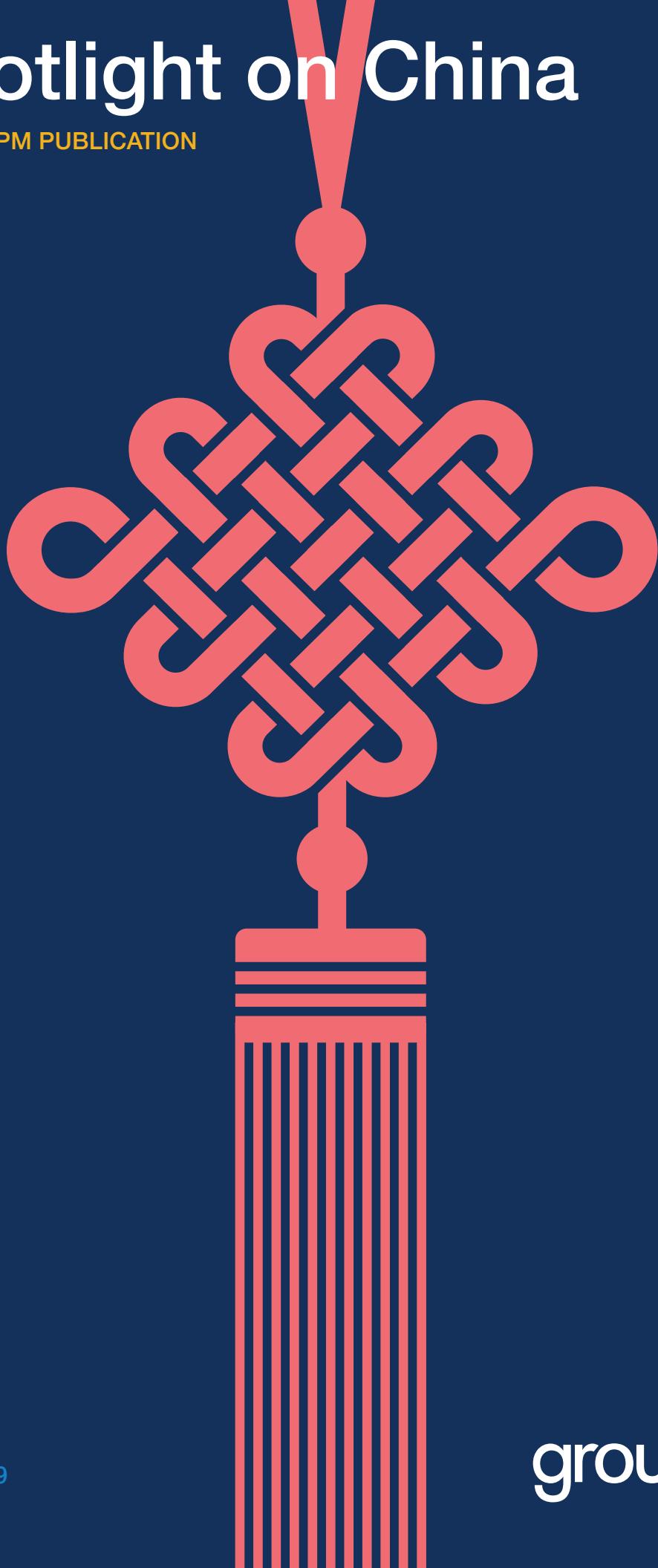


Spotlight on China

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INTRO



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China remains the largest contributor in the world when it comes to new ad dollars.

China remains the world's largest contributor for new ad dollars. Its USD 90 billion ad market is second only to the USA, and has doubled since 2010. Despite continuing and rapid consumerization, China's advertising intensity peaked at 0.78% of GDP in 2006 and has trended down to a prospective 0.67% in 2019. For marketers, China presents both exciting opportunities and formidable challenges.

Over the past 20 years, China's internet users moved from the conventional internet era to the mobile internet era. This saw a rapid transition to digital, online and mobile technologies in their daily lives, including shopping, socializing, entertainment and work. The rise of big data, cloud computing, the Internet of Things, virtual reality and augmented reality, as well as cutting-edge technologies such as artificial intelligence and iterative upgrades to hardware equipment have been accompanied by a further shift to digital technology. This ushered seamless connectivity into consumers' living environments, behavior, and even thoughts and emotions as the boundary between the online and offline worlds gradually disappears.

For the foreseeable future, these trends will continue to drive dramatic changes in people's perceptions of themselves, their interactions and their relationship with the world. This, in turn, will result in severe fragmentation and diversity of the channels through which people obtain information and content. All this is overturning and reshaping marketing paradigms.

While the amount and types of information available have grown exponentially in the past couple of years, the browsing time of Chinese consumers has become extremely fragmented. Cashless lifestyles and heavy reliance on mobile phones have given birth to "Social e-Commerce," "Live Stream and Short Video," "New Retail," "e-Sports Marketing" and other business models that are leaping ahead of other markets. Entirely new ways to produce and distribute creative and content have emerged to meet the needs of different consumer segments.

The digital transformation of traditional media is complete. Online and offline worlds are more efficiently integrated, with data becoming the vehicle to connect the dots. Big internet platforms such as BAT (Baidu, Alibaba and Tencent) are helping brands create more direct conversion opportunities through the creation of a uni-marketing retail

environment, offering richer channels and marketing resources. These changes are accelerating the development of automated marketing methods such as programmatic buying and synergy search. In this new world, the ability of marketers to integrate marketing across platforms is in high demand. Marketers are being pushed to reflect and optimize the measurement.

While we fully enjoy the dividends of digitalization, we must not ignore the risks in the digital advertising supply chain. These risks include not only invalid traffic, poor viewability, and inappropriate brand context (brand safety issues), but also privacy and ad blocking. In the past two years, we have established a dedicated brand safety team to help our clients better understand brand safety issues and help promote the development of industry consensus and rules. It's great to see that many advertisers are starting to use new data monitoring technologies to reduce risk and, especially, to ensure that their ads are viewable. These efforts are making the digital ad supply chain more secure.

Some of the changes discussed here may overwhelm marketers. "How do we communicate effectively with consumers?" "What other innovative means can we use to improve the effectiveness of marketing communication?" These are questions frequently asked by marketers. We hope that this report will help you interpret these issues from different angles and inspire all of us who want to improve marketing effectiveness in the Chinese market.

Patrick Xu
CEO, GroupM China

The essence of marketing has not changed; what needs to change is people's thinking.

The following “three relevancies” must be considered when formulating marketing plans:

Brand/Product Relevance

In the last two years, many marketers have strived to achieve viral, eye-catching or “explosive” content. However, despite many creative ideas achieving significant but brief exposure, it is rare that people remember the brands or products themselves. Creative ideas must tell brand and product stories, enhance relevance, or imbue products and brands with power in order to create brand IP and build longer-term brand assets. These are essential considerations for every marketer.

Audience Relevance

Consumer demand for products and brands is becoming refined and segmented to an even greater degree. Brands need to communicate precisely with different consumer/audience segments and ensure that the content of the communications is “relevant,” feels fresh and experiential, and triggers emotional resonances and cultural identification. Brands can also provide audiences with platforms to express themselves and communicate with others, further increasing their relevance.

