

An Ogilvy Perspective
on
Emerging from the Downturn in China



September 2009

- Why have some firms done better in China than others?
- What have firms done, *besides* taking advantage of the economic stimulus package, which has helped them tide over the financial crisis?
- What is the way forward? Is there going to be a shakeout when growth has been regained?

These are just some of the questions which are on every businessman / woman and policy maker's mind, as the ships start moving and consumer confidence rises.

At Ogilvy & Mather, we're extremely conscious of how businesses must learn from every experience, be it positive or negative. Last year, we drew upon our long experience to suggest the kind of smart strategies which businesses could employ to overcome the downturn, in www.ogilvyonrecession.com.

As China leads the world out of the downturn, we find ourselves uniquely placed to comment on how the recovery has been possible. Our consumer insight and thought leadership program, Discovery, delves into the business and consumer culture on an ongoing basis to try and bring you the implications of the changes which drive the fortunes of your brands. From understanding how the rise of creativity has impacted society and business in China, to the shifts in consumer expectations and retail environment in lower tier cities, to the rise in Chinese nationalist sentiment and how brands are affected, to how digital influence manifests itself, to the ageing society and why marketing needs to get out of its obsession with youth, we have provoked, inspired and led the way in understanding China better. These are deeply grounded studies, which use a blend of social science, cultural study and business experience. We have constantly strived to create a granular portrait of a complex society, one that we hope compels businesses to think deeper about what lies ahead. While we believe that the insights we unearth helps us create brands which are more rooted in reality, we also know that the application of these insights can have wider impact – on your business itself, on your employees and supply chain, on your wider stakeholders.

The intent of this paper is as much to provoke thought, as to start a conversation. You have a deep understanding of your own business and the challenges and opportunities that lie ahead. Through the interviews and research we bring to the table, we hope to widen your perspective and give you a glimpse (and analysis) of how others are thinking and behaving.

We look forward to your thoughts and experiences after reading 'An Ogilvy Perspective on Emerging from the Downturn in China'.

"The recovery of the global economy will be a slow process with twists and turns, there must be a long-term preparedness to effectively deal with (the global downturn)."

Premier Wen Jiabao

The Chinese have a stock phrase to describe the relationship between prosperity and decline: "Prosperity will not last forever and bad luck will come to an end." This may as well be used to characterize the cyclical pattern in which the economy performs. When the U.S. credit crunch sent the tidal wave to the rest of the world in 2008, it was a more than clear sign to Chinese businesses and international companies in China that the age of exponential, double-digit, free-wheeling growth was over, and corporations need to be prepared to shift gears. Gone were the days of speedy expansion, bold investment, and unbridled optimism. Also gone with the boom are the days of free spending, high job security and the so-called "flourishing of the middle class".

What the financial crisis did to China was it more than brought cynicism and rage directed at Wall Street and the American banking system, but an overall re-assessment and questioning of "the Western model of development" - whether it is sustainable, and to what extent it points out a right path for China to pursue. What the economic crisis means to China is it "exposed the hidden structural flaws in China's economy, which used to be masked by decades of relentless growth," says Zheng Yuhuang, professor of marketing at the School of Economics and Management, Tsinghua University.

At the same time, economists are predicting that China will emerge from the crisis as an even stronger competitor than before – as it exploits its unusual position as a country with stockpiles of cash and a strong, regulated banking system. In the 3 months at the beginning of this year, Chinese banks lent more money to small businesses than they had in the preceding 12 months.

A scan of financial reports throws up a confusing mix of good news and portents as much as the not-so-good news. Barely three months after a report in the China Daily 'Will recession dampen Shanghai Expo', which cited the difficulties that US companies were having in raising USD 61 million in private funding for the US Pavilion, ground was broken on the pavilion. Sponsors included Pepsi, Yum Brands and 3M. The project got pushed across the line by Secretary of State Hillary Clinton. Bankruptcy-protected in the US, General Motors (GM) teamed up with its strategic partner Shanghai Automotive Industry Group, to be a global sponsor of Expo 2010 and the exclusive auto sponsor. It is building a pavilion with the theme of 'Sustainable Mobility'. "We don't expect it will be impacted by the North American financial troubles," said GM's Asia-Pacific spokesperson Karin Zhang.

