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'CHINA BEYOND' STUDY OFFERS INSIGHT INTO CONSUMERS, BRANDS AND OPPORTUNITIES IN CHINA'S 4TH-6TH TIER TOWNS

Ogilvy suggests ways in which companies can tap into the opportunity offered by the government's stimulus package, in a significant part of the nation where consumer cultures and retail landscapes vary markedly from that in 2nd-3rd tier cities and leading metros

Brands should embrace strategies formulated on local insights and market conditions to connect with small town consumers

[BEIJING: 23 JUNE 2009] China's 4th-6th tier towns, which account for 37% of China's population, have notably different consumer cultures and retail landscapes not only from the major metropolises of Beijing, Shanghai and Guangzhou but also from 2nd-3rd tier cities, according to "China Beyond," a new study released today by Ogilvy China. Moreover, what works in big cities for marketing firms and brands may not work in the 4th-6th tier locales which range from prefecture level cities to county level towns. Nevertheless, a vast opportunity exists for companies that can tap into local and regional psyches and lifestyles.

Data from China Statistics Handbook showed that rural average disposable incomes in China were 5791 RMB per year in 2008 and continued to grow at a rate of 10.3% in the first half of that year (HSBC, China Economic Spotlight, Aug 2008). "This demonstrates the huge market potential in lower tier cities. With the government stimulus package directed at small town and rural China, it is expected that these consumers will dip into their savings and give China's economy a helping hand. But for them to do so, companies need to understand what drives their needs, aspirations, and ultimately purchase decisions," said Shenan Chuang, CEO of Ogilvy & Mather Group China.

Notably, the study finds that:

- **With the influx of migrant labor, communities have established new rules of engagement and trust.** The "web of favors" replaces the time-honored, high-trust relationship in small communities. This is where small, local companies compete with big corporations---by offering timely, relevant and free services to all community members.
- **The pace of development is amplified by the anxious youth and their relationship with technology.** Most young people, though optimistic about the future, do not know how to use the Internet for information, education and better opportunities. Their online behavior mirrors the lackluster, drab realities of a provincial life. Brands that are able to redirect some of the pent-up energy to fuel entrepreneurship, creativity and consumerism are likely to benefit.

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- **Families in small towns usually have two children, and their sphere of influence is arguably larger than that of the pampered big city child.** This social reality offers many opportunities for marketers to become more relevant to consumers by helping to create a better future for children. They also need to be cognizant of the influence an older sibling can have on the behavior of the younger child. At the same time, there is relatively less pressure exerted upon children – since all the family’s hopes do not rest on that one child.
 - In spite of a focus on children’s futures, there are few formal and reliable avenues for kids and parents to learn what career choices will be available to them when they grow up. Computer brands could take a lead on grassroots initiatives because no matter what profession, the computer is a tool that can be used by all. Perhaps a ‘skills and aptitude testing mobile lab’?
- **Nationalism is a touchy, inflammatory topic that easily unifies consumer behavior in low tier cities.** International companies need to be sensitive enough not to antagonize local customers. At the same time, pragmatism in low tier markets signals that economic benefits drive nationalistic causes, not the other way around.
- **China’s low tier cities represent the other end of globalization. It produces fresh foods and raw materials as much as it produces new ideas.** It is at this level where cultural diversity and local distinctiveness can be teased out and used as resources. These cultural learnings will help a brand to find a place for its product or service in local people’s culture and everyday practice.
- **There is a natural affinity with open spaces.** In low tier cities, many engagements and interactions happen in public. This is contrary to urban people living in closed quarters, with limited capacity and range for activities. It demonstrates that brands must communicate with consumers on the move.
 - **For instance,** the hang out culture in lower tier cities means outdoor media can be used to engage rather than simply inform. Brands could tell more ‘stories’ rather than a ‘short message’ or ‘one key visual’. Brands could help people to hang out together in places they naturally tend to converge to. Food and beverage brands could bring people together with make-shift stools, tables and fixed umbrellas as premia.
- **Counterfeit brands have taken off in low tier cities as consumers desire brands that symbolize success but are unable to buy the real brands due to vast income gaps.** As a result, fake FMCG and consumer durables brands are widely available in China’s lower tier cities – a different phenomenon from what is seen in the big cities where luxury brand fakes proliferate.
- **Mom-and-pop stores and wet markets are being pushed out while hypermarkets and open-shelf convenience stores are taking over.** However, these stores stock far



more local and national Chinese brands than international brands. There is also a strong appetite for “new things,” which means consumers easily tire of old brands that do not constantly change and innovate.

