

Milking Olympics Sponsorships

Could Be Slow for Yili, Sohu.com

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BEIJING -- After intense competition and hefty sums paid for the Beijing Olympics' coveted sponsorships, it may be a while before some Chinese sponsors reap the benefits.

Many of the Games' sponsors and partners are leaders in their sectors in China, including [China Mobile](#) and [Haier Electronics Group](#). But the few that were hoping the Olympics boost would help them catch up to, or overtake, the competition have yet to report impressive gains.

Though analysts say the Games are giving a small boost, at least temporarily, to the companies' performances in China's booming consumer market, the effect could be less, or come later, than some shareholders anticipated.

[Sohu.com](#), an Internet portal listed on the Nasdaq Stock Market, ranked second in terms of revenue among Chinese Internet portals when it got its sponsorship in November 2005. It is still second, with a 13.7% market share, according to technology consulting company BDA China. Sohu's year-on-year revenue gains are almost the same as those of [Sina](#), China's portal leader, which has a 19.4% market share, despite a new online videogame called Tian Long Ba Bu that delivered a large chunk of Sohu's revenue.

State-owned dairy producer Inner Mongolia Yili Industrial Group -- which lists Class A shares, primarily for local investors, on Shanghai's stock exchange -- had more market share than chief competitor [China Mengniu Dairy](#) when Yili won a sponsorship in 2005. But Mengniu surpassed Yili in 2006, according to London-based market researcher Euromonitor International. The two are now neck and neck, and Mengniu has made up for not having the Olympics sponsorship by using aggressive marketing.

Sponsorships were considered a coup -- but they haven't been a ticket to quick or big rewards.

"Olympics sponsorship has to be about a lot more than just one year of sales," says Richard Pinder, chief operating officer of Paris-based advertising company Publicis Worldwide. "If you look at major global brands, the ones who've benefited from major Olympic sponsorships are the ones who've done it for many years." Mengniu is a Publicis client.

For Sohu, seeking to press an Olympics advantage brought a backlash. When Sohu last year claimed that its deal gave it exclusive rights to advertising from Olympic sponsors, Sina and several other Internet companies formed an alliance against it. In the end, the Beijing Olympic Committee said Sohu did have exclusive rights to ads from sponsors, but that global sponsors were exempt from this rule.

Both Sohu and Yili have seen significant increases in their share prices, with Sohu tripling since it got the Olympic sponsorship on Nov. 7, 2005. The Nasdaq Composite Index has risen about 5% in that time. Yili shares closed at 19.88 yuan in Shanghai on Wednesday, or 90% above their price on Nov. 16, 2005, the day Yili was awarded its sponsorship. The Shanghai Composite index has tripled during the same period.

Sohu and other Internet companies in China are benefiting from a growing market. By some estimates, China now has the largest Internet user base, and online advertising spending is gradually increasing. For 2007, Sohu reported a 42% increase in brand-advertising revenue and a 30% increase in total advertising revenue from the previous year. (Sina reported an overall 40% increase in advertising revenue for the year.)

Yili's sales, on the other hand, haven't risen as fast as Mengniu's as the companies vie for market share. Yili reported 19.4 billion yuan (\$2.77 billion) in sales for last year, up 17% from a year earlier, while Mengniu reported 21.3 billion yuan, a 31% increase.

Yili apparently hasn't won broad recognition as an Olympics sponsor. A survey of 1,500 consumers, released in April by market researcher CSM Media Research and marketing consultancy R3, showed 17% named Yili as the dairy-industry sponsor, while 14% mistakenly thought it was Mengniu.

Some analysts question whether the expensive Olympics sponsorships will counterbalance factors affecting companies like Sohu and Yili, such as high operating costs and intense competition. "Sina is still better positioned than Sohu," says Liu Bin at BDA. Until the Olympics, most of Sina's users will continue to get Olympic-related information from the Sina portal, though Sohu will likely see gains during the Games because of its exclusive content then, he says.

Although Sohu has invested a lot in marketing its Olympics-sponsor brand, it has so far seen limited benefits, Mr. Liu says. "Without special service and content, Sohu may not see immediate gains," he says.

Still, Richard Ji, an analyst for Morgan Stanley in Hong Kong, said in an October report that advertisers spent 70% more on Sohu in the first nine months of last year than a year before, helping the company narrow its sales gap with Sina.

Meanwhile, Yili -- along with Mengniu -- faces industrywide problems, including inflation and operating-cost increases. China's dairy industry is "facing great pressure in the face of the inflation and the rising cost, and both companies recently raised their product prices," says Xu Jinghuan, an analyst in Shanghai for Industrial Securities. In the dairy industry, she says, customers are price-conscious and not necessarily loyal to one brand.

Yang Fan, a research analyst for Euromonitor, says Yili has struggled to keep up with Mengniu's marketing because state-owned companies are generally "less flexible in marketing trends or making marketing decisions." Mengniu enjoyed a sales boost from sponsoring a season of a popular televised singing contest, "Super Girl," and has linked itself with sports as well, including a marketing partnership with the National Basketball Association of the U.S.

"We don't expect Yili's stock price to rise to a high point this year just because of its identity as an Olympic sponsor," says Liu Jinhu, a Shenzhen-based analyst with Sealand Securities who changed his rating on the stock to "neutral" from "outperform" at the end of last year.

Yili performed less well than other big dairy companies in China's previously bullish market, Sealand's Mr. Liu says, and the Olympics theme hasn't been reflected in the stock price, which he says is largely set by institutional investors. "And judging from history, the Olympics' impact on the dairy industry is very limited," he says.

Ms. Xu, who is upbeat on Yili's long-term outlook, had a target price of 25 yuan for the stock until recently, but adjusted it to 20 yuan given the volatility of China's markets. She, too, says the company will benefit only minimally this year from Olympic sponsorship, but argues that "it could help Yili establish its brand influence or awareness."