Although the financial crisis can be taken as a "pulse check" on the national economy and therefore deemed a "blessing in disguise", at a microscopic level, some businesses and enterprises may not have entirely braced themselves for the bad news. Since Q2 2008, many companies reported sharp decline in sales and record-level losses, and the numbers are hard to warm up to:

- In March 2009, China's largest notebook PC manufacturer Lenovo posted \$268 million quarterly loss. Year on year sales were down 25.8% and profit fell nearly 50%. This falls on the back of \$97 million loss for Q3 2008.
- In June 2009, Haier, China's largest producer of white goods announced its first quarter revenues declined 17.43% to \$971 million, with net profits 39.89% less than last year.
- In April 2009, China Ocean Shipping Company (COSCO) reported \$479 million loss for Q1 2009, with a 63.8% drop in operating revenue. The company estimated over 50% drop for its mid-term profit.
- According to China Iron and Steel Association, 34.7% of China's large and medium-sized steelworks are operating at a loss, an increase of 23.6% over same period in 2008. Overall loss for Q1 2009 is estimated at \$471 million.
- Up to December 2008, Air China reported an annual net loss of \$1.3 billion, which was largely attributed to air travel decline and fuel hedging loss. China Southern Airlines, one of China's biggest state-owned carriers, said it swung to a \$700 million loss in 2008 due to record fuel costs and slower traffic amid global economic turmoil.
- In May 2009, China's exports were down by 26.4% compared with same time last year. Consumer confidence index dropped 5% since June 2007.¹

Now let's look at some good news. China's government has already turned around its economy far faster than most thought possible, as officials said in July that growth accelerated to 7.9% in the second quarter. Even if the surge moderates in coming quarters, many analysts say China will very nearly meet its target of an 8% expansion for all of 2009. In the first quarter, gross domestic product grew 6.1% from a year earlier.

The USD 586 billion stimulus package aimed at boosting domestic consumption seems to be working. The Chinese government's investment in infrastructure has gone to state-owned companies, which in turn have gone on hiring sprees. This has offset China's job losses from export manufacturers, thus stabilizing the labor market and providing consumers with more cash, leading to a growth in retail sales of about 15 percent in May and June.

The Shanghai stock market's benchmark index has gained 75% this year as the Chinese outlook has improved, with factory output, bank lending and commodity imports all accelerating in the past few months.

The stimulus plans in China and the US were announced about the same time. On the surface, the two stimulus packages aren't very different - both governments poured massive amounts of money into roads and infrastructure, and both countries expanded the money supply in an attempt to loosen up credit markets. So why does China's seem to be working so much better? It's the economic and political climate. In the U.S., individuals and companies alike had already taken on a lot of credit before the financial crisis, making banks less willing to lend money even as they received it from the federal government for just that purpose. In China, however, the state-controlled banking system lent money at record levels in the first half of the year, up 201

¹ China Statistics Bureau

percent to more than \$1 trillion, causing a surge in investment - urban fixed-asset investment rose 33.6% in the first half and factory output grew 10.7%.

China also added many quick bottom-up efforts, as opposed to the mostly top-down ones used in the U.S. After exports declined by 22% this year, China has striven to shift from an over-reliance on exports and investments to domestic spending. It provided boosted subsidies on car purchases and home appliances – especially green cars and green appliances, and unveiled tax cuts to spur private spending.

So how are businesses dealing with and often taking advantage of the current economic recession? What valuable experiences have been gained in coping with challenging situations?

1. Stepping up due diligence in investment; staying focused on future growth opportunities.

Like many investors, Credit Suisse's chairman Hans-Ulrich Doerig believes that China will be the growth engine that will pull his bank through the downturn. But he is being careful. "Big acquisitions are difficult and can throw off a bank's operations in unforeseen ways. Credit Suisse may consider smaller acquisition opportunities that complement the bank's existing business. As top management, if we don't look for good opportunities throughout the year, we are not doing our job," he says. Eric Cohen, an attorney with Winston Strawn says, "The biggest change is an increase in due diligence before investing. Unlike the glory days where people were running in and closing deals to outbid, people are more willing to take a harder look and walk away if they're not happy with what they see."