- **Easy, fast communication and cheap transportation have changed the rules of the distribution business.** Distributors no longer need to be in the convenient areas of the city and they sell to a broader reach of customers. Location, however, is not obsolete and spatial competition is likely to intensify in the near future.

Kunal Sinha, Executive Director of Discovery, Ogilvy & Mather Greater China's consumer insights and trends unit, said, “The purpose of our research was to uncover vivid tales about small town life that would possibly inspire our creative partners to tell brand stories and design experiences that could potentially transform and enhance the lives of consumers while generating new business opportunities in these seldom explored markets.”

Strategies and implications for business

- Consumers in low tier markets have a stronger capacity to spend money than most companies would have estimated. The key is to educate them on how, and unleash their consumption will.
 - **For instance**, young people have access to the internet, but they don't know what sites to visit or what the internet can do for them to further their ambitions, creating an opportunity for distance learning courses. This would offer them the equal opportunity that many crave.
- Brands must recognize and take advantage of diversity and local characteristics to deliver authentic products and experiences.
- There are good reasons to celebrate the “everyday” and “ordinary” to connect with consumers who appreciate the “pleasure of small things.”
- Continuous and engaging in-store activities with consumers are key to improving a brand's standing. Consumers here have time at their disposal.
- Sales promotions are the quickest way to boost sales for FMCG products.
- There are huge opportunities for consumer durables and home furnishing companies to help people decorate or renovate their homes.
 - **For instance**, small town living is typified by mostly unkempt, disorganized homes so home building brands might collaborate with consumer durable marketers and media companies to sell the concept of home makeovers.
- Brands can team up with local enterprises for philanthropic work, providing training, funding and building public facilities to enhance their corporate image.
- Retailers are the powerful frontline of communications that turn shoppers into buyers.
 - **For instance**, consumers' lack of product knowledge in lower tier cities underlies the importance of conducting sales training for frontline staff and providing them with regular product updates.
- Distributors can play a much larger role in the distribution chain when they are freed from the constraints of space and geography.



About “China Beyond”

“China Beyond” is an in-depth qualitative study into consumers, brands, communication and retail opportunities in China’s 4th-6th tier towns. From March to November 2008, the Ogilvy China Discovery team, in cooperation with the planning team, OgilvyAction and Dawson Integrated Marketing Communications Ltd, conducted field research in 6 county-level cities and 6 smaller towns and villages, covering a wide expanse of geographic, cultural and economic regions. The study was conducted through in-depth interviews with 30 families, 48 retailers, 12 digital equipment store owners, 12 wholesalers, 12 internet cafes and 30 young people aged 15-25, 80% of whom were between the ages of 18-25. To aid probing, the research included on-site observation, photo ethnography and immersive field survey. The study surveyed consumers’ beliefs and attitudes towards family, life, risk, novelty, ambition and fashion. The study also aimed to map out their media and entertainment habits and identify influences on purchase decisions.

About Ogilvy & Mather Group China

Ogilvy & Mather Group China (<http://ogilvy.com.cn/>) is the largest marketing communications network in China. It offers the full range of marketing communication disciplines including advertising, direct marketing, interactive media, database management, public relations, graphic design and related marketing disciplines.

As Brand Stewards, the agency works to leverage the brands of its clients by combining local know-how with a worldwide network, creating powerful campaigns that address local market needs while reinforcing the universal brand identity. The hallmark of the agency’s brand-building capabilities is 360 Degree Brand Stewardship®, a holistic approach to communications, using what is necessary from each discipline to build a brand.

Ogilvy & Mather Worldwide (ogilvy.com), a subsidiary of WPP (NASDAQ: WPPGY), is one of the largest marketing communications networks in the world, with 495 offices in 120 countries, specializing in advertising, relationship and interactive marketing, public relations, sales promotion and related services.

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