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## THIS WEEK



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## Optimism reigns in Asia

By Sharon Desker Shaw, 14 January 2005



*Spending lift... after a lengthy spending freeze, more companies expect to increase marketing resources, with just seven per cent expecting to chop budgets this year*

Marketers are both confident and willing to up their marketing investment in 2005, according to the Media/Synovate new year survey.

Going by the experience of the opening months of the last two years, when health scares dominated regional headlines, it's sometimes difficult to greet a new year with anything other than nervousness. First, a pneumonia panic emptied streets from Hong Kong to Singapore faster than you could say Sars in 2003. Last year, the avian flu bug descended on a wide swathe of Asia, but fortunately initial jitters didn't escalate into a Sars-like scare. That said, the annual Media/Synovate Marketers Poll -- the fourth in the series -- however, found marketers genuinely optimistic. Even when compared with the Sars rebound year of 2004, their confidence is extremely buoyant. And there's good news for agencies: fewer marketers than last year said they would cut budgets in 2005. "Eighty per cent for those expecting a strong or small improvement over 2004 is still incredibly high," notes Steve Garton, Synovate's director of media research. "There ain't a lot of difference between 80 and 84 per cent (in the 2004 poll)." R3 principal Greg Paull, who -- following a series of year-end meetings with marketers -- also notes: "There is a general optimism not seen since before 9/11." As the poll of 123 respondents was conducted well before horrific events of december 26, it's too early to say how the disaster will impact affected economies and consequently marketers' optimism. Initial assessments suggest the impact will be less devastating than Sars. At this stage, the poll's confident outlook mirrors growing confidence among the region's consumers. Along with the export surge of the first three quarters of last year, consumers have helped super-charge economies from Singapore to Taiwan and China. At the close of 2004, the Asian Development Bank (ADB) said that East Asia's GDP was on course to grow by 7.6 per cent, the highest level since the 1997 financial crisis. East Asia is defined as the 10 members in ASEAN, China and Korea. But the slight climbdown in marketers' confidence also reflects a moderation of economic growth expected this year as stronger regional currencies take a toll on Asia's export-led recovery. At the low end of the scale, Morgan Stanley predicts that Asia's economies would grow by 5.9 per cent in 2004 and 5.6 per cent in 2006; at the higher end, Lehman Brothers has tipped expansion at more than six per cent for the next two years. The region's consumers are expected to take up some of the slack of slower export growth as rising employment and wages encourage spending. But the impact will be far from uniform across the region or categories. The spirits and beer categories in both Thailand and Malaysia are forecasting a flat, if not tougher 2005. "Economic outlook is positive, and the Government through duty increases has been tough," notes a beer marketer in Malaysia, where GDP expansion will slow from 2004's 6.7 per cent to 4.8 per cent this year. Thailand -- where GDP is also expected to cool slightly from last year's 6.5 per cent to between five and 5.5 per cent in 2005 -- anticipates last year's strong thirst for spirits and beer will be similarly satiated. "There has always been a general correlation between the growth of the GDP and the consumption of spirits and beer in a country," notes Mahesh Madhavan, managing director of Bacardi Thailand. "(The expected GDP slowdown) will take its toll on our category," Madhavan says. On the other hand, China's austerity drive to rein in its economy has not hurt marketers' confidence. The Government curbs will only trim an economy which grew by more than nine per cent last year to a still enviable eight per cent in 2005. Against this still sizzling pace, Willy Arcilla, CSD group marketing director of Coca-Cola's China, is confident the company will improve on 2004's performance, a year which saw its fastest growth rate in five years. Arcilla cites China's sustained economic prosperity and steadily rising disposable incomes as reasons to be optimistic. "Internally, our bottling system's continuous