Many American companies are choosing to stay in China, indeed expand. In October 2008, UPS announced it would be adding a new Inter-Asia hub in Shenzhen, with an investment of \$180 million. Jeffrey Schwartz, CEO of McDonalds China disclosed that 175 new restaurants would be opened in China this year, which will create 10,000 jobs. This would make China its No. 1 growth market for the first time. At a time when the price of real estate is low, especially in small town China, McDonalds is preparing well for the future. As China's economy recovers, McDonald's will have taken market share in a nation that is bound to see relatively rapid population growth and relatively strong GDP over the next several decades. Even for Starbucks, just as the company was closing down 600 U.S. stores in Q3 2008, it was simultaneously adding another 80 outlets in China.

One of the most important things that will differentiate companies that should grow rapidly when the global economy recovers are

those that were willing to put money into expansion, while other firms in the same industry were retreating.



Despite the overall slump in global shipment and a 37% net profit drop in 2008, Canon, the world's largest digital camera maker said it's looking to further expand into the Chinese market by focusing on China's post-1980s generation consumers. "Although it too has been impacted by the financial crisis, China's digital market is still on a rapid growth path," said Masaya Maeda, chief executive of Canon's Image Communication Products Operations. "By 2012, the country will be very close to taking up 20 percent of our global digital revenue," and Canon China is expected to grow 20% in the second half of 2009.²

The European Chamber's Business Confidence Survey, released in June 2009 showed that more than ever, companies see expanding their market share in China as the key lever of success. Among the companies who have reported losses, 71% see expanding the market as the best path to improving profitability, and 39% of respondent companies are still considering new investments this year, a continuing effort to secure their market share in China's growing domestic market.³

Goldman Sachs is retaining its 4.9% stake in the Industrial and Commercial Bank of China. Chairman Lloyd C. Blankfein stated in a press release "our firm's confidence in ICBC and our commitment to China." The investment bank has raised USD 1.5 billion for a fund to buy discounted private equity holdings in China. Overextended foreign firms are their easy targets – and it is estimated that there is between USD 200-300 billion of foreign investor capital stranded in China⁴.

In spite of the challenges on the financial markets, Credit Suisse helped Chinese companies get listed in the US and Hong Kong in March and April 2009. One of these companies was Changyou.com, a role-playing game operator (more on this sector later), which became the first US IPO by a company from any Asian country other than Japan to list since August 2008.

The economic crisis has also encouraged Chinese companies to become predatory. As companies overseas collapse, Chinese firms

² Canon bets on China clicking. China Daily, August 21, 2009

³ European Chamber Business Confidence Survey 2009, June 2009

⁴ Sink or Swim? Downturns sort the wheat from the chaff. China Economic Review Vol. 20 No. 06, June 2009

are eyeing assets. At the same time, the commerce ministry is giving them a helping hand by greatly easing the approval process for Chinese companies seeking permission to make foreign acquisitions. Outbound M&A increased by 9.54% in 2009 over the same period in 2008. Geely is considering buying Volvo (even as it acquired the Australian auto transmission company Drivetrain Systems this year), ChinaChem is in plans to buy two of Dow Chemical's subsidiaries. These are more carefully planned moves than Tengzhong's aspirations of buying up Hummer. In March, the commerce ministry led its first delegation of corporate executives to Europe – as they sought companies in the textile, automotive, food, energy, electronics and environment protection sectors.

Rather than buy firms outright, some Chinese companies are being smart and focusing on strategic takeovers. Late last year, Harvest Fancy, a Hong Kong based subsidiary of apparel supplier Bosideng took over Greenwoods, an English menswear chain founded in 1860. Bosideng hopes to grow its own brand overseas through the retail reach Greenwoods offers. "The plan is to go from two (Bosideng) stores to 40 within two years," says John Hanson, managing director of Greenwoods.⁵ Similarly, China Dongxiang, a sports apparel company has the licence for the sports brand Kappa in China. But the company lacked homegrown R&D. So it purchased Phenix, a Japanese skiwear brand which suffered from low margins, and will now introduce a line of high-end skiwear under the Kappa brand name, but using Phenix's expertise in fabrics, materials and design.

2. Improving the quality (not quantity) of sales.

To many enterprises, a recession means a steep drop in sales. Manufactures would be receiving fewer incoming orders and factory workers will be faced with having nothing to do. Consequently, there'll be fewer marketable products for businesses to sell. The existing order of supply and demand is disrupted and companies plunge into a deeper vicious circle of high debt, low liquidity and reduced productivity. Many companies, in their search for a remedy, would resort to sales to generate cash, maintain cost and pump new blood into the company's weakening circulation system. "I motivate every one on my staff to be a salesman," says Kazuo Inamori, CEO of Kyocera and a Japanese guru on marketing. "It's always good to remember, no matter how high-tech you position your products to

⁵ Building up steam – special report on outbound investment. China Economic Review Vol. 20 No. 8, August 2009



be, selling them is the ultimate proof of business competence.”

But the question is how. How do you make customers buy more things when they’re cautious about consumption in general? How do you convince people to pay a premium price, when they already have a shrinking budget to spend? “It’s not a bad thing when your customers are cautious,” says Roc Liu, Michelin China’s channel manager, “It means they’re more likely to spend their money rationally. And the good news about rational consumers is that they can be won over by value packages.” So the recession may send consumers shopping around more often with manifested higher price sensitivity, what people are comparing is not just the prices, but how much value they can get from each transaction. The opportunity for companies is that they need to ask themselves the hard question of what benefit they can offer to customers, and find ways to deliver them consistently through consumer experiences and good quality.

With Michelin, the case is that it aims not only to sell tires, but to provide a soothing and care-free experience when the customer enters a car service store. “We want to make customers feel, from the moment they give the keys to our service staff, that everything will be taken care of,” said Liu. As a holistic experience, it needs to be delivered through carefully planned stores, lighting, cleanness, rigorous checking procedures and considerate after-sale service. “It’s all right if customers do not start off buying a lot from us. But eventually they will come back, when they realize the value they can get from us. We often underestimate how much a customer appreciates good service.” In addition, facing a quickly consolidating tire industry, aside from cooperating with car manufacturers and 4S stores, Michelin is planning to build its own distribution network in China, which allows the brand to control not just the price, but the actual consumer experience of its products.

Recession would be a good time for corporations to scale back on their sales ambitions and focus on the quality rather than the quantity of selling. The sheer volume of sales does not tell marketers which transactions will be generating more revenue in the future and which ones will not. “Short-term, eruptive sales figure is alarming, as it often comes at the cost of long-term profitability. In the Chinese market there’re numerous instances of companies making it to the top with a fast strategy and then bit the dust overnight,” said Liu. To steer clear of such damaging

fluctuations, corporations must pay rigorous attention to its product offering, channel management and personnel training, as these will all come to affect customers' evaluation of the transaction they make with the brand.

This may sound like plain thinking but it may not come down as so easy when businesses need to make practical decisions. For example, it would translate into a practical decision to phase out a store with low return-customer rates even though it generates spectacular sales revenue. And it can be a difficult thing for the national sales manager to enforce because it'll directly reflect on his current performance and reward. In the end the question boils down to what is known and unknown in a company, and what occupies the center of priority for corporate leaders – in balancing short-term shareholder value and long-term health of the company. Recession can send companies chasing frantically for profits, while the recession itself is a result of the imbalance between profit and profitability. To bring the market back to order, it takes more than sales, but a sustainable way to sell.

3. Refine your consumer understanding. See your consumers through a new lens.

It's true that you may never know enough about your consumers, and you cannot depend on consumers to tell you what they want. But in a recession, consumers are actually showing what they want – through their behavior. When the times are good and the cash flow is ample, it may not seem so obvious what the consumers essentially care about - as they have relatively large room to exercise their freedom of choice. And the contingent factors that affect their choices are many. But when spending is tight and decisions made on one purchase influence others, a clearer pattern of preferences and concerns will start to emerge. What is indispensable and what is tangential stand out rather easily. Contrary to the belief that recessions “radically change” consumer behavior, what actually happens is they help people realize what is essentially important to them.

“We find that no matter in a recession or not, people always put safety first.” That was the experience from tire giant Michelin, said Roc Liu. “It was contrary to what we had expected. We thought consumers would cut back on tire spending, or switch to cheaper brands. But consumers' high awareness of safety led us to communicate with them in the right language.” With safety as the brand's essential offer, Michelin came up with a series of product variations that cater to the price ranges and performance



expectations of a wide spectrum of consumer segments. The first quarter of 2009 has seen sharp increase in the sales of small and mini cars (1.6L emission and below), an opportunity which Michelin leveraged to sell its tire products below 15 inches. “People who buy 1.6L emission cars are definitely different from people who buy 2.2 or 2.4,” said Liu, “One key concern would be gas mileage, and this is exactly the benefit the product can provide them besides safety.” For luxury car owners, on the other hand, the key offerings would be performance, differentiation and individualization. With refined consumer understanding, companies will be able to strengthen its value proposition, product offering and drive sales in targeted areas with increased effectiveness. And this won’t be possible without taking a look at what the consumers truly want as manifested in challenging and difficult times.

To refine consumer understanding also means corporations need to further investigate consumer needs beyond “traditional items” such as price, quality and service. It means to evaluate the relationship with consumers from a fresh and creative point of view, and find the optimal point where companies and customers meet each other’s expectations. It may sound like companies are negotiating with customers, while exploring a broad range of possibilities and choices. But the truth is in recessionary times consumers do negotiate more, and it’s a good thing that consumers can open up and talk frankly about what they want and care about.

Since June 2008, sales at DHL China were severely hit due to the fast decline in export and international trade. The direct response from clients is that they’re cutting expense on courier services. In view of the situation, the company can either join the price-slashing competition, or keep its price premium but face heavy and substantial financial bleeding. In March 2009, DHL launched its Import Economy Select service in China. It allows users to save 15% or more on courier fees by extending the delivery time to 1-2 days longer. In an industry which has always prized itself on being faster, going with the “slow down” message may seem risky enough. However, it is to acknowledge that consumers may not always take faster to be better, and are consequently not willing to pay for the extra time advantage which doesn’t mean much to them. A deep exploration of consumer needs can help companies come up with the right product/service that reduces customer attrition, promote loyalty,



and effectively lower prices without discounting the service value.

The online gaming industry is one that has benefited from changing consumer needs and behavior during the downturn. As more and more people sought easier and less expensive ways of entertainment to escape the stress of daily work and sometimes loss of jobs, the industry has boomed. Many gamers are choosing to spend their weekends and evenings playing games rather than spending money at a movie theater. "During economic downturns, people will look for the highest return on their entertainment dollar", says Lan Hoang, CEO of Aeria Games & Entertainment. There are others who have an interesting take on gamers. "People who play games are addicts", says Michael Pachter, an analyst at Wedbush Morgan⁶. Which means, recession or no recession, it will be hard to pry them away from their consoles and screens.

Over the last year, China's online gaming industry racked up sales worth USD 2.69 billion, a rise of 76.6% over the previous year.⁷ The number of gamers rose by 22.9% to 49.36 million. While exports of most other sectors declined, gaming companies increased their exports by 30%, generating an income of USD 70.74 million.

This is the creation of the 'indoor economy' – which has thrived on the online consumption by people who like to stay indoors or those who are not employed. It mainly consists of SOHO (Small Office Home Office) and full-time and part-time business as well as consumption through TV, telephone and online shopping. In terms of e-commerce, cyber-shops are free from storefront rentals, chopping the commodity prices by 30.0% or even 40.0%. With its increasingly impressive performance, the sector has become a new target for VC investment institutions and stock market investors.

The stock prices of some NASDAQ-listed Chinese online-game enterprises, such as Shanda Interactive Entertainment Limited, Giant Interactive Group Inc., KongZhong Corporation and Perfect World, have kept climbing since October 2008 when almost all big-cap stocks were sluggish. Besides online games, cell-phone polyphonic ring-tones also won wide popularity among these 'indoor people'. www.a8.com (0800.HK) listed in 2008 enjoyed a staggering year-on-year increase of 201.0% in the first half of 2008, and its stock price sharply rose accordingly in Q1'09.

⁶ Rhee So-eui & Jennifer Martinez, Online games look for gains from recession. Reuters, February 2 2009.

⁷ Li Xiang, The Lure of the Virtual World. China Daily, Volume 24, No. 415.

In a reflective note of how he ran his business through the 2001 internet bubble, Ding Lei, founder and CEO of Netease, one of China's largest Internet portal sites, said sloth is what that holds Chinese companies back from competing with global companies.⁸ The kind of sloth he refers to is not in action, but in thinking. "The reason that we lose business to global competitors is we never carefully think of the question: What the Chinese consumers truly need? When we actually take the time to get to the bottom of things, they may not be as difficult as we assumed them to be." As an industry leader who brought games like War of Warcraft and Journey to the West to China, Ding Lei's company is setting an example for many Chinese businesses currently plagued by the crisis, in which they are trying to move from a "low-cost, low added-value" business model to an intelligent, knowledge-driven enterprise that capitalizes on its understanding of human values, desires and needs.

4. Turn your perceived weakness into strength.

Everything gets harder in a recession. It's harder to motivate customers to buy, harder to keep the best talent on your team, harder to inspire your team when the future seems uncertain. But do things seem harder because of the "recession mindset"? Research about economic recessions reveals that we might have greatly underestimated the "psychological impact of recession." It became the only thing we can talk about, and it became the ultimate "root of cause" which everything can be attached to. But if we take a closer look at recession, it seems clear that all things come in comparison and they all register with a certain level of degrees. There's no such thing as "getting better" unless compared against a "bad" year, and no such thing as "slowing down" if it does not stand next to a period of "fast development." If we look beyond a particular recession and extend our range to a long period of time, we'll find that truly successful companies are those who know where their relative strengths and weaknesses are, and know how to leverage the environment, the timing and local conditions to maximize their competitive advantage.

There have always been much quoted stories about brands emerging as big winners out of recessions, from the canonical case of Kellogg in the Great Depression, to the launch of iPod for Apple in the 2001-2002 economic contraction, to the more recent studies on McDonald's, Audi, Hyundai and Samsung. The Samsung case is perhaps especially relevant for Asian brands. Its rise after the

⁸ "Kungfu Panda" in the Economic Crisis, Ding Lei, 21 Century Business Review, January 2009



1997 financial crisis is an example of using its strength in digital technology to close the distance with then-market leader Sony. What is even more interesting is that the so-called “weakness” and “strength” in fact are relative, and tend to be undetermined until confirmed in hindsight. In reality, brands can successfully transform its “weakness” into competitive advantages, while the so called “strength” can be the exact barrier that holds a company from being great. To break free of this development dilemma, a brand need to perform an open and unbiased assessment of what it can or cannot do with existing resources and assets, and look broadly to conceive ideas that transform a barrier into an opportunity. It can happen both in and out of recessions. But the recession would represent good timing because most competitors would be taking a conservative stance, and hesitating to make the next moves.

DHL’s development in China provides an example. Having been established in China for 25 years, it is the earliest and perhaps the most localized international courier service provider in China. “In the course of our development, we’ve constantly worried about the qualities of our local staff. They are local, not professional enough, while the entire industry runs on standardization.” Said Lee Pei-Ching, marketing director of DHL China. The company wanted to train couriers to be more professional and efficient. But they soon found that the local flexibility – to the extent that couriers will voluntarily take the time to fill out express forms and carry heavy boxes for customers – is exactly the reason why DHL have won so many customers. “It is a reflection of the conflict between productivity and service, between industry standardization and individual humanity.” Since the recession from the second half of 2008, the company has been cutting down on courier numbers to eliminate redundancy. The potential problem it presents is that couriers may no longer have the extra time to help customers out, which will hurt service quality and turn loyal customers away.

How to make use of the local flexibility, and maximize it to attract/retain customers, is how companies like DHL can turn their weakness into strength, and expand beyond the recession. To do so, companies need to acknowledge that the definition of strength and weakness is not so firmly drawn, and they must look broadly as to where more value can be generated. They need to recognize that the criteria used to define weakness and strength are themselves made by men, and therefore open to change, challenge



and interpretation. Previous cases of brands that successfully transformed their weakness into strength showed how much well-planned marketing contributed to the shift, and the history of advertising is paved with such examples:

In 2006, Kellogg launched an ad campaign for its then stagnant cereal brand Weetabix, which was judged to be too “plain” in flavor. The campaign successfully shifted the focus from the “plainness” in flavor to the “versatility” of having cornflakes with a wide choice of food ingredients. The campaign attracted more than 100,000 new consumers, and led to an 8.1% increase in value of the brand.

From 1995 to 1997, by associating its “harsh taste” with “hard on germs,” mouthwash brand Listerine was able to grow its market share in Australia from less than 5% to 32%, and increased its profit more than 80%.

Realizing the advantage of its “layman/unpretentious taste,” Murphy’s Irish Stout in U.K. managed to attract 238,000 new drinkers, which allowed the brand to significantly close in on the market leader Guinness, and opened a whole new segment of “laid-back, sociable drinking”.

More cases in the recession follow: like Wal-Mart’s “money-saving” proposition, which used to be heavily criticized for its low quality and exploitation of labor. In his blog ‘All Road lead to China’, Richard Brubaker writes, “It is once again Wal-Mart’s investment in China that really saved them, and the news cycle of product safety being trumped by the economy. While Wal-Mart has invested so much, and made so much money from that investment, others have yet to really take the same steps. Instead, they chose to continue working through the traders in Chicago, New York, Los Angeles, etc who will purchase from a trader in Hong Kong / Taiwan ... who will buy from a trader in China ... who will buy from a factory in Suzhou. In an up market, when consumers are not worried about making minimum payments this works, but in a down cycle these intermediate steps become insurmountable.”

Many consumer studies on change of behaviour during recession reported that ‘people were staying in and eating at home’. McDonald’s, whose January sales were up 7.1%, capitalized on its easy-going, unthreatening image in attracting consumers with cheap foods and variety, which could otherwise be deemed simply

as “high calorie and poor nutrition”. It goes beyond providing value, as other fast-food suppliers have been known to report losses in the recession (Burger King was down 15.2% in 2009 and Wendy’s down 42.2% over the past year). In March, McDonald's launched the nationwide super value discount campaign, which covered nearly 40 percent of its total products, It was the most aggressive price reduction since its entry to the country in 1998 and came on the heels of a weak market confidence. "It's our goal to make sure McDonald's is affordable and accessible to more and more consumers," said Jeffrey Schwarts, chief executive officer of McDonald's China. Phyllis Cheung, vice president and chief marketing officer of McDonald's China expects this scheme to grow sales revenue by 5%. The success of McDonald’s in this recession is about providing emotional comfort - through its accessible image and cheap products, again a potential weakness played to the brand’s strength.

**5. Communicate,
always communicate.
Lead with clear
messages.**

Recessions are turbulent times, filled with uncertainties, speculations and fear. For a company to stay on top of the changes, it needs to establish its own voice. It means to keep the channels of communication open and free-flowing, both for its staff and its customers. “When we have an aligned team that understands” very clearly what the goals and the tradeoffs are, "that's when things can absolutely happen," said DuPont CEO Ellen Kullman. One of the costly mistakes a company makes during a recession is keeping its employees as outsiders to its policies and restructuring processes. “When you let that happen, it’s letting your own workforce working as your opponent,” said Nancy Zhang, Intel China’s PR Director. “We owe a lot our fast response and good performance in this recession to our strength in internal communication”.

Intel is one of the organizations that has a working structure in place to facilitate quick and easy flow of information. In Q3 2008, when the company’s CFO sent a letter to worldwide employees about the slowdown in the economy and proposing solutions, it was soon communicated and integrated into various disciplines and departments. “We met frequently to talk about real issues, not just what it means to the company, but what it means to our department, to every individual in the company. From the very start, we operated on a strictly ‘no surprise’ principle. We asked employees to help us with the action plan as to how to cut cost and preserve cash. It was through strong internal communications

that we were able to move forward and execute decisions quickly, and we've seen positive cost saving results since Q4 2008."



As much as companies need to be open with their employees about corporate decisions and plans, the recession also challenges brands to communicate clearly about their themselves: what they are, what they are not, what they stand for, etc. In doing so, a brand in recession does not need to bring "recession" into its message, but needs to devise a way to make its message look interesting and relevant, within the larger recessionary background.

Carlsberg Chill beer is one of the examples that chose to go with the "happiness" theme. Its "Don't be Upset" campaign has quickly become one of the most talked about ad campaigns since May 2008. Starting from Guangzhou, the brand launched "Happiness Test" booths at the city's bus stations. Passengers waiting at the station can vote on whether they're happy or not, and see the real time score of how other people are doing at the same station. With updated voting scores, the test booths were able to create a live map of happiness for the city. The campaign has attracted tremendous interest and participation from the public while winning free rides in the media. It has also spawned new forms of content creation and co-creation online, such as comic strips, monthly calendar with event directories and funny video clips.

Other brands have chosen to talk about trust and confidence. "A letter to tomorrow," conceived by AIA China, was an interesting way to engage consumers to talk about their life visions and goals. The campaign was a timely response to the insecurity and collapse of confidence as a result from the financial meltdown. By honing a narrative that closes the gap between the present and the "dreamed life of tomorrow", the brand proposed a down-to-earth attitude toward life planning, and addressed a range of pressing consumer concerns such as lack of retirement support, health risk, child education and financial security. And in addressing these issues, AIA is demonstrating that it truly understands Chinese consumers and the Chinese market, the universal concerns as well as the social and economic problems that are unique to China.

So, what's in store for the future?

The author of the landmark study on the BRICs, Goldman Sachs's chief economist Jim O'Neill now says that the major emerging markets - Brazil, Russia, India and China - could overtake the combined GDP of the G7 nations by 2027, nearly a decade earlier than the forecast in the study done a few years back. This year GDP is expected to contract by 3 percent in the U.S. and Europe, and by nearly 6 percent in Japan, while it will expand in China and India by 7 and 5 percent, respectively.

Taking advantage of the cash crunch amongst multinational companies, many local Chinese companies have been much more opportunistic in the past few months. One of the most popular public offerings this year was the shampoo company BaWang. Oversubscribed 446 times, Bawang set its listing price at the top of indicative range, reaching the amount of \$ 1.7 billion HKD (Hong Kong Dollars) for the share floatation. Quanzhou-based Chinese sportswear company 361° was also listed in Hong Kong, with an initial public offer price of HKD 3.61 per share, as the company issued 500 million new shares. Pu Yonghao, chief Asian investment strategist at UBS Wealth Management says, "There's a huge enthusiasm about IPOs, and especially in the consumer sector, as everybody believes China has to rely on consumption, rather than exports, to spur growth."⁹

But it is not just China's economy that is benefiting from Beijing's stimulus package. There has been a recent fueling in demand for raw materials and merchandise from countries in the region, according to Dr. Subir Gokarn, Asia-Pacific chief economist at Standard & Poor's (S&P)¹⁰. Merchandise exports to China from Australia were up 23.0% month-on-month in February 2009, from -88.6% in November 2008. In Korea, merchandise exports to China swung from -225.1% month-on-month in November 2008 to a gain of 119.6% month-on-month in February 2009. Taiwan also benefited, seeing an increase from -237.7% month-on-month in November 2008 to 194.8% month-on-month in February 2009.



⁹ Asian Economic Institute

¹⁰ http://www.chinaeconomicreview.com/today-in-china/2009_08_21/

It remains that the Chinese government's stimulus program to stem the slowdown (*not recession!*) is a stop-gap solution. The economy, and companies cannot expect to be propped up by bank loans indefinitely. What would happen, as anyone with a reasonable sense of risk would ask, when the government stops pumping money into large enterprises and the macroeconomy's blood vein? That still remains an open question.

As is the question of whether the sentiment of a self-reliant, economic nationalism is a popular one (it is a very hot topic online, and in business magazines), or one that is being fanned by a group of nationalist intellectuals. The answers lie in whether companies currently backed up by government funds can transfer their advantage in capital into core competence and solid branding skills. Or will multinationals attempt to become more local and engage with consumers even more to grow their roots in China? We believe that the latter is a distinct possibility.

A study of brand winners in the global recession of 1990-1991 showed that taking advantage of a recession was as much about what a company does in the good times as the bad. In other words, we should refrain from exaggerating the impact and the explanatory power of a recession, but rather, look at how a company's knowledge, expertise and capabilities put it in a position that's more or less resistant to drastic change and fluctuations. The practical value of a recession (if any) is it provides unique perspectives and learnings to a company on how to build such as position, and in what areas it should be stronger. To emerge as strong survivors and winners, businesses need to scrutinize their investment while keeping their eyes on future growth, pay more attention to the quality of sales, capture the unique timing and scenario to refine their knowledge of consumers, understand the value of weaknesses as much as strengths, and possess the prowess and wisdom to communicate its message with sophistication and nuance.

There's no doubt that great brands are not built in a day. And if we look at global brand giants like Coca-Cola, Nokia and Toyota, these are in fact brands that have gained from the practical lessons of economic recessions. Americans have already ceded the role of world's most resilient shoppers to the Chinese and Indians. For Chinese brands with an ambition to do better, the possibilities are limitless.

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