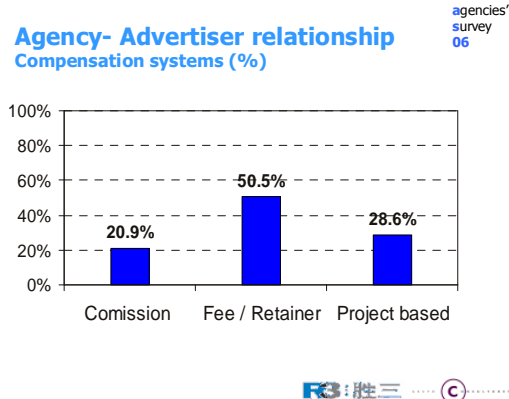
6. What role are the different agencies playing in development of communication strategies?

Media agencies are the primary strategic partner to China marketers in the development of communication insights, plans and strategies. Media agencies also have a dominant role in the specialist areas of media negotiation and buying. Creative agencies presently play a much smaller role in strategy, which we predict will expand as marketers seek the input of both creative and media partners to create more integrated, non TV based communications solutions.



7. What are the agency compensation systems being used by China marketers?

Just over 50% of the marketers interviewed remunerate their agency by fees and 21% by commission. This represents substantial progress since the R3 compensation study in China in 2003 where less than 24% of marketers were using the fee based system. 29% of China relationships are project based. Based on the survey, project based fees yield a higher cost for marketers, and again undermine the long term and strategic value of the agency-client relationship and restrict the agency from committing its best talent to the clients business – which is best achieved under the more transparent fee system. Details of the average compensation rates and compensation systems used by China marketers are available to subscribers in the full report.



8. How are marketers evaluating agency performance?

66% of marketers told us that their company uses a systematic method of evaluation, usually annually, to review the work performed by their agency. However, less than half of these have linked their agency evaluation to agency compensation.

Payment by results (PBR) has been slower to be embraced by China marketers - 26% are on PBR with creative agencies and 20% with media agencies, vs Europe (32%) or the USA (50%). PBR aligns agencies to their client's business objectives and rewards performance against shared goals. Outstanding performance is rewarded with higher profit margins, while poor performance yields below average profit.

More details on evaluation trends and performance compensation best practices are included in the full report.

Payment by results 2006 (Mentions)

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INCENTIVE PAYMENTS	2006	
	N	%
Yes	58	26.3
No	157	71.4
Non-response	5	2.3

Base: 220 advertisers



9. What are the most high profile marketers?

Fascinatingly, the most mentioned marketer was Mengniu (Super Girls) and was created by the advertiser directly with a TV station! Classic campaigns for big brands such as Coca Cola, McDonalds, Pepsi and Nike also lead the list of most memorable campaigns among marketers. It is interesting to observe that the most high profile campaigns are TV centric. With television viewership declining in some major Chinese cities

we expect to see a greater mix of non-traditional media featuring in the most memorable campaigns when we next conduct this study in 2008.

High profile campaigns 2006 (Mentions)

agencies' survey 06



Research Participants

For reasons of confidentiality we are unable to disclose the names of all the companies who participated in the study. Some of the companies that participated included:

Aurora Furniture Co Ltd
Avon Products (China) Co Ltd 雅芳(中国) 有限公司
BD (Becton Dickson Medical Devices Co Ltd)
Beijing Arrail Dental Equipments Co., Ltd 北京瑞尔圣彬齿科材料设备有限公司
Beijing Ming Zhong Ming Culture Development Company 北京名中铭文化发展公司
Beijing Ya An Di Science & Technology Co Ltd
Beijing Paris Nancy Cosmetic Co., Ltd 北京巴黎蘭西化妆品有限公司
Bishengyuan- Beijing Benefit Health Products Development Co., Ltd
China Fiber Optics Online (CFOL)光桥光科技开发有限公司
Dumex
ELCA Cosmetics (Shanghai) Limited
Electrolux
FedEx 联邦快递
Ford Motor China Ltd
GM/通用汽车
GM/通用汽车
Haagen Dazs/通用磨坊
Hejia 北京和佳软件技术有限公司
Herborist
Huijin Real Estate Development Co. Ltd 汇金房地产开发有限公司
Ji Hui Electronics Co., Ltd/集慧电子有限公司
Kao Comercial
L'Oreal
Martell/Shanghai Sims Trading Company Limited 上海慎昌贸易有限公司
MDC Telecom Ltd 北京移数通电信有限公司
Nanfu Battery 南孚电池
Nike (Suzhou) Sports Co Ltd
Novartis Pharma Ltd
Otis Elevator (China) Investment Co Ltd 奥的斯电梯
Pepsico (China) Limited 百事食品
PepsiCo Foods 百事食品
Pfizer Pharmaceuticals Limited
Platinum 国际铂金协会上海代表处
Recruit Management
Safino-Aventis
Samsung Electronics Shanghai Sales Co Ltd 三星(中国)投资有限公司
Shanghai Amoy Foods Company Ltd 淘大食品
Shanghai Jahwa United Co Ltd 上海家化联合股份有限公司

Shanghai Johnson & Johnson Ltd

Syngenta (China) Investment Co Ltd 先正达

Telelogic China 瑞立致公司

The 9 Computer Technology Consulting (Shanghai) Co Ltd 第九城市

Topsun 东盛科技股份有限公司

Unicharm Consumer Products Service (Shanghai) Co Ltd

Unilever China

Weihai Lotus Pharmaceuticals Co Ltd

ZTE

About R3

We are the Asian arm of a global client-agency consultancy focused on agency review, compensation and relationships. We were founded in 2002 and still run by Greg Paull and Goh Shu Fen, who between them have over 30 years working in client marketing operations and advertising agencies and in the Asia Pacific region. In the last four years, we have managed agency reviews, remuneration and relationship projects for Coca-Cola, McDonalds, Visa and Johnson & Johnson, amongst others. For more information, visit www.rthree.com or contact greg@rthree.com.