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improvement in executional capabilities coupled with our pipeline of innovative programmes that leverage our successes in 2004 (will) raise them to an even higher level in 2005," he says. Marketers in Singapore were far more optimistic than Hong Kong about improving prospects, although the latter's retail sector has enjoyed a strong lift from China visitors and strengthening local demand. And the news that regional agencies most want to hear: marketing budgets are set to grow. Only seven per cent of marketers say they will reduce marketing budgets this year against 11 per cent in 2004. But unlike 2004, the share of marketers looking to increase spend has slipped from 70 per cent to 42 per cent. Instead, a higher number -- 52 per cent -- (against 2005's 19 per cent) say they will maintain budgets. Telecom and financial services -- both benefiting from deregulation in the recent past -- should continue to be the most competitive categories, and consequently will keep investing, according to industry observers. At the same time, rising employment levels should also provide growing disposable income for the hard-hit travel sector and the booming technology category. One brand that will make significant investment in the region is Microsoft's Xbox as it prepares to bring the branding battle to Sony and Nintendo. "Asia will continue to be the hotbed for entertainment and technology in 2005," says Andres Vejarano, regional marketing manager of Microsoft's home and entertainment division for Asia. The biggest broadband penetration rates in the world, a strong gaming culture and consumers hungry for innovation will provide strong growth drivers for Xbox, which has sold 1.5 million gaming consoles and released close to 200 games in Asia, the latest being Halo2. Xbox plans to invest in branding to take gaming into mainstream entertainment on the back of what Vejarano terms as the company's genre redefining titles such as Halo and project Gotham Racing. "Our focus has always been about great games and great experiences and consumers will continue to see that from Xbox this year," he says of plans to launch four new games, including Tom Clancy's Chaos Theory. The brand will also invest in moving its online service Xbox Live to extend the social gaming experience to a broader audience this year. "We will be growing the community experience with more online tournaments, competitions and other exciting initiatives, both on- and offline in the year," adds Vejarano. Across the region, a new year also brings a new focus. Asia's marketers, it would appear, are rejecting the status quo, according to Synovate's Garton. Just 18 per cent of respondents indicated that they would retain the same marketing mix going into 2005 compared with 38 per cent the previous year. PR appears to be the weapon of choice -- 91 per cent see it as important, against 71 per cent for internet marketing. In contrast, 71 per cent deemed loyalty marketing as "not a company priority at this stage". And it's brands as diverse as British Airways (BA) and ToysRUs, that are diverting more funding below-the-line -- whether on events, PR or even alliances. For others, such as alcohol companies in Thailand, the shift is indirectly due to Government nudging. Says Bacardi Thailand's Madhaven: "With the new laws that define time and the content (of alcohol advertising), it does become rather difficult to get the message out there to consumers. We are already seeing a more renewed focus on below-the-line spends... this trend will continue as brands move their budgets to more innovative below-the-line communications." In contrast, BA and ToysRUs are simply responding to changes in consumer media habits. At ToysRUs, marketing mix allocations will remain more or less the same this year. However, head of marketing and customer relationship management Argha Sen notes that this follows two years of significant increase in expenditure on CRM and web-based initiatives. The British carrier has identified online as a major focus this year, especially for online booking/payment, with investment for promoting its online initiatives, according to its marketing manager for Greater China and the Philippines, Choi Fong. Xbox's Vejarano says the brand will be increasing its focus on "building partnerships with like-minded brands (and) building advocates among the highly-involved gaming community". Vejarano says Xbox will be looking at more online tournaments and competitions, both on- and offline to embed the brand's DNA in consumers hearts and minds. While 2005 promises more upside, the twin threats of clutter and competition are expected to intensify. In some categories, competition is emerging from new sources. BA expects last year's take-off of additional low-cost carriers in Asia will present it with additional "destination competition" against Asian countries. Similarly, ToysRUs' Sen notes: "We expect the market to become more competitive. New forms of competition -- probably indirect -- will fight for a share of the customer's shopping dollars." At least, the issues are par for the course unlike previous years when consumers chose to save rather than spend. Creative upswing After much hand-wringing about their future in a world where ads can be zapped, advertising agencies edged past their media siblings to achieve an improved performance score from marketers. In 2003, when the question of agency performance last appeared in the Media/Synovate Marketers Poll, only 39 per cent of respondents rated their agencies as good; 49 per cent described them as fair. Two years on, the 'good' score has climbed to 46 per cent, while the fair rating remained the same. In that time, the numbers scoring poor has also been halved to four per cent. Media agencies, however, saw the pendulum swing in the other direction. Forty-one per cent (against 2003's 48 per cent) rated their agencies as good, while those scoring fair climbed from 33 to 52 per cent. That said, excellence proved elusive for creative agencies (from four to one per cent), while media shops held this score level. But does this satisfaction

score hold in the C-suite? "While this survey shows there is general satisfaction at the marketing director level with agencies, there is not enough of that in the boardroom," notes R3 principal Greg Paull. "In many companies, marketing is one of the largest outsourced costs and there is a continued demand for that cost to be benchmarked and made efficient and effective. "The big winners in 2005 will be those focused on linking their work to business results." As promising as the scores are for agencies, the state of client-agency marriages remains poor. Only 25 per cent of marketers are in relationships lasting longer than three years. When asked specifically about whether they would change their agency, one third said they would and another third said they might. "This means agencies will only have to stay vigilant on two thirds of their relationships -- we hope they pick the right two thirds," says Paull. Underlining this brevity, R3 tracked 789 creative moves last year. The shifts were worth US\$1.83 billion in billings, a two per cent increase on 2003. Just 18 of these wins fell into the global or regional sector, but the 18 accounted for over \$250 million in billings, reinforcing the importance of wins such as HSBC, Samsung and Standard Chartered, Paull adds. "While India recorded the highest number of local wins (160 in total), it was Australia where the most business changed hands (around 18 per cent of the local total) followed by China and Korea. Within the media agencies, 875 moves were reported, worth \$1.9 billion, a 14 per cent increase over 2003. Here, just 15 wins were regional (none were global) but they accounted for \$200 million in billings (11 per cent). While Australia led the way on the most number of local wins, followed by Japan, in this case it was China with over \$500 million (31 per cent) in local new business changing hands through the year. And it was here that all three of the top ranked media agencies (MindShare, ZenithOptimedia and OMD) performed well, according to Paull. With the survey showing alignments highest at the national level, the opportunities to shift to a global or at least a regional partnership are high. Paull estimates at least five holding company pitches could take place this year. The key reason for a review, according to 69 per cent of respondents, is that the process is part of a regular evaluation. Still, the other factors cited by marketers -- the hunt for fresh ideas, dissatisfaction and cost -- are a cause for concern. But at least, the red flags provide both sides with a focus on where client and agency must work together in order to build long-lasting partnerships.

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