Social/Cultural Relevance

Marketing today is no longer about simply presenting features; it must reflect cultural or emotional values. By conveying aspirational and progressive values, brand marketing can generate greater social influence, not only giving it greater commercial value, but also creating social value.

Finally, we would emphasize that the essence of marketing has not changed. What needs to change is people’s thinking. It’s not just about strategic thinking in marketing. It is about breaking down barriers between traditional departments and properly integrating internal and external resources, to focus on the consumer experience and business development. No matter how complicated the marketing environment becomes, brands and marketers need to constantly focus on consumers, be sensitive to the drivers and directions of change, and use new technologies and capabilities to amplify the influence of media and content -- to make them more personalized and refined.



Economic growth is being driven primarily by domestic demand, with spending continuing to provide strong support.

The National Bureau of Statistics of China recently published key 2018 macroeconomic data. China's GDP grew by 6.6%, achieving the predicted growth rate of 6.5%. Growth in the service industry remained higher than in other sectors. This service sector grew RMB 34.6 trillion, a year-on-year growth rate of 7.5%, meaning that the industry contributed 60.8% of all GDP growth, according to the report published in October, 2018.

In overall terms, aggregate financing to the real economy growth slowed and credit growth weakened, as the marginal boost to GBP from investment continued to shrink. Though China has already started cutting taxes to stimulate consumption, the effects will take more time to filter through, and there are also a number of other variables, such as trade wars, producing wild card effects. The economy is therefore forecast to remain under considerable pressure. The International Monetary Fund (IMF) has also revised its forecasts for China's 2019 GDP down from 6.4% to 6.2%.

Consumption Growth Rate Is Falling, But Online Spending Remains a Bright Spot

Economic growth is being driven primarily by domestic demand, with spending continuing to provide strong support. Final consumption expenditures contributed 76.2% of GDP growth in 2018, an increase of 18.6 percentage points compared to the same period in 2017.

However, Chinese residents' spending has slowed this year, while total retail sales of consumer goods grew by 9.0% year on year, with the growth rate dropping 1.2 points, compared to 2017. Sales of upgrade-type products, such as ICT products and cosmetics, have seen double-digit growth. However, car sales have been in negative growth since May 2018, falling to a new low of -7.1% in September. The most recent data shows that Ford's sales in October were 45% lower than the same period last year. The main reason for this is that consumers have become increasingly overburdened with house-buying debt in recent years, while the housing and stock markets have also been at a low ebb for several years. The upshot is that the Chinese public is facing spending pressures, particularly when it comes to discretionary purchases such as houses or cars, while spending on essentials such as everyday items and clothing has remained steady.

The government will focus on maintaining stable employment, finance, external trade, foreign and general investment, and expectations.

Online spending remains a bright spot. According to data from the National Bureau of Statistics, nationwide online retail spending grew by 23.9% in 2018. Additional analysis of the figures reveals growth in online retail sales of physical goods that grew 25.4%, 18.4% of the total retail sales of consumer goods. Data for the recent 2018 Singles' Day e-commerce period around November 11 shows that Tmall's sales for the period were worth RMB 213.5 billion, while the total value of orders placed during JD.com's Singles' Day campaign (which ran for 27 days from October 20 to November 15) was RMB 159.8 billion.

It therefore appears that downward macroeconomic pressures have done little to put a dent in Chinese consumers' enthusiasm for the shopping season. A major reason for this is the marked stratification that has recently emerged in the Chinese consumer market. Firstly, spending on improving health and lifestyle among the increasingly affluent middle class has continued to rise, stimulating growth in sales of midrange to high-end products and imported goods. Secondly, consumers in lower-tier cities are also looking for more, better, and increasingly distinctive products. It is predicted that the stimulatory effect of consumer spending on China's economic growth will continue to increase, while the demand structure will continue to improve.

Advertisers Are Expected to Reduce Advertising Budgets in the Future

The government will focus on maintaining stable employment, finance, external trade, foreign and general investment, and expectations. The government's ultimate goal is to ensure that the economy continues to run smoothly, while doing everything possible to meet the GDP growth target.

The effects of any policy adjustments will take time to make themselves felt. Meanwhile, escalating trade frictions between China and the United States have increased uncertainty in the wider environment, which will inevitably put Chinese economic growth under further pressure in 2019. Under these circumstances, advertisers in China are very likely to reduce ad budgets in 2019, or to divert limited budgets to media that deliver more "immediate" results, in order to cope with pressures brought about by declining growth and various uncertainties.

CHINESE CONSUMERS' CASHLESS MOBILE LIFE



CHINESE CONSUMERS' CASHLESS MOBILE LIFE

China's mobile internet use has reached a rate of 788 million people, a number that represents a 4.7% increase compared to 2017, and accounts for 98.3% of all Chinese netizens¹. Chinese mobile users spend an average of 289 minutes per person, per day on their devices². As mobile penetration expands, so too does the infrastructural foundation of mobile internet. For instance, 4G's availability reached 70% in 2018³. Other statistics of note: Chinese mobile users prefer a large screen. In the current mobile phone market in China, more than 80% are larger than five inches. Finally, in terms of operating systems and brands, the preferred mobile phone system in China is Android (82.5%), followed by iOS (17.5%)⁴. Domestic brands dominate the mobile phone market in China. The top three are Huawei (19.7%), OPPO (18.5%), and Vivo (17%)⁵.

Understanding the mobile landscape in China is very important for marketers who wish to make inroads with the Chinese consumer.

Apps

The walled internet environment in China results in a notably different app ecosystem compared to those in Western countries. The internet "wall" blocks most foreign apps, including global giants like Google, Facebook, and Twitter, and creates a relatively independent environment for the growth of Chinese local apps.

The average number of apps installed on Chinese mobile netizens' phones increased in 2017, in Q4 reaching 40. The huge number of Chinese netizens and the growing demands in every vertical have supported the multi-form development of apps and created the boom in China's mobile market.

The walled internet environment in China results in a notably different app ecosystem compared to those in Western countries.

CHINA APP	US APP
WeChat	WhatsApp+Facebook+Skype+Instagram
Sina Weibo	Twitter
Alipay	PayPal
Taobao	Amazon/eBay
iQIYI	Netflix
Baidu	Google
Douyin (Tik Tok)	Musical.ly
Meituan/Dianping	Yelp/Groupon
Netease Cloud Music/QQ Music	Spotify
Momo	Tinder
Toutiao	BuzzFeed

CHINESE CONSUMERS' CASHLESS MOBILE LIFE

Mobile advertising accounts for nearly 70% of digital advertising and has occupied the absolute mainstream of the market.

Consumers' growing demands for convenience have stimulated the app boom. However, "convenience" should be interpreted in a different way in the Chinese app market compared to those of Western markets. Foreign apps typically offer simple, user-friendly services, while Chinese apps tend to offer a one-stop solution that develops into another ecosystem. The reason behind that may lie in the value that Chinese app giants place on data protection, as well as their ambitions to break through offline, as well as on.

Display Ads

Mobile advertising accounts for nearly 70% of digital advertising and has occupied the absolute mainstream of the market.

Marketers' demands for display ads evolve from simple exposure display to accurate targeting based on big data. With traditional, non-targeted display ads' effectiveness declining, it is likely that the industry may evolve toward more precise targeting of these ads and still further use of formats with richer creative content, like video.

Technology and content drive the rapid development of the native advertising market. Feed ads are the representative native ad form that are experiencing the most rapid growth, and the forms of native video ads are becoming richer.

Chinese internet giants BAT (Baidu, Alibaba, Tencent and Toutiao) own more than half of the digital ad market share in China. In 2017, Alibaba's advertising revenue exceeded 100 billion RMB, ranking first. The total advertising revenue of BAT accounts for more than 60% of the overall digital advertising market.

Media buying modes also differ between China and Western markets. Instead of RTB for display ads in most foreign apps, Chinese apps typically adopt CPM, CPC, and CPD for ad buying, possibly because of their preference to hold ad pricing power on their own and avoid hostile bidding.

Vertical Video

Born from social in-app feed ads, vertical video evolved from an innovative ad format to a whole independent app category (represented by Douyin, which is the original Chinese version of Tik Tok) overnight. It is now a standard content format in all apps.

As competition in the short video app field has become relatively stable, the next battlefield is expected to be content production. Short video platforms, such as Douyin, extend business to content production, while long video platforms, represented by iQIYI, adjust business direction to vertical short video production of creative mini-dramas and mini-variety shows.

CHINESE CONSUMERS' CASHLESS MOBILE LIFE

MCN in China

Leveraging influencers is a common marketing approach in both Western markets and China.

In China, however, MCN is more than just an agency that gathers online celebrities; it fulfills additional roles, such as discovering potential cyber celebrities, offering consultation to them, and helping to produce videos, short videos, social events, and building e-commerce platforms to convert influence into actual sales. MCN companies in China manage to involve themselves in every process in the content value chain.

To summarize, unlike MCN overseas, which plays an agency role, MCN in China works more like an investment chain, in charge of cultivating cyber stars, content creation, and channel distribution to monetization.

	China MCN	Overseas MCN
Content Type	Words, pictures, videos, live broadcasts	Videos
Content Production	Take part in the process of KOL content creation Provide professional support and service such as content operation, fan management, supply chain management, commercial cash	Independent of content creation Provide support such as technology, data, sales
Content Distribution	Distribution channels: social media, online video, content information, EC shopping guide	YouTube is the main channel
Cashing Model	Strong and diversified cashing ability, including Ads revenue, EC sales, traffic, IP derivatives sales	Ad revenue is the main source of revenue
Allocation Model	Depends on platforms	Based on YouTube Partner, ad revenue will be allocated among YouTube, MCN and KOL

MCN – Involved in content creation system, promoting efficiency of industry operation



The content industry boom and the increasing quantity of creators challenge the industry's operational efficiency. MCN will play the professional role of connecting information and promoting efficiency.

CHINESE CONSUMERS' CASHLESS MOBILE LIFE

KOL in China

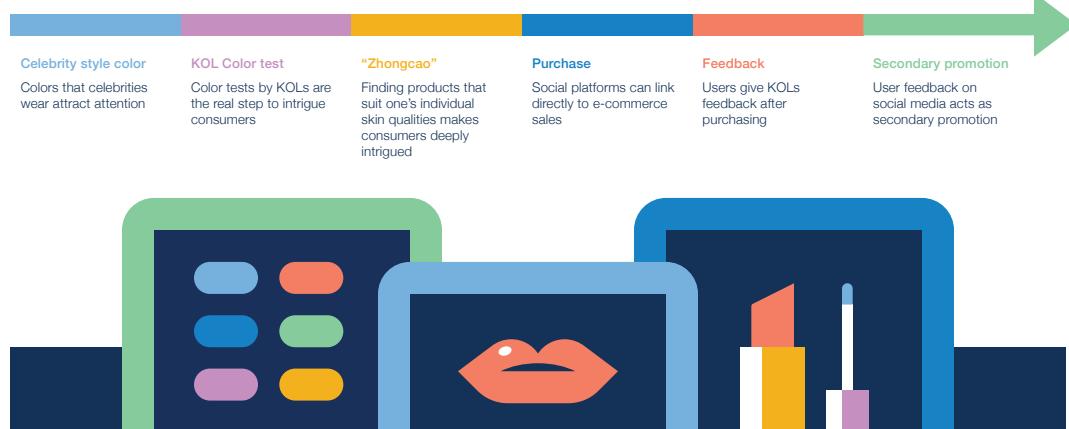
KOL must be mentioned when referring to social marketing in China. In the West, this concept is typically referred to as "influencers." KOLs exist in almost every category, because of their expertise, high-quality PGC (Professional Generate Content), and large fan base; as such, their influence is tremendous to the group. For instance, "Social White Paper in Beauty Category," published by GroupM China, mentioned that KOL color test is a key way to promote lipstick sales on social media.

KOLs are vital assets in communication and have proven to be effective in driving all marketing metrics



KOL color test is a key way to promote lipstick sales on social media

Social lipstick promotion methods can involve celebrities, KOLs, product intros, purchases, feedback and secondary promotions. Lipstick colors that celebrities wear on-screen certainly generate online discussion, but lipstick testing by KOLs are what really brings in new users. As color is the most important characteristic of a lipstick, KOL color test is a direct way to convert users.



CHINESE CONSUMERS' CASHLESS MOBILE LIFE

Mobile Payment

Regarded as one of China's "four great new inventions" in modern times, Alipay long ago surpassed PayPal as the world's largest mobile payment platform. In addition to Alipay, which enjoys 53.76% of mobile payment market share, there's WeChat Pay, which holds 38.95% of the mobile payment market.

Besides online payment, mobile payment has also broken through to offline payments via QR scanning codes. It is common that people can go everywhere outside just with a mobile phone and live a cashless life in China's major cities.

After Alipay and WeChat Pay dominated China's mobile payment market, they began to promote themselves in overseas markets. With special discounts, better exchange rates, and convenient services like fast tax refunds, Chinese mobile payment giants are making an increasingly significant impact on Chinese overseas travelers, and more foreign locals.

The penetration of smart devices and a well-built 4G infrastructure have boosted marketing in China into the Era of Experience, where information can be delivered in the most effective way, all for driving experiences.

It is common that people can go everywhere outside just with a mobile phone and live a cashless life in China's major cities.

Breaking the boundary between communication and sales, social commerce is now considered one of the most effective ways to deliver performance.

Takeaways for marketers:

- Video in vertical format, which evolved from display ads or native ads in news feeds, offers better content viewing experiences without interrupting users when browsing. It also provides a real-life feeling since most of the production is designed for mobile viewing in the first place. Such content and platforms (for example, Douyin) have quickly become popular among young people.
- This shift of experience was not limited to vertical short video platforms, but is instead a common practice for almost all media platforms with social genes (WeChat, Weibo, Little Red Book, Douyin, etc.). KOLs (key opinion leaders) emerge because of their valuable experience or expertise in certain categories; they are far more convincing and influential than one-way brand communication. Most KOLs are managed by MCNs, who act as investors, facilitating KOLs from content production to monetization. This is a notable difference when compared to the West, where the function is more like that of an agency.
- Enabled by mobile payment, most of the content and platforms mentioned above can directly link to end sales, either to an e-store on T-mall or JD.com (and others), or a mini-program in WeChat, accelerating the purchase process and experience.
- Breaking the boundary between communication and sales, social commerce is now considered one of the most effective ways to deliver performance. Professionals like KOLs make content, MCNs manage resources, and the media platforms create the assurance that a purchase can be eventually realized.

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SOCIAL COMMERCE IN CHINA: WHAT, WHY, & HOW

“Social commerce” is one of the hottest strategies in China’s digital marketing landscape.

“Social commerce” is one of the hottest strategies in China’s digital marketing landscape. **What is “social commerce”?** It refers to a model derived from engaging in e-commerce in social media environments (i.e.: a combination of social media and e-commerce). This model involves using social media formats to acquire and interact with customers; for example, by showing and sharing products, thereby inducing them to complete purchases online.

In China, there are currently two types of social-commerce, both of which depend upon the interpretation of social.

The first type is based on a vertical social community in which KOLs interest users with a certain product or service, and then lead to conversion. One famous example is an app called “Little Red Book,” which is essentially a lifestyle community for girls. “Little Red Book” runs its own e-commerce on the platform, and mainly sells skin care products and cosmetics. When KOLs post articles, videos, or live stream videos to recommend a product, the audience’s purchase intention could be piqued and converted even within a few minutes.

The other type is based on social acquaintance, which calls people to carry out “the more, the cheaper.” The famous example is an app called “Pinduoduo,” which is an incentive-driven social-commerce platform. Its mechanism is like Groupon, but the difference is that people are more social-minded, actively seeking a “Groupon” with people they know, such as family members, friends, and colleagues. The more orders they place, the cheaper the product is. “Pinduoduo” amplified its influence rapidly in 2017 via the biggest acquaintance social platform, WeChat.

Generally, Internet giants and rising stars are entering the game with one of three foci:

1 Commercialized social
(e.g. WeChat Boutique and mini-program stores)

2 “Socialized” e-commerce
(e.g. Taobao KOLs and Taobao Live Broadcasting)

3 Independent social-commerce platforms
(e.g. Pinduoduo and Little Red Book)

SOCIAL COMMERCE IN CHINA: WHAT, WHY, & HOW

Why is social commerce important for sales and marketing in China?

- **Huge market scale.** China’s social commerce market was forecasted to be worth RMB ¥1.14 trillion in 2018, growing to ¥3 trillion by 2020. Social commerce use was estimated to reach 310 million people in 2018, a figure that represents more than one-third of China’s internet population. These staggering figures make it clear that this market is simply too large to overlook.
- **Favorable government policy environment.** The 13th Five-Year Plan for the Development of E-Commerce issued by the State Council in December 2016 actively encouraged business models based on leveraging social media networks, while a series of other relevant policies and regulations have been issued in recent years that have created a highly favorable environment for the healthy development of social commerce in China.
- **Optimized cost per customer acquisition.** The key difference between social commerce and traditional e-commerce is that the former is based on trust built through social media, which is a good foundation for gaining customers, and can effectively facilitate conversions along the path to purchase.
- **Efforts from internet giants in China.** China’s internet giants like Alibaba and Tencent have been evolving their ecosystems, with both aggressively tapping into social commerce. Examples include Alibaba’s Taobao Influencers Program and Tencent’s WeChat commerce functions.

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SOCIAL COMMERCE IN CHINA: WHAT, WHY, & HOW

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User behavior data from e-commerce platforms can be used to guide the precise targeting of ads on the social media side.

Given the importance of social commerce in China, **how can brands get started with and benefit from it?** The following best practices could be some ‘low-hanging fruit’:

A closed loop from e-commerce to social media and back to e-commerce

User behavior data from e-commerce platforms can be used to guide the precise targeting of ads on the social media side. High-potential customers are then taken through a designed process that brings them to the e-commerce side, with end-to-end performance being tracked throughout the process.

All major social media and e-commerce platforms in China support this approach. For example, Tencent and JD.com’s ‘Jing-Teng Plan,’ and Alibaba and Weibo’s ‘U-Wei Plan,’ have connected their user data in each ecosystem to establish strong foundations for this method.

Promoting products through KOL stores

Many online influencers (i.e. KOLs, or Key Opinion Leaders) have their own stores and use their influence to promote products to their fan base, guiding their audience to make purchases at their own KOL store. Data from Weibo shows that the platform currently hosts around 35,000 e-commerce KOLs with over 910 million followers.

Brands can work with online influencers by providing products – usually limited edition or co-branded products – that can be used for promotion or sales exclusively in KOL stores. The reason that online influencers are able to promote products and drive sales so effectively stems from the trust they have built with their fan base over the long-term through their choices and recommendations.

Creating star products on social media to drive overall sales

The use of social media marketing by leveraging hot topics or celebrities’ influence can turn a particular product into a star product, which then attracts social platform users to the e-commerce store or even physical stores, and can bring in traffic and drive further sales of related products with proper cross-selling strategies.

Community marketing and e-commerce

Communities based on a variety of social media platforms, such as WeChat groups, are founded on trust that has been fostered between community leaders and community members over time. When the community leader offers members appropriate benefits and facilitates interactions, engagement and conversion rates are generally higher than those achieved using conventional advertising methods.

This provides an opportunity for community e-commerce, as deep interactions between community leaders and members can be combined with exclusive benefits provided by brands to effectively stimulate community engagement, guide traffic, and achieve sales.

Social interactions inside e-commerce platforms

Social interactions on e-commerce platforms (such as Taobao KOLs and Taobao live-broadcasting) can be used to drive product sales. Content and social interactions take place on the e-commerce platform, so the user is already a step closer to making the purchase. Social interactions also provide many opportunities for brands to collaborate, for example, through content placement.

Similar trends are also present in Western countries. Examples include Amazon’s Influencer Program, which provides a self-service tool for popular influencers. Qualified influencers get their own customized Amazon page, and when customers purchase products on the pages they share, the influencer receives a commission.

As the social commerce industry develops and brands become more familiar with its use, we are convinced that new methods of use will continue to emerge, continually providing new sources of energy and inspiration for brand marketing and sales.

Social interactions on e-commerce platforms can be used to drive product sales.

NEW TRENDS IN CONTENT MARKETING



NEW TRENDS IN CONTENT MARKETING

The drivers of Chinese consumer growth have been reconfigured in the age of the internet and artificial intelligence (AI). Ten years after the first Singles' Day e-commerce event helped bring Chinese consumers into the online shopping era, increasing numbers of physical stores are now moving into a new internet retail era by creating a unified experience to serve customers. The first China International Import Expo (CIIE) demonstrated the use of open policies to deal with the challenges of "upgrading" the country's consumption structure, and focused on leveraging external forces as catalysts for change, to push the overall consumption dynamic to the next level.

In the context of these wider consumption trends, like many companies involved in the advertising and marketing sector, we are increasingly focused on Chinese consumers and their differentiated needs. Consumers are becoming ever more sophisticated in terms of their pursuit of quality, understanding of brand value, and experience of differentiated services. It is therefore vital for brands to think more carefully in these areas to identify opportunities and satisfy consumer demand.

The culture and entertainment content markets are also entering a period of greater diversity and segmentation. The information explosion has led to greater fragmentation of people's browsing time, while continuous emergence of new forms of content products has resulted in diverse formats for meeting the needs of different consumer segments.

As a result, drama and variety shows, traditional mainstays of the entertainment sector, are now being produced with an eye on greater and greater segmentation. Taking variety shows as an example, new formats encompass everything from singing and dancing competitions to outdoor reality shows, comedy talk shows, and idol talent shows, with a particular emphasis on the preferences of the millennial and the post-90s generations. Consumers are also paying attention to new forms of content. For example, sectors of the content market, including e-sports, short video content such as multi-channel networks (MCN), and professionally-generated content (PGC), knowledge sharing, and the Internet influencer economy have all grown at breakneck speed. Moreover, as the 5G era approaches, 3D and virtual reality (VR) technologies will create new video trends and experiences that will be eagerly consumed by younger generations.

Brand owners are also switching the focus of their content marketing from simply sponsoring exposure, to building a new era centered on the co-creation of diverse experiences. IP has become a marketing buzzword, with brands aiming to create associations with IP and use content marketing to create AIPL (Attention-Interest-Purchase-Loyalty) consumer connections and communicate through consumer groups, in order to achieve a variety of marketing objectives.

Consumers are becoming ever more sophisticated in terms of their pursuit of quality, understanding of brand value, and experience of differentiated services.

There are two actions that brands should take at this point:

Use content marketing to achieve brand personalization and create emotional, cultural, and social resonances with consumers.

- The co-creation of content IP that is popular or topical can help build product and brand power. For example, the documentary “Reviving the Memory of Timepieces,” created by Cartier in partnership with the Forbidden City Palace Museum, conveyed the brand’s reverence for time by telling a story about master craftsmen from the museum working with specialists from Cartier to repair antique timepieces, thereby creating their own brand asset.
- Create a group culture that facilitates precise communication as a means of building brand personality. Examples include the connection with hip-hop culture of McDonald’s and Mercedes’ sponsorship of League of Legends e-sports events, both of which use the angles of interest and culture to insert their respective brands into young people’s communication circles.
- Use crossovers to inject a sense of freshness into brand personality. Some traditional brands or brands that are associated with a particular era can use collaborations to present the brand in a new way and attract attention. An example of this is the lip balm partnership between White Rabbit and Maxam.

Use content marketing to create conversion capabilities, stimulate interest, drive sales, and build loyalty.

- Social commerce has brought with it new conversion powers. Relationships between celebrities and fans in the Chinese entertainment market have moved into a third age of symbiosis, where idols are determined by fans, and the resulting fan economy plays a very significant role in driving conversions. The Internet celebrity economy represented by this individual-level economy that has arisen from fulfilling personalized demand uses content creation to build emotional connections and trust with fans, which gives rise to sales conversions, similar to Xiaohongshu. The pay-to-access knowledge sharing platforms all established their sales presence in this way, using communities and channels to help them achieve sustainable monetization.
- The e-commerce environment has entered the era of Uni Marketing. Major internet platforms like BAT are currently creating a unified new retail environment that covers all sectors, as well as creating a wider range of channel marketing content resources, intended to help brands create more direct conversation opportunities. The diverse range of content marketing formats that we are seeing, including live video sales, super brand days, and collaborative IP derivatives and limited editions, are all emerging on the platforms. Integration between resources on and off websites is intensifying, and IP is being used more widely, stimulating channel sales conversions and utilizing the advantages of e-commerce platforms to accumulate and link up backend data, so that it is possible get a genuine picture of conversion performance and make the necessary preparations for subsequent retargeting communication.

Wavemaker content builds on precisely this type of demand by dividing content marketing services into three models based on consumer connections:

- **CONTENT AS A MEDIUM AND CREATIVE DEVICE**
Content co-created by brands and IPs raises brand awareness and creates brand content assets, attracting the attention of consumers and arousing their interest.
- **CONTENT AS A CONVERSION ENGINE**
Brands use content and channel innovation to build brand and product experiences that stimulate consumer desire to purchase and drive purchase conversions.
- **CONTENT AS A RELATIONSHIP CONNECTION**
Content is used to serve consumers and establish more emotional and specialist demand linkages, thereby increasing consumer loyalty.

We hope to use these three basic models to help clients find the right communication for consumer connections, in order to help brands deliver personalization and embrace changes brought about by content monetization.

PARTNERING WITH INTERNET GIANTS & UNICORNS



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The Chinese internet industry has developed rapidly over the last 20 years, gradually evolving from being a follower to a leader. Internet giants such as Baidu, Alibaba, and Tencent have expanded their business offerings through investment and acquisitions to constantly upgrade their media matrices, technological drivers, and business models, thereby forming large “walled gardens.” The services they offer cover almost every aspect of the online lives of Chinese internet users and are starting to move into offline scenarios.

Despite the presence of these giants, there is still space for unicorns such as ByteDance, Meituan Dianping, DiDi, Xiaomi, and JD.com, which manage to compete with and even outdo the giants in some areas. These super-platforms have created both great prosperity and new challenges for digital marketing in China, reshaping the marketing paradigm, as companies have transformed from pure media platforms into digital marketing partners for brands and agencies.

The product and service offerings of the internet giants cannot merely be defined as search, e-commerce, social media gaming, or information companies, so a single digital media proposal would struggle to maximize the value of these super-platforms.

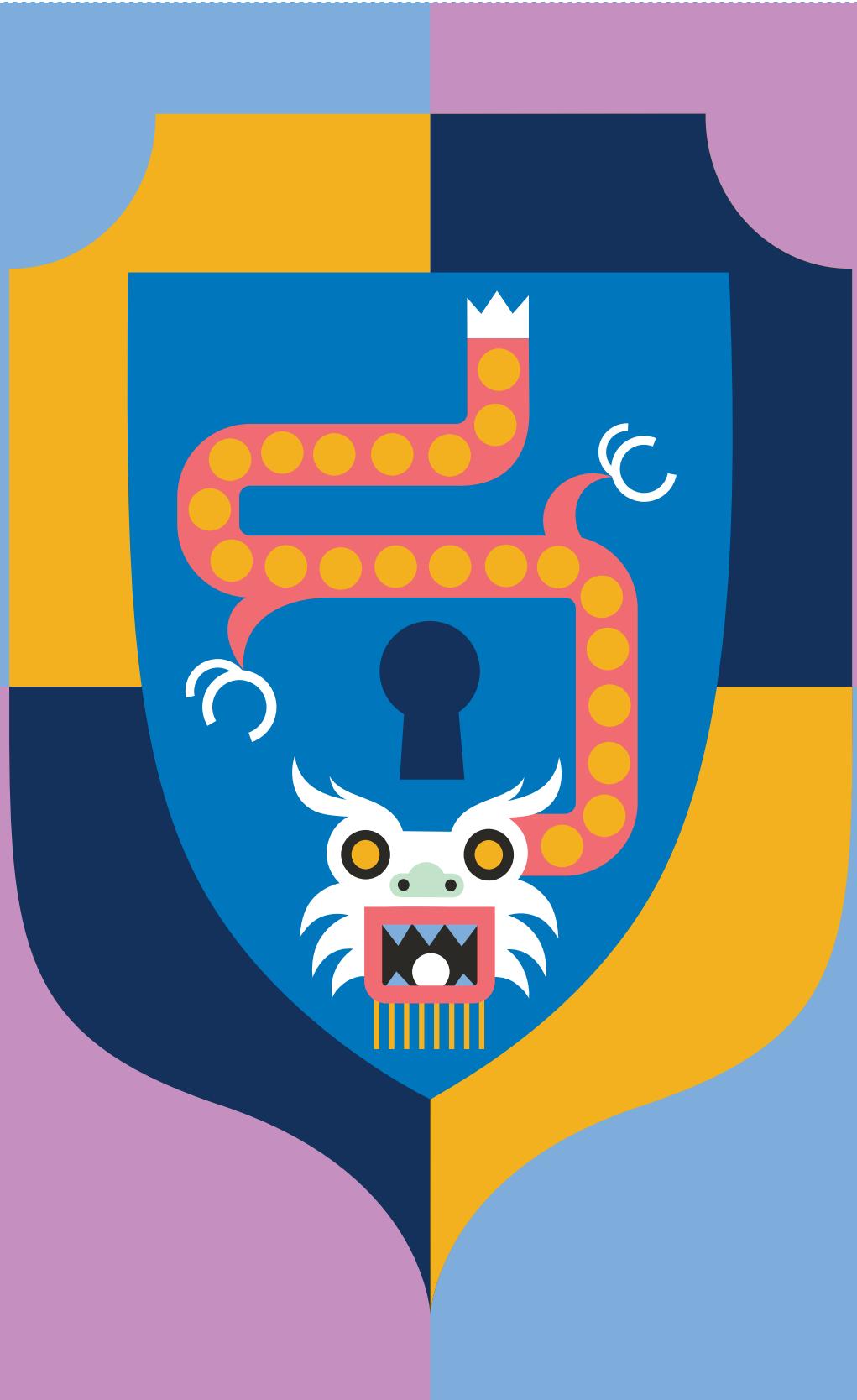
- Baidu, for example, started out as a search engine, but maps, social media, online video (through its investment in iQiyi), lifestyle services, and news have become its main business foci. Baidu’s new “all in AI” strategy involves its omni-marketing digital platform based on complex traffic systems as well as its open-platform DuerOS and Apollo systems, which are leaders in the fields of Chinese smart voice-interaction and unmanned driving.
- Alibaba’s core business is e-commerce, but Ant Financial, its payment services and consumer finance business, has enabled it to establish a closed-loop business model. Its acquisition of Youku and strategic investment in Weibo, as well as the establishment of its cultural and entertainment section, have created an e-commerce and content multimedia matrix. Alimama has become the group’s core marketing platform and proposed the “uni-marketing” methodology, which uses Uni-ID authentication and the One Data hub to create global marketing solutions for full-media, multi-channel engagement with consumers throughout their lives.
- Alibaba’s “Five New” strategy, including “new retail” and “new manufacturing,” is based on independently developed cloud computing that meets the needs of the group’s own databases, servers, and computing capabilities, but also releases spare capacity to digitally inferior B-end users in the Chinese market to help digitally transform the supply side.

Chinese super-platforms have created both great prosperity and new challenges for digital marketing in China.

- Tencent's revenue structure tells the story of how social platforms with billions of users can support business empires through games and content. Although many people criticize Tencent for not circulating data internally, WeChat integrates communication, social, content, payment, services, e-commerce and mini programs into one platform.

Moreover, Tencent's games, videos, literature, music, and Nijigen ACG businesses have carved out new creative territory. Interaction with social platforms such as WeChat and QQ has facilitated native content marketing and separate distribution of social marketing. In addition, Tencent has gradually moved its operations toward industrial services and applications, accelerating the digital transformation of traditional brands.

- ByteDance is the first platform of its kind to use intelligent algorithms to recommend content to users, such as news, short social videos, live broadcasts, and long mobile videos. This approach has enabled them to steal user time from Tencent and ad revenue from Baidu.
- Meituan Dianping, whose focus is creating a platform for life services, integrates online and offline scenarios to connect businesses/brands with consumers. In addition to offering travel services, DiDi explores new mobile scenarios based on data and insights. Xiaomi is dedicated to introducing the Internet of Things into consumers' lives through smart hardware. Each of these companies' offline retail utilizes data, user scale, social content distribution, and big data to integrate brand operations and sales, helping them to upgrade offline scenarios and back-end logistics, storage and other infrastructure, and even affect production.



Measurement standards are not widespread. This presents benchmarks and brand safety challenges.

The Chinese market was forecasted to increase digital advertising spend by 26.5% to \$62.55 billion in 2018. To further put this in context, digital will account for a whopping 64.8% of China's total media ad spending and will represent 22.4% of the global digital ad market, according to eMarketer.

Measurement standards are not yet widespread in China, and therefore this presents challenges in benchmarking any areas of risk and determining with certainty if brands appeared in a safe environment. Additional market specific challenges we address include:

- Clients are unfamiliar with the practice of brand safety, and need to be educated on the technology involved and the business ROI for measurement accuracy in the digital supply chain.
- Chinese tech vendors have yet to mature on the verification front, as demonstrated by a lack of MRC (Media Ratings Council) type accreditation among local vendors. More so, global vendors which may be MRC-accredited are not fully realized/operational in the Chinese market.
- Support for JavaScript tagging is lacking among Chinese publishers, which in turn limits analysis and measurement capabilities.
- Chinese associations like the CAA (China Advertising Association) and their endorsed parties such as the CMAC (China Media Assessment Council) and Mobile Marketing Association, are still working on better solutions for digital media regulation and accreditation.

To address the significant increase in spend, mitigate risks in the Chinese digital supply chain, and effectively advocate for transparent digital spend for our clients, GroupM's China Brand Safety Initiative, also known as the GroupM Digital Supply Chain Accountability Practice, was formed in 2017.

We work in tandem with GroupM's global leadership to:

- Implement our brand safety philosophy that "an ad must be seen by a human in the agreed demographic and in a brand safe environment;"
- Reduce the risk of invalid traffic (IVT or ad fraud);
- Address viewability and contextual issues;
- Improve the investment quality of digital ad placements.

Invalid Traffic (IVT) is the area of most immediate concern to Chinese marketers, as it directly impacts the industry's credibility and advertisers' confidence in investing in digital. Furthermore, Contextual Brand Safety solutions for programmatic environments must be implemented to ensure programmatic buying is executed using brand safe preferred media.

In addition, if the Chinese industry adopts one open source SDK for mobile, especially given that mobile accounts for 80% of the digital spending, viewability and IVT measurement will be significantly increased and improved.

Here are some suggestions for Western marketers:

- Elucidate goals and baselines and ensure that these align with all stakeholders and accounts for the full cycle of the media spend.
- Insist on measurement wherever there is media investment.
- Address and focus on one issue at a time, especially when all the issues cannot be resolved at once. Tech stacks commonly used in other markets may not be adaptable in China; therefore, issues may need to be tackled and addressed one-by-one, step-by-step.
- Take advantage of specialized tech partners and agency expertise.
- Even though the authority of associations, especially on measurement standardizations, are commonly present and expected in other markets, this may not be the case yet in China. Nonetheless, we still pursue transparency in the digital supply chain.

GroupM China's continued commitment to driving the industry forward is best demonstrated by the successes we've had on behalf of clients:

- We ensure appropriate tracking is considered a baseline requirement, as well as inclusion of IVT into trading negotiations.
- We insist on improvement on IVT to be lower than 10%.
- We continually push for improvements in the GIVT (General Invalid Traffic) industry list and creatively use blockchain to consistently optimize it.
- We work toward consensus on open source SDK measurement, especially given the significant role of mobile and the importance of channel measurement.

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PROGRAMMATIC BUYING IN CHINA



PROGRAMMATIC BUYING IN CHINA

In the second half of 2016 and first half of 2017, issues such as invalid traffic and contextual brand safety led to mistrust and challenges in the programmatic buying market, causing it to stagnate slightly. In the latter half of 2017, however, confidence returned to the market and growth gained momentum accordingly.

One reason for this change was the efforts of multiple parties across the industry chain to reach some consensus and develop common solutions for brand safety. These include: the China Internet Advertising Abnormal Traffic Blacklist and other industry standards issued by the China Advertising Association's Internet Advertising Committee, the China Media Assessment Council, the US-based Media Rating Council's auditing processes for third-party technology companies, and the Brand Safety Initiative launched by GroupM China. Moreover, advertisers have become more mature and rational about digital advertising and brand safety, and increasing numbers of advertisers are using third-party monitoring tools and technology to address related issues. These initiatives have gradually increased transparency and put the entire industry chain on a healthier development path.

As advertisers have become increasingly aware of the value of programmatic buying, their budgets have increased accordingly. This is a significant change. In the past, some advertisers equated programmatic advertising with performance advertising, believing that programmatic media buying consists only of long-tail traffic and can only be used for performance marketing based on audience targeting. But programmatic advertising has many other benefits as well. For example, more and more high-quality traffic can now be traded programmatically, with cross-media frequency capping and dynamic creative optimization ultimately improving the efficiency and effectiveness of brand advertising.

These changes have contributed to a boom in China's programmatic buying market.

Advertisers have become more mature and rational about digital advertising and brand safety.

There are four major trends in the coming year.

1

The first is the digitization of legacy media. Once traditional media has gone digital, it will be easier to connect online and offline interactions. We hope to make our own contributions to the industry during this process so that all media utilizes advanced marketing concepts and methods from the digital industry.

2

The second is integration. Although integration has been talked about for many years, progress has been quite slow. However, effective online-offline integration will greatly improve. Data will be key to connecting touchpoints and scenarios and achieving real integration.

3

The third is a change in how marketing results are measured. As marketing becomes more integrated, traditional methods of measuring performance will no longer suffice. We will need a new set of methods to assess results.

4

Last but not the least is the use of AI. When people talk about AI, many of them still only associate it with driverless cars, smart homes, or the Internet of Things, but AI has many applications in marketing, such as automatic dynamic creative optimization, automatic ad placement optimization, and machine learning. The industry still has a lot to learn about its various uses.



As of June 2018, the number of search engine users in China reached 657 million, or 81.9% of the population.

As of June 2018, the number of search engine users in China reached 657 million, or 81.9% of the population. This represents an increase of 17.31 million, equivalent to growth of 2.7%, since the end of 2017. The number of mobile search users reached 637 million, or 80.9% of the population, representing an increase of 13.42 million since the end of 2017, equivalent to growth of 2.2%.

The search engine market saw fierce external and internal competition during 2018, driving a further increase in its commercialization capabilities. Within the market, the mobile traffic dividend has dropped sharply, causing search engines to increase cooperation with traffic channels and mobile phone manufacturers, a trend that has pushed up traffic acquisition costs (TAC). Data from corporate financial statements shows year-on-year rises in TAC for both Sogou and Baidu during the first quarter of 2018, while in terms of 360's online ads, there was a marked increase in the traffic diversion effects of e-commerce, life service, news, and video apps, which impacted the search engine keyword advertising market. Given this situation, search engine companies are using artificial intelligence (AI) technology to optimize bidding products and make ad placement more effective for advertisers, as well as increasing their commercialization capabilities to achieve revenue growth.

AI has undoubtedly been the hottest topic in the internet sector in the last two years. Baidu, the leading Chinese search engine, began by talking about "all in AI" and is now talking about "AI Marketing 3.0," demonstrating its belief in AI and determination to implement it. Keen not to be left behind, the number two search engine, Sogou, is also focusing its efforts on AI. 360 and Shenma have an even more pressing need to deal with the impact of market forces on traffic levels, so focusing on partnerships with the ever-more-powerful mobile manufacturers is a sensible direction for them.

Consumers' even more fragmented media consumption habits in the mobile internet era also impact the status of search engines as traffic portals. Search marketing is no longer confined to the traditional scope of search engines and is more accurately described as a "big search universe".

Traditional Search: Baidu, Sogou, 360, Shenma

Vertical Search: Zhihu

Social Search: WeChat, Weibo

E-commerce Search: Taobao, JD.com, Xiaohongshu

Specialized Search: Health apps, travel apps

To conclude, the number of search users in China is still growing, but the pace of growth has slowed, and the mobile dividend is diminishing. Traditional search engines are suffering from severe traffic diversion problems, so the major platforms are investing in AI as a means of boosting traffic effectiveness, while smaller platforms are focusing on attracting more traffic. Search engines built in different platforms have made users accustomed to more complex search behavior, so the shift toward Synergy Search marketing is essential. GroupM's search team has developed the Synergy Search methodology to help advertisers better invest across multi platforms' search engines and gain more value.

The Synergy Search methodology includes GroupM's unique analysis and modeling tools which enable teams effectively understand various search behaviors in order to generate better strategies across multiple channels. The methodology also helps advertisers to rethink the values of each platform for higher ROI.

GroupM's search team has developed the Synergy Search methodology to help advertisers better invest across multi platforms' search engines and gain more value.

PLATFORMS	DEVELOPMENT TRENDS	PRODUCTS OTHER THAN BRAND ZONES AND KEYWORDS
Baidu	AI empowerment, boosting ad placement effectiveness	In-feed, Launch screen, Multi-screen ads
Sogou	AI empowerment, boosting ad placement effectiveness	Input software
360	Increase wireless device traffic market share	360 browser, navigation
Shenma	Increase traffic, data enablement	UC browser

IF YOU DON'T PLAY GAMES, IT'S GAME OVER



IF YOU DON'T PLAY GAMES, IT'S GAME OVER

Gaming is popular in China, where more than 200 million people engage in eSports. But a unique approach is required for marketers to succeed in gaming.

Gaming is just beginning to be accepted by mainstream culture globally. Only in May 2018, newspapers from around the world were trying to make sense of the “Fortnite” phenomenon. But in China, it is already one of the most popular hobbies – more than 200 million people engage in competitive gaming, more than any actual sport – and marketers should understand the particular approach that can bring success.

Getting brands on board

At the heart of it is overcoming the challenge of getting advertisers to take gamers and games seriously. Gaming appeals to the very nature of what makes us human – our desire for community, escapism, and to be heroes. But if you don't game, it can very hard to understand that, to see beyond the stereotypical, socially awkward teenager who does nothing but game.

Marketers need to look past that, to see that the person spending hundreds of dollars on the best weapons for their favorite virtual character is willing to do that on themselves in the real world, too, to see that behind every gamer is a huge potential opportunity.

It's only once you have sat in a stadium surrounded by 20,000 people screaming at a video gamer that you can understand that experience is equivalent to the emotional charge felt by, say, football or other “traditional” sports fans. Marketers should take on this journey to see the potential.

Let gamers take the lead

Gaming marketing needs to be led by gamers. There are endless stories in China and beyond of brands trying and failing to engage with gamers and with the game market. At best, they offer no real value to the in-game experience, and at worst, they ruin the balance of the delicate mechanics that go into making the most played and respected games. If your brand gives one person an Uzi while everyone else has a water gun, you won't make a lot of new fans.

Any memorable activation requires a lead who plays and understands the game you want to work with. We are past the age of logo plastering. Right?

Gaming is popular in China, where more than 200 million people engage in eSports.

IF YOU DON'T PLAY GAMES, IT'S GAME OVER

Understand
that the
relationship
with gamers is
a mutual one:
consider what
they can do for
you and what
you can do
for them.

Find your purpose

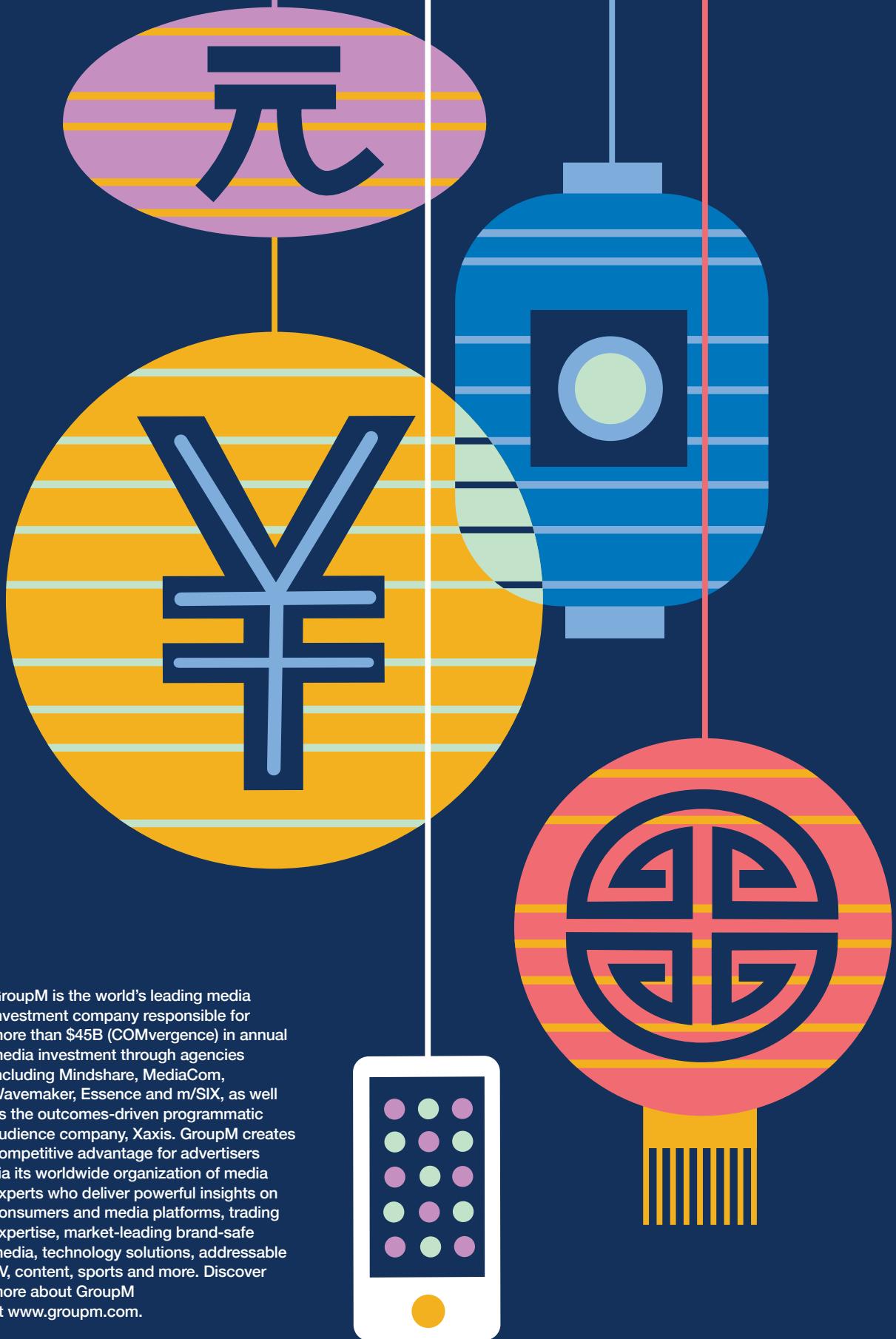
Understand that the relationship with gamers is a mutual one: consider what they can do for you and what you can do for them. Mindshare China has worked for the last few years with a cosmetic brand to boost confidence in gamers and help normalize gaming culture in China. They also worked with KFC to enhance gaming experiences with their restaurants, and with Nike, to build bridges between eSports and sports. If you want to succeed with gamers, you need add value to their lives, whether it is in, or outside the game.

Empowering the youth in your team

Gaming is undoubtedly a young culture, a young passion. The chances are, your new graduate will know more about gaming than your CEO. You have to create a culture and work environment where the youngest people in your office can lead this trend. In gaming, they probably have the most experience, even if they have the least number of years in the office.

These ideas led to the formation of the Mindshare Gaming Hub, a millennial-led team powered by passionate gamers in their 20s and 30s. It's the most awarded team ever, and they plan and execute all our gaming activations in China. They understand games and gamers, and have the confidence to bring clients on this journey.

With gaming revenues forecast to grow 13.3% to \$137.9 billion in 2018, isn't it time you played games, too?



GroupM is the world's leading media investment company responsible for more than \$45B (COMvergence) in annual media investment through agencies including Mindshare, MediaCom, Wavemaker, Essence and m/SIX, as well as the outcomes-driven programmatic audience company, Xaxis. GroupM creates competitive advantage for advertisers via its worldwide organization of media experts who deliver powerful insights on consumers and media platforms, trading expertise, market-leading brand-safe media, technology solutions, addressable TV, content, sports and more. Discover more about GroupM at www.groupm